Key issues in the European Council

State of play in March 2024

STUDY

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Key issues in the European Council: State of play in March 2024

Study

The role of the European Council is to 'provide the Union with the necessary impetus for its development' and to define its 'general political directions and priorities'. Since its creation in 1975, the European Council has exercised considerable influence over the development of the European Union, a process enhanced by its designation as a formal institution of the Union under the Lisbon Treaty in 2009.

The European Council Oversight Unit within the European Parliamentary Research Service (EPRS) monitors and analyses the activities, commitments and impact of the European Council, so as to maximise parliamentary understanding of the political dynamics within this institution.

This EPRS publication, 'Key issues in the European Council', which is updated every quarter to coincide with European Council meetings, seeks to provide an overview of the institution's activities on major EU issues. It analyses 12 broad policy areas, explaining the legal and political background, the main priorities and orientations defined by the European Council and the results of its involvement to date, as well as some of the future challenges in each policy field.

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1. The European Council

Established as an informal summit meeting in 1975, the European Council became a formal European Union institution, with a full-time President, in 2009, on the entry into force of the Treaty of Lisbon. It consists of the Heads of State or Government of the 27 EU Member States, the President of the European Council and the President of the European Commission (Article 15(2) of the Treaty on European Union, TEU). The latter two individuals have no voting rights. Meetings of the European Council are normally also attended by the High Representative of the Union for Foreign Affairs and Security Policy. The President of the European Parliament is 'invited to speak' as the first item on the European Council's agenda, followed by an exchange of views (Article 235(2) of the Treaty on the Functioning of the EU, TFEU). At its formal meetings, normally four per year, the European Council adopts 'conclusions' that are aimed at identifying policy priorities and action to be taken by the Union as a whole.

Agenda-setting and crisis management

The European Council's role is to 'provide the Union with the necessary impetus for its development and define the general political directions and priorities' (Article 15(1) TEU). It cannot exercise legislative functions. At the beginning of the 2014-2019 and the 2019-2024 institutional cycles, the European Council adopted an agenda of strategic priorities, designed to guide the work of the European Union over the five-year period.

Reflecting the direction taken by the 2017 Rome Agenda set out on the occasion of the 60th anniversary of the Rome Treaties, the 2019-2024 strategic agenda, adopted by the Heads of State or Government at their meeting in June 2019, defines migration and the protection of citizens as the top priorities for action in the coming five years. Then, comes the development of a stronger economic base, including the fight against unemployment, followed by climate change and social issues. Finally, it looks to increase the EU's influence and defend its interest in the world. The four core priorities set out in the 2019-2024 strategic agenda broadly correspond to the concerns of EU citizens at the time, as reflected by the 2019 standard Eurobarometer.[1]

A few months before the end of the current institutional cycle, the priorities set at the start of the institutional cycle remain to a large extent relevant, even if a series of major crisis have generated developments in areas not previously anticipated such as health, or given a new sense of urgency to policy priorities such as defence or the energy transition. By making EU vulnerabilities apparent, the outbreak of the coronavirus pandemic in early 2020 and Russia's unprovoked invasion of Ukraine in February 2022, have prompted EU Heads of State or Government to concentrate on strengthening the EU's economic resilience, reducing the EU's dependencies, notably in the health and energy sectors, and enhancing its capacity to act autonomously. The latter priorities are likely to remain at the centre of the 2024-2029 Strategic Agenda, on which the European Council, led by its President, Charles Michel, began reflecting at the informal meeting in Granada on 5-6 October 2023. EU leaders will meet informally on 17-18 April 2024 to discuss the new Strategic Agenda in depth, with a view to adopting the key objectives for the upcoming 5-year period at the 27-28 June 2024 formal meeting of the European Council.

In the context of a broader ambition aimed at achieving European strategic autonomy, particular emphasis has been placed on the opportunities offered by the green transition and digital transformation, which are expected to foster new forms of growth and contribute to a more

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[1] The European Parliament carried out a public opinion survey in the midst of the coronavirus crisis that shows a shift in priorities on the part of the European public. This was corroborated by the April 2021 standard Eurobarometer.

innovative and resilient EU. This dual transformation has been given a central role in the EU's medium- to long-term action. The President of the European Council, Charles Michel, has mentioned the concept of strategic autonomy a number of times since he made a prominent speech on the matter in 2020, in which he stated that 'The strategic independence of Europe is our new common project for this century. It's in all our common interest'. This concept was then formally endorsed by the European Council, which presented it as 'a key objective of the Union' in its 1-2 October 2020 conclusions.

Almost four years on, boosting the EU economy and ensuring its future resilience remain key priorities of the EU. The unprovoked invasion of Ukraine by Russia on 24 February 2022, has strengthened the determination of EU Heads of State or Government, and accelerated efforts aimed at enhancing the EU's strategic autonomy.

At their informal meeting in Versailles on 10-11 March 2022, EU Heads of State or Government stressed that 'confronted with growing instability, strategic competition and security threats', the EU needed to 'take more responsibility for our security and take further decisive steps towards building our European sovereignty, reducing our dependencies and designing a new growth and investment model for 2030'. To serve these aims, EU leaders have identified three areas requiring particular attention in order to bolster EU resilience: a) enhancing defence capabilities; b) reducing energy dependencies; and c) strengthening the EU's economic base.

The Versailles declaration does not as such constitute a major shift in the European Council's priorities. In many ways, the three dimensions show continuity with the 2019-2024 strategic agenda and the orientations set during the coronavirus pandemic, albeit with a greater sense of urgency and determination on policy issues impacted by the war in Ukraine.

While food security in the EU and its neighbourhood appears as a new issue on the agenda of EU leaders as a result of the war in Ukraine, many of the topics mentioned in Versailles had appeared already in one form or another in European Council conclusions. The need to increase EU capabilities in the field of defence, for instance, had already been a core priority for several years, whilst increasing the EU's economic resilience to future shocks and the reduction of strategic dependencies was at the centre of the debate in the context of the pandemic. Rhetorically, the most apparent shift lies in a greater focus on energy security. Whilst in the aftermath of the Paris Climate conference the accent had been set on climate policy, since February 2022, the reduction of energy dependence from Russia has been strongly underlined. The two aspects – energy and climate – go hand in hand however, implying a transition away from fossil fuels, diversification of energy sources and suppliers, as well as support for renewable energies. They have therefore been considered jointly by the European Council.

As regards support for Ukraine, Heads of State or Government met as soon as 17 February – i.e. before the invasion of the country – to prepare the EU's response in the event of a further escalation of the crisis, and already discussed sanctions. They met again on the very day on which Russia launched its full-scale military operation against Ukraine, on 24 February, condemning the unjustified Russian aggression, calling on Russia to put an immediate end to it, and expressing their support for Ukraine's territorial integrity. Since then, they have given the green light to successive packages of sanctions against Russia (and Belarus), with the 13th package adopted in the Council on 23 February to mark the second anniversary of the invasion of Ukraine by Russia. They have provided support for Ukraine in various forms – macro-financial assistance (€18 billion), lethal and non-lethal military support through the European Peace Facility (€6.1 billion) – and, moreover, accepted, for the first time, that the EU budget could be used in support of armament production. In addition, at the June 2023 European Council, they confirmed their readiness 'to contribute, together with partners, to future security commitments to Ukraine'.

Then, at their special meeting on 1 February 2024, EU leaders reached a major decision on the creation of a (non-military) Ukraine Facility for the period 2024-2027. The agreement of all 27 Member States on the revision of the multiannual financial framework, which had not been possible in December 2023 due to the veto of one Member State, will provide Ukraine with €50 billion to finance its recovery and reconstruction.

The European Union has displayed unity and determination, but EU leaders have also aimed at close coordination with its US and other NATO partners. The President of the US, Joseph Biden, even attended the European Council on 24 March 2022 in person as part of a trilogy of summit meetings in Brussels (NATO, G7 and EU) demonstrating Western unity in support of Ukraine.

In this crisis, as well as during the coronavirus crisis, the European Council has shown its capacity to exercise its role as crisis manager swiftly and boldly, taking unprecedented and courageous decisions at an early stage in the process. Although this attitude contrasts with what was described by academics as a more slow and reactive approach taken during the 2008 financial and economic crisis, the unity it requires is not always a given. The EU's disjointed initial response to the brutal and indiscriminate terrorist attacks across Israel on 7 October 2023, and to the war on Hamas that followed, which has created a difficult humanitarian situation in Gaza and strongly affected the civilian population, has highlighted greater division, at times, between EU leaders. While the European Council managed to release a joint statement on 15 October 2023, condemning Hamas's terrorist attacks and underlining Israel's right to defend itself in line with international law, Charles Michel nevertheless had to call an extraordinary meeting of EU leaders via video-conference on 17 October 2023 in order to unify the messaging of the various EU actors. At both the 14-15 December 2023 and 1 February 2024 European Council meetings, EU leaders discussed the situation in the Middle East, but did not adopt any conclusions, which tends to indicate that no joint positioning was possible on developments in the region. However, even if severely challenged by the recent escalation of violence in the Middle East, the role of the European Council as crisis manager, which is written nowhere in the Treaties, has – in parallel with its agenda-setting role – proven to be the 'raison d'être' of the institution over the last decade.

Specific Treaty-based role

In addition to its horizontal priority-setting role as defined in Article 15(1) TEU, the European Council is also tasked with identifying the Union's strategic interests, determining the objectives of, and defining general guidelines for common foreign and security policy (Article 26 TEU).

In its role as shaper of EU foreign policy action, the European Council asked the High Representative/VP four years ago to present a Strategic Compass, to provide a common perspective on the security threats and challenges facing the EU, as well as an ambitious plan of action to strengthen the EU's security and defence policy by 2030. At the request of the EU leaders, the Strategic Compass was reviewed, adding more robust language on the threat posed by Russia to European security in light of the war in Ukraine. The European Council endorsed it in March 2022, and then, in June 2023, to acknowledged progress made in its implementation.

Furthermore, the European Council defines the strategic guidelines for legislative and operational planning in the area of freedom, security and justice (Article 68 TFEU). For the period until 2019, the priorities for the European Union in the area of freedom, security and justice, were to 'better manage migration in all aspects; prevent and combat crime and terrorism; [and] improve judicial cooperation among EU countries'. A new set of 'strategic guidelines for legislative and operational planning' were expected to be adopted in the course of the 2019-24 institutional cycle. However, in the current political cycle, EU leaders have not complied with this Treaty obligation, nor has the topic ever been mentioned in the Indicative Leaders' Agendas published in recent years.

However, the arrival of over 8 million Ukrainian refugees fleeing the war, the strong increase in irregular border crossings into the EU over the last three years, which, in 2023, reached their highest level since 2016, and the then ongoing discussions on the pact on migration and asylum, have given increased salience to discussions in these policy areas. Indeed, migration was discussed at the special European Council meeting on 9 February 2023 and at all meetings of EU leaders in 2023, including the informal meeting in Granada on 5-6 October, and is again a 'rolling agenda' topic at European Council meetings.

Furthermore, the topic has clearly returned as a core divisive point within the institution, with Hungary and Poland refusing to endorse joint conclusions at the June 2023 summit to express their disagreement with both the content and the procedure (QMV) for the adoption of the Council common position on the two above-mentioned migration files. Thus, in June, there were no European Council conclusions on migration within the overall set of conclusions, but only conclusions by the President of the European Council on the external dimension of migration. To avoid repeating the lack of consensus on the text of the conclusions, the October 2023 European Council held a 'strategic discussion' on migration, with the conclusions just stating that such a discussion had taken place. The same happened in December 2023, but with an additional paragraph reiterating the European Council's commitment to pursuing a comprehensive approach to migration. Thus, EU leaders demonstrated their willingness to put the issue on the agenda and to develop a common EU policy, which may have opened the way to a breakthrough on five key regulations of the Migration and Asylum Pact on 20 December 2023.

The European Council must also 'consider each year the employment situation in the Union and adopt conclusions thereon, on the basis of a joint annual report by the Council and the Commission' (Article 148 TFEU).

Decision-making procedures and working methods

The European Council's decisions are taken mainly by consensus, but in certain cases, the European Council can also decide by qualified majority. For example, the President of the European Council is elected by qualified majority vote for a once-renewable term of 2.5 years. The President's role is 'to ensure the preparation and continuity of the work of the European Council in cooperation with the President of the Commission', chair its meetings, 'facilitate cohesion and consensus within the European Council', and to ensure 'the external representation of the Union on issues concerning its common foreign and security policy, without prejudice to the powers of the High Representative of the Union for Foreign Affairs and Security Policy' (Article 15(5) TEU). The first two full-time Presidents of the European Council, Herman Van Rompuy and Donald Tusk, served 5 years each between 2009 and 2019. The third permanent President of the European Council, Charles Michel, began his mandate at the beginning of December 2019, and was re-elected for a second mandate at the March 2022 European Council. The fourth permanent president will be elected in the context of the appointment of all the EU's highest positions, after the June 2024 European elections.

While not directly accountable to the European Parliament, the President of the European Council presents a report to the Parliament after each (formal) meeting of the Heads of State or Government (Article 15(6) (d) TEU). Usually this takes the form of a declaration in person, followed by a plenary debate. Compared with his predecessors, Charles Michel has the highest reporting ratio after formal European Council meetings. Furthermore, although European Council presidents only have an obligation to report after formal meetings, Charles Michel has shown his willingness to cooperate with Parliament by also reporting after a number of informal meetings – and has done so more than his most recent predecessor, Donald Tusk. EPRS has analysed these plenary debates, which offer a crucial EU-level forum where the European Council's results are examined and scrutinised, and where there is an attempt to hold the institution to account. The analysis shows that, along with the main topics of each European Council meeting, Charles Michel's statements to Parliament featured

two recurring themes: EU unity and strategic autonomy. However, in contrast to debates in previous years, Michel has had a tendency to leave before the end of plenary meetings, renouncing the possibility to make a closing statement and to respond to all the MEPs' questions.

Another highly visible and frequent interaction between the European Parliament and the European Council are the opening remarks of the Parliament President at European Council meetings. Through the intervention of its President, Parliament can communicate its views on critical topics early in the policy process and highlight topics important to the Parliament which are not on the European Council's agenda, thus reminding EU Heads of State or Government of their salience. While the European Parliament President is not a member of the European Council and does not remain for the entirety of the meeting, his or her participation is significant nonetheless, and has developed strongly over time, as highlighted in a recent EPRS analysis.

As regards working methods, a noteworthy development in recent years has been the substantial evolution in the formations of the European Council. As a result of the series of crises of the last decade, there has been an exponential increase in the number and types of meetings. All meetings are indeed meetings of Heads of State or Government, but not all meetings are formal European Council meetings.

In recent years, members of the European Council have met in seven different formats:

Along with 1) *regular meetings of the European Council* on a quarterly basis (Article 15(3) TEU), mentioned earlier, the President can convene 2) *special meetings of the European Council* 'when the situation so requires' (Article 15(3) TEU). In principle, conclusions are also adopted at these special meetings. There can be exceptions, however, e.g. the special meeting of February 2020 on the MFF.

In addition, 3) *informal meetings of Heads of State or Government* take place traditionally twice per year in the country holding the rotating presidency of the Council. In practice, they tend to take place back to back with another major event, for instance the Porto meeting of EU leaders on 8 May 2021 was scheduled to coincide with the Social Summit. Recently, in the first half of the year, informal meetings have taken place back to back with the meeting of the European Political Community (EPC), on 6 and 7 October 2022 in Prague, the inaugural meeting of the EPC and, in autumn 2023, in Granada, the third EPC summit. As a result of, inter alia, the financial crisis, the UK's decision to leave the Union, the Leaders' Agenda proposed by the previous President of the European Council, Donald Tusk, in 2017, and the coronavirus pandemic, meeting formations have evolved substantially.[2]

The financial crisis has led to the increase in the number of special European Council meetings as well as to the establishment of the 4) *Euro Summit*, created as an informal gathering in 2008 and formalised in 2012 with the Treaty on Stability, Coordination and Governance in the EMU. In principle, Euro Summits include the EU Member States that have adopted the common currency, currently 20 countries. However, more and more meetings take place in an inclusive format, i.e. with the participation of all 27 Member States. This was the case for instance for the October 2023 Euro Summit. This broad involvement could be linked to the fact that the Euro Summits are not crisis meetings anymore; they now aim at bringing forward the reform of EMU, which is of concern for all the Member States.

From June 2016, following the UK referendum, EU leaders felt the need to discuss a number of things among the 27. Thus, a number of *informal meetings of Heads of State or Government at 27* took place without the UK to discuss the future of Europe, notably in Bratislava in 2016, Rome in 2017 and Sibiu in 2019. On those occasions a series of landmark declarations were adopted, which were not formal

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[2]   Some of the formats listed below have been discontinued.

conclusions. Once the UK had triggered Article 50 and notified its intention to leave, then a new formal format was set up, the 5) *European Council (Article 50)*, which adopted formal conclusions[3].

As for 6) *Leaders' meetings*, they were set up under President Tusk in 2017 and aimed at discussing sensitive issues in an informal way. Such discussions were based, not on draft conclusions, but on short notes prepared by the President. The idea was to have an open, relatively unstructured debate on controversial but highly consequential issues, with a view to facilitating agreement at a follow-up European Council meeting.

The process consisting of first holding an informal or inconclusive discussion on a topic and then seeking to adopt conclusions at a subsequent meeting has been kept in the Leaders' Agenda 2020-2021, put forward by Charles Michel at the special European Council meeting of 1-2 October 2020 and then in the indicative Leaders' Agenda 2021-22, as well as the following ones. Recent editions of the Leaders' Agenda, the indicative nature of which is specified in the title, appear however to be less detailed and less comprehensive when compared to the first and second editions. Moreover, while maintaining the Leaders' Agenda framework, Michel has dropped the practice of preparing special notes. On a number of occasions, however, he has prepared 'strategic discussions' without conclusions on sensitive issues, such as recently on migration at the October 2023 European Council.

Since the start of the COVID-19 pandemic, video-conference meetings have become a new and now recurrent feature for meetings of Heads of State or Government. In the context of the lockdown, this form of meeting enabled EU leaders to take joint action to tackle the crisis. Video-conference meetings were clearly linked to the specific context of the coronavirus crisis. However, it can be assumed that they are now a permanent feature. Obviously video technology enables urgent meetings to take place, and for the EU to take action if needed between physical meetings. A recent and striking example was the extraordinary video-meeting of Heads of State or Government on 17 October 2023 to address the escalating situation in the Middle East following the brutal and indiscriminate terrorist attacks by Hamas across Israel on 7 October 2023.

Nevertheless, even if video-conferences are a good vehicle for rapid consultation, this type of meeting has its limits. Video-conferences are inappropriate to discuss sensitive issues, such as foreign affairs or budgetary matters, and EU leaders seem generally to dislike this type of meeting. In such a format, they tend to be more cautious and to keep to their written statements, because the confidentiality of discussions is not ensured and participation is (de facto) broader than in formal physical meetings. Moreover, considering the particular nature of the European Council, small bilateral or side-meetings are crucial for achieving agreements on sensitive issues. We have witnessed it in the context of the negotiations on MFF in July 2020, when a physical meeting was necessary to enable political agreement to be reached on the MFF or, most recently on 1 February 2024, when an agreement on the MFF revision was facilitated by a breakfast meeting between a small group of EU leaders ahead of the meeting proper.

Altogether, the European Council remained active during the coronavirus crisis, and the institution has taken a digital leap. But video-meetings are unlikely to replace physical meetings fully outside extreme situations, especially when crucial decisions are on the agenda. In the context of the new major crisis, which has brought war back to the European continent and is profoundly altering the European security architecture, any meeting format other than physical meetings seems unlikely as a regular feature. Furthermore, European Council members have also expressed their preference for meeting among peers to endorse crucial decisions such as sanctions against Russia. Video-meetings do however provide a useful instrument for consultations in the preparation of EU leaders' summits. Michel uses them quite intensively for his bilateral contacts with EU leaders or for meetings of

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[3] This format does not exist anymore since the departure of the UK from the EU, even if the European Council has been following closely the development of EU-UK relations since Brexit.

groups of Heads of State or Government to build consensus on a topic ahead of a European Council meeting.

This instrument is also likely to be used in the process leading to the 2024-2029 Strategic Agenda. Led by Michel, the European Council has launched the reflection process on the priorities for the next institutional cycle, for which a new and timely consultation procedure has been chosen. In a letter sent ahead of the June 2023 European Council, Michel proposed a process for shaping the EU's future strategic priorities and suggested four (plus one) priority areas i) the EU's economic and social base; ii) the energy challenge; iii) security and defence capabilities; and iv) engagement worldwide. Migration will also be a core topic (the 'plus one' issue). The first step in the reflection process was the discussion at the informal meeting of EU leaders in Granada on 5-6 October 2023, based on general questions formulated by Charles Michel: What do we want to do together? How can we ensure we will be able to act together? How should our common ambitions be financed? The next step involves a series of consecutive group meetings with a small number of EU leaders, representing a mix of geographic regions in the EU, political party affiliations and diversity of opinion. So far four meetings have taken place: on 13 November in Berlin, on 14 November in Copenhagen, on 16 November in Zagreb, and on 28 November in Paris. Further discussions are envisaged until the informal meeting of members of the European Council on 17-18 April 2024, which will seek to reach consensus on the EU priorities for the next five years, due to be adopted after the European elections at the June 2024 regular European Council.

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2. A comprehensive migration policy

A. Background

Irregular border crossings into the EU have been increasing heavily over the last three years, and in 2023 reached their highest level since 2016. The resulting pressure on frontline EU Member States has put migration high on the agenda of the Heads of State or Government again. This topic had dominated the agenda of the European Council from the outbreak of the migration crisis in 2015 until the eruption of the coronavirus pandemic. Absent from the agenda for a couple of years, it reappeared in the discussion of EU leaders in the second half of 2022, and at a special European Council on the issue in February 2023. In the past year, the central Mediterranean was the most active migratory route into the EU, accounting for two out of every five irregular crossings (41 %).

Next to the growing pressure at the EU external borders, one of the many consequences of Russia's invasion of Ukraine is that Europe is now facing the biggest refugee crisis since World War II, with over 8 million people having fled Ukraine (of whom 6 million have entered the EU). In comparison, the level of irregular border crossings at the height of the migration crisis in 2015 amounted to 1.8 million.

In response to the influx of displaced persons from Ukraine, the EU has applied the temporary protection mechanism, providing quick and effective assistance for people fleeing the war in Ukraine. On 6 April 2022, the Council of the EU approved immediate disbursement of €3.5 billion to EU countries welcoming refugees, giving Member States immediate access to more initial funding from the fund for Recovery Assistance for Cohesion and the Territories of Europe (ReactEU). These circumstances have also pushed the discussions on the reform of the European asylum system, which is again at the centre of discussions, albeit in a totally new context.

Migration policy is one of the main policies in the wider area of justice and home affairs (JHA).[4] The European Council has an important strategic role in JHA, including on the issues of immigration, asylum, border protection, police and judicial cooperation, which are now discussed regularly at meetings of Heads of State or Government.

This was not always the case. Cooperation at EU level in the field of JHA, and migration in particular, was not originally envisaged in the Treaty of Rome; and this policy area was one of the last in which the EU received legislative competences. Justice and home affairs issues have only been discussed at EU level since the entry into force of the Maastricht Treaty in 1993, albeit in an intergovernmental format. The Tampere European Council of 15-16 October 1999, devoted exclusively to JHA, was crucial for the development of this EU policy area, as the objective of creating an EU area of freedom, security and justice was then placed at the 'very top of the political agenda'. The European Council's role in reaching this objective was enshrined in the Lisbon Treaty, which also introduced the ordinary legislative procedure for all aspects of the JHA area.

Migration policy is the subject of increased attention at European Council meetings both because its role in this area has been strengthened in the Treaties, and because many of the issues touch on core competences of the nation state (e.g. protecting external borders), as well as national identity, meaning that Member States wish to deal with them at the highest level. Nevertheless, the prominence of migration policy is mostly crisis-related.

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[4]   The terms 'justice and home affairs' (JHA) and 'area of freedom, security and justice' will be used interchangeably.

It took the European Council a series of meetings to develop a comprehensive approach to migration policy, which 'combines more effective control of the EU's external borders, increased external action and the internal aspects'.

Many measures have been successfully initiated or supported by the European Council – such as the creation of the European Border and Coast Guard or the improved cooperation with third countries on migration, including the EU-Turkey statement. One area where little progress had been noted for some time was the reform of the common European asylum system (CEAS). Important breakthroughs have occurred however in recent months, owing notably to the use of qualified majority voting in the Council.

Currently, EU citizens are still strongly in favour of supporting refugees from Ukraine, in contrast to attitudes seen during the migration crisis in 2015. Whether this support continues in the context of the imminent adoption of the migration and asylum pact remains to be seen; it will also depend on whether economic sanctions will lead to a further increase energy prices in Europe.

B. Legal basis for European Council action

While the European Council 'shall not exercise legislative functions' (Article 15(1) TEU), a special procedure can be found in Article 82(3) TFEU, Article 83(3) TFEU and Article 87(3) TFEU, which provides the possibility for any Member State to request that a draft directive, in the area of criminal justice or police cooperation respectively, be referred to the European Council. In that case, the discussion in the European Council would need to lead to a consensus rather than qualified majority voting (QMV) in the Council.

Table 1 – Treaty articles on the role of the European Council in the area of freedom, security and justice

Treaty article	Topic	Action / role
68 TFEU	Area of freedom, security and justice	Define the strategic guidelines for legislative and operational planning.
82(3) TFEU	Judicial cooperation in criminal matters	Refer a draft directive to the European Council to be decided by consensus.
83(3) TFEU	The establishment of common rules for certain criminal offences	Refer a draft directive to the European Council to be decided by consensus.
86(1) TFEU	European Public Prosecutor's Office (EPPO)	Refer a draft directive for establishing the EPPO to the European Council to be decided by consensus.
86(4) TFEU	European Public Prosecutor's Office (EPPO)	Adopt a decision to extend the powers of the EPPO to include serious crime having a cross-border dimension.
87(3) TFEU	Police cooperation	Refer draft measures to the European Council to be decided by consensus.
222 TFEU	Solidarity clause if a Member State is the object of a terrorist attack or other disaster	The European Council shall regularly assess the threats facing the Union in order to enable the Union and its Member States to take effective action.

Source: EPRS.

Article 68 TFEU, in particular, gives the European Council an important role in the area of freedom, security and justice, mandating it to define the strategic guidelines for legislative and operational planning within this area.

For the 2019-2024 period, the European Council has not adopted 'strategic guidelines for legislative and operational planning' within the area of freedom, security and justice, as required by Article 68 TFEU.

The European Council was expected to adopt new 'strategic guidelines for legislative and operational planning' within the area of freedom, security and justice in spring 2020, but at the end of this institutional cycle, EU leaders have still not complied with this Treaty obligation. This failure may be linked to the substantive differences of views that Member States have in this area, notably on the issues of migration and asylum.

C. European Council focus on migration policy

Migration has been the subject of increased attention at European Council meetings, both because its role in this area has been strengthened in the treaties, and because many of the issues touch on core competences of the nation state (e.g. providing security for citizens, protecting external borders), meaning that Member States wish to deal with them at the highest level.

Figure 1 – Focus on migration as part of the European Council conclusions 2010-2023

Source: EPRS.

Migration dominated the European Council agenda from the moment when the migration crisis broke out in 2015 up until late 2018. Thereafter, as migrant entry numbers fell compared to the peaks in 2015 and 2016, attention towards the issue lessened. In 2019 and 2020, migration was not addressed at any European Council meeting for the first time since 2015 (see Figure 1). Following events in the Mediterranean, and notably in the Spanish territory of Ceuta, where 6 000 migrants from Morocco entered Spain illegally, EU leaders briefly addressed migration at their European Council meeting of 26 May 2021, and returned again to the issue at their meeting of 24-25 June 2021. At the latter meeting, migration featured formally on the European Council's agenda for the first time since December 2018.

In 2022, the European Council debate on refugees was linked solely to the support for people fleeing Russia's war against Ukraine. There are currently 6 million refugees from Ukraine across Europe, of whom over 5.2 million have registered through the EU's temporary protection or similar national protection schemes. Over 1 million refugees have also already returned to Ukraine.

Frontex, the European Border and Coast Guard Agency, recorded approximately 380 000 irregular border crossings in 2023, the highest level since 2016 (Figure 2).

Figure 2 – Illegal border crossings 2009-2023
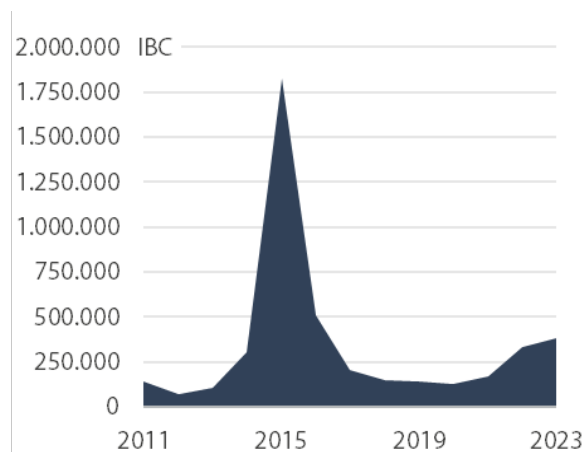
Source: EPRS, based on Frontex data.

In 2023, the central Mediterranean (via Italy) was the most active migratory route into the EU, accounting for 41 % of crossings, followed by the Western Balkans (via Serbia) with 26 %, the eastern Mediterranean (via Greece) with 16 %, and the western Mediterranean route (i.e. via Spain) with 4 %.

Altogether, irregular border crossings increased by 17 % in 2023 compared with the previous year. Given the resulting pressure at the EU's external borders, migration has returned to the centre of attention for the European Council.

D. Strategic orientations

The most recent standard Eurobarometer (from November 2023) indicates that migration is again the highest concern of European citizens, moving up from number three in June 2023 (six in February 2023), and after having already ranked number one for many years.

In pursuit of this strategic role, at its meeting of 20-21 June 2019, the European Council agreed on the strategic agenda of key priorities for the next 5 years. The European Council's 2019-2024 strategic agenda focuses on four priorities, one of which is *protecting citizens and freedoms*, which covers most issues in the area of JHA.

The main strategic orientations for the comprehensive migration policy are:

➢ effective control of the external borders;
➢ enhanced cooperation with countries of origin and transit; and
➢ an effective asylum policy.

A clear shift of focus can be observed in the 2019-2024 strategic agenda compared to the 2014-2019 strategic agenda. Previously, migration was also associated with positive effects such as addressing skill shortages, but since the outbreak of the migration crisis, the issue of migration relates mainly to the management of migration flows and border control. The new policy issues, which have been added under migration in the new 2019-2024 strategic agenda, include the need to 'fight human trafficking', 'ensure effective returns', and to 'find consensus on the Dublin regulation' and to ensure 'the functioning of Schengen'. At the same time, the 'cooperation with third countries', 'fighting irregular/illegal migration', 'asylum policy' and 'border control' policy issues are being further pursued.

E. Noteworthy commitments: Specific requests and follow-up

While in 2023 all European Council meetings discussed migration, detailed conclusions on the topic were rather limited. The special European Council of 9 February was the first meeting of EU leaders in years to have addressed migration in a general manner – and not solely in connection with the situation in Ukraine. The three main migration-related points in the European Council conclusions were i) external action, ii) returns and readmissions, and iii) protection of external borders.

Recent European Council meetings on migration

In October 2023, there were three European Council meetings: the informal meeting in Granada, on 5-6 October, the extraordinary video conference of EU leaders of 17 October and the regular European Council on 25-26 October. Migration featured in the discussions of all three meetings. The subsequent European Council meetings in December 2023 and February 2024 also addressed migration.

Informal leaders' meeting in Granada, 5-6 October

The informal leaders' meeting in Granada, on 5-6 October 2023 discussed European migration policy, notably its external dimension. Expressing their disagreement with a recent vote in Council on a migration file, Poland and Hungary again opposed the adoption of a text on migration by EU leaders. In the end, migration had to be taken out of the Granada Declaration and Michel issued a separate declaration on migration in his capacity as European Council President. The declaration summarises the EU's comprehensive approach to migration, which combines: i) external action, notably mutually beneficial comprehensive partnerships with countries of origin and transit; ii) measures to address the root causes of migration; iii) opportunities for legal migration; iv) more effective protection of EU external borders; v) a resolute fight against organised crime, human trafficking and smuggling, and instrumentalisation of migration as a hybrid threat; vi) a higher rate of returns; and vii) internal aspects, in compliance with international law, EU principles and values, and the protection of fundamental rights.

EU leaders' video conference of 17 October

At its video-meeting, the European Council discussed how the conflict in the Middle East could have an impact on migratory flows to the EU as well as to neighbouring countries, notably Egypt. In his press conference, Michel noted that, if migration flows were not managed, this could lead to onward migration flows to the EU.

A terrorist attack in Brussels on 16 October, which resulted in the deaths of two Swedish nationals was also relevant for the discussion on migration, as a radicalised migrant, living illegally in Belgium, was responsible for the attack. Before the European Council video-conference, the Swedish Prime Minister said he expected a continuation of the discussions on migration, notably on the need for better control of the EU's external borders and over people entering the EU.

Regular European Council meeting of 25-26 October

The only conclusion on migration from the 25-26 October European Council stated that EU leaders had held a strategic debate. Dutch Prime Minister Mark Rutte underlined that the European Council had been unable to adopt written conclusions, requiring consensus, as Poland and Hungary were in opposition. As indicated by Charles Michel, however, consensus is growing among EU leaders towards strengthened cooperation with third countries, including through comprehensive agreements. European Commission President Ursula von der Leyen meanwhile reported that there had been strong support from EU leaders for her letter and a two-track approach: i) the legislative track (i.e. finalising the migration and asylum pact), and ii) the operational track (i.e. acting

immediately along the various migratory routes). She said that the Commission would propose legislation to combat smuggling and trafficking by the end of November.

Regular European Council meeting of 14 December 2023

The December 2023 European Council held a 'strategic discussion on migration'. EU leaders reiterated their comprehensive approach to migration, which combines increased external action, including mutually beneficial comprehensive partnerships with countries of origin and transit and initiatives to address the root causes of migration, with opportunities for legal migration, more effective protection of EU external borders, increased returns as well as resolutely fighting organised crime, human trafficking and smuggling, and the instrumentalisation of migration as a hybrid threat. The European Council has again strongly condemned the instrumentalisation of migrants by third countries for political purposes, and remains determined to ensure effective control of the EU's external borders.

Special European Council meeting of 1 February 2024

The special European Council meeting of 1 February 2024 found a political agreement between all 27 EU leaders on the revision of the multiannual financial framework. This includes an increase of €2 billion in funding for the policy area of 'migration and border management'.

European border and coast guard

The European Border and Coast Guard (EBCG) is an example of how quickly an initiative can be adopted if it receives the backing of the EU Heads of State or Government. In the context of the long-term development of Frontex, in June 2014, the European Council called for 'a study into the possibilities of a European border guard'. Progress accelerated in October 2015, when EU leaders referred to enhancing the mandate of Frontex and the development of an EBCG system. Following the publication of the Commission's proposal on 15 December 2015, and the European Council's call for its 'swift adoption and implementation' at its meeting in June 2016, the European Parliament and the Council adopted the EBCG Regulation in a record time of just nine months. Following various requests by the European Council in 2017 to strengthen the EBCG, the Commission published its new proposal for a strengthened European Border and Coast Guard in September 2018. According to President Tusk, Heads of State or Government agreed at the Informal European Council meeting on 20 September 2018 in Salzburg, 'to take forward the Commission's proposal as a priority', even though further discussions regarding issues of sovereignty and the size of Frontex were required. Consequently, at the October 2018 European Council, EU leaders invited co-legislators to examine the proposal swiftly. On 6 December 2018, Council reached a partial political agreement, strengthening the role of the EBCG in supporting Member States regarding the return of irregular migrants. However, the Council did not yet agree on the proposal of the Commission to increase the staff of the EBCG to 10 000. The European Parliament's Committee on Civil Liberties, Justice and Home Affairs adopted its report on 11 February 2019. On 1 April 2019, the Council confirmed the informal agreement reached between representatives of the European Parliament and the Romanian Presidency of the Council on a regulation on the European Border and Coast Guard, which is designed to increase the staff of the EBCG up to 10 000 by 2027. Parliament voted on 17 April 2019 and the Council adopted the text on 8 November 2019.

The special European Council of 9 February 2023 affirmed its full support for the European Border and Coast Guard Agency in delivering on its core tasks, which are to support Member States in protecting the external borders, fighting cross-border crime and stepping up returns.

Reform of the common European asylum system

The reform of the common European asylum system (CEAS) has been an ongoing challenge, with the European Council attempting to bridge the gap between the different Member States' views,

with some insisting on 'relocation', while others propose 'effective solidarity' (i.e. showing solidarity in ways other than taking asylum-seekers, for example by providing more financial support). Originally, the European Council tried to put pressure on Member States, by issuing deadlines by which Member States should agree on reform of the CEAS, such as at its meeting of 15 December 2016 and the meeting of 9 March 2017. As this did not produce the desired result, the European Council then only asked the rotating Council presidency, 'to continue working on this issue' and/or commit itself 'to return to the issue' at a later meeting. The European Council meeting of 19 October 2017 committed itself to 'return to this matter at its meeting in December, and will seek to reach a consensus during the first half of 2018'. Although EU Heads of State or Government did address the reform of the CEAS at their Leaders' meeting in December 2017, they have not been able to reach consensus. One year later, at its meeting of 13-14 December 2018, the European Council called 'for further efforts to conclude negotiations on all parts of the Common European Asylum System'.

Considering the stalemate on the subject, the new Commission committed to present a new migration and asylum pact, which was put forward on 23 September 2020. This pact includes: a proposal to introduce screening of third-country nationals at external borders; an amended proposal on the establishment of 'Eurodac' for the comparison of biometric data for the effective application of regulation on asylum; an amended proposal to establish a common procedure for international protection in the Union; a proposal on asylum and migration management (replacing the 2016 Dublin proposal); Commission guidance on the implementation of EU rules on the definition and prevention of the facilitation of unauthorised entry, transit and residence; a proposal addressing situations of crisis and force majeure in the field of migration and asylum; a recommendation on an EU mechanism for preparedness and management of crises related to migration; and a recommendation on legal pathways to protection in the EU.

While not discussing the internal dimension of migration themselves, at their special European Council of 9 February 2023, EU leaders called on the co-legislators to complete the work on the migration and asylum pact, the revised Schengen Borders Code and the Return Directive.

On 4 October 2023, Council agreed on a negotiating mandate for the regulation on crisis situations, a big step towards completing the European migration and asylum reform package. The agreement in the Council – reached by qualified majority – was however criticised by Poland and Hungary, which again led to the failure to agree on a common text by all EU leaders at the Granada informal European Council (see below).

On 20 December 2023, negotiators from the European Parliament and the Council reached an agreement on five key regulations, which are part of the reform of the common European asylum system:

- a new asylum and migration management regulation;
- new rules governing migration and force majeure situations;
- update of the fingerprinting database;
- a new screening regulation;
- a common asylum procedure.

On 8 February 2024, the ambassadors of the Member States to the European Union (Coreper) validated the agreement reached with Parliament on 20 December. Additionally, they approved three asylum and migration laws on which the Council and Parliament had already reached agreement in 2022:

- uniform rules on asylum applications/uniform rules on qualification for asylum;

- better reception conditions;
- a new EU resettlement framework.

A return border regulation was also approved on this occasion.

The European Parliament is expected to hold the first vote of formal approval in its plenary session in April 2024.

Temporary protection for war refugees from Ukraine

In the declaration issued at the informal European Council of 10-11 March 2022 in Versailles, EU leaders offered 'temporary protection to all war refugees from Ukraine'. EU home affairs ministers had already prepared the legal details on 4 March 2022, by agreeing on the establishment of a temporary protection mechanism in response to the influx of displaced persons from Ukraine. The aim of this mechanism is to provide Ukrainian war refugees with immediate protection and give them harmonised rights across the EU, including access to the labour market, housing, medical assistance, and access to education for children. On 18 March, the Commission published operational guidelines to help Member States apply the Temporary Protection Directive.

In Versailles, EU Heads of State or Government also called for funds to be made available through swift adoption of the proposal 'Cohesion's Action for Refugees in Europe' (CARE) and through the Recovery Assistance for Cohesion and the Territories of Europe fund (ReactEU). The former was proposed by the European Commission on 8 March 2022 with the aim of providing emergency support for people fleeing from Russia's invasion of Ukraine, while the latter is an instrument that was adopted on 23 December 2020 in response to the pandemic. On 23 March 2022, the European Commission proposed to front-load €3.4 billion of the €17 billion in cohesion funds to swiftly supply liquidities to Member States welcoming and accommodating refugees fleeing the war in Ukraine.

At the 24-25 March 2022 European Council, EU leaders called on all Member States to step up their efforts regarding refugees fleeing the war in Ukraine in a continued spirit of unity and solidarity, and invited the Commission to take any necessary initiatives to facilitate such efforts. They also called for the urgent adoption of existing proposals relating to the mobilisation of EU funding for refugees and their hosts and invited the Commission to work on additional proposals to reinforce EU support in this regard as well as developing contingency plans to address medium- and long-term needs.

An extraordinary meeting of Justice and Home Affairs Ministers of 28 March 2022 further discussed the EU's coordinated approach to support for people fleeing the war in Ukraine. They called on the Commission, with the assistance of eu-LISA, to identify an IT solution that would allow for a centralised Europe-wide approach to the registration of Ukrainian refugees. Subsequently, the Commission presented a '10-point plan: For stronger European coordination on welcoming people fleeing the war from Ukraine', suggesting operational responses to the situation. On 14 October 2022, Ministers of Justice and Home Affairs prolonged the validity of the temporary protection mechanism for displaced persons from Ukraine until March 2024. On 28 September 2023, the Council agreed to extend the temporary protection until 4 March 2025.

Currently, 6 million refugees from Ukraine are recorded across Europe, of whom over 5.2 million have been registered through the EU's temporary protection or similar national protection schemes.

F. Challenges ahead and outlook

After a couple of years of reduced attention, migration issues are again a core point of focus for EU Heads of State or Government. With the rising numbers of irregular entries becoming an increased concern for EU citizens and foreign countries attempting to instrumentalise migrants for political purposes, migration is once again a 'rolling agenda' topic at European Council meetings, and was

discussed at the majority of European Council meetings in 2023. The EU leaders' willingness to dedicate an additional €2 billion to the policy area of migration and external border management in the context of the MFF revision shows how seriously they take citizens' increased concern.

Overcoming the current migration-related challenges facing the EU requires, among other things, strengthening the EU's external borders, resolving the issue of secondary movements, increasing return rates and enhancing cooperation with third countries. In parallel, addressing the major refugee crisis resulting from the war in Ukraine will also occupy the European Union for the foreseeable future.

The discussions at the June, October and December European Councils showed that disagreement remained strong between Member States in the area of migration, notably as regards decision-making procedures at EU level.

In the context of the June 2024 European Parliamentary elections, migration is being discussed more intensively at both national and European level. It can be expected that the topic will also feature high among the EU's priorities for the next institutional cycle. The reflections on the Strategic Agenda 2024-2029 of the European Council are ongoing and are expected to intensify in the coming months, with a special European Council dedicated to discussing the agenda on 17-18 April; adoption of the agenda is due in late June 2024, still under the Belgian rotating Presidency of the Council of the EU.

3. Protecting citizens

A. Background

The numerous terrorist attacks across Europe since 2015, together with the growing security concerns of EU citizens, have put protection of citizens high on the European Council agenda. The concept of protecting citizens by and large refers to internal security policy, which itself is part of the wider area of justice and home affairs (JHA).[5] As shown in the various Eurobarometer surveys, terrorism was the number two concern for European citizens between end of 2015 and end of 2018. In the most recent Standard Eurobarometer (from November 2023), terrorism returned to the top 10 concerns of Europeans. In recent years, EU citizens have been less concerned about terrorism, notably due to other pressing problems such as the coronavirus pandemic and the increase in living costs as a result of the war in Ukraine. This renewed focus on the fight against terrorism is probably linked to the terrorist attacks in France and Belgium in 2023, but also to the situation in the Middle East.

The European Council has an important strategic role to play in JHA, i.e. regarding the issues of immigration, asylum, border protection, police and judicial cooperation. These issues are now discussed regularly at the highest level at meetings of Heads of State or Government.

This was not always the case. JHA cooperation at EU level, and internal security in particular, was not originally envisaged in the Treaty of Rome; and this policy area was one of the last in which the EU received legislative competences. Only since the entry into force of the Maastricht Treaty in 1993 have JHA issues been discussed at EU level, albeit in intergovernmental format. The Treaty of Amsterdam, signed in 1997, was a milestone in that process, as certain competences in JHA matters were for the first time transferred from the level of the Member States to the EU level. At the Tampere European Council of 15-16 October 1999, the EU Heads of State or Government put the development of an EU area of freedom, security and justice at the 'very top of the political agenda'. The European Council's role in reaching this objective was enshrined in the Lisbon Treaty, which also introduced the ordinary legislative procedure for all aspects of the JHA area.

Internal security issues are subject to significant attention at meetings of Heads of State or Government both because the European Council's role in this area has been strengthened in the treaties, and because many of the issues touch on core competences of the nation state (e.g. providing security for citizens, protecting external borders), meaning that Member States wish to deal with them at the highest level.

However, foremost the prominence of internal security is crisis-related. Following major terrorist attacks in Europe, the European Council often either held an extraordinary meeting on the topic or devoted significant time to the issue at a previously planned meeting. After the Charlie Hebdo attacks, for example, following which millions of people had expressed their solidarity with the victims (through the '*Je suis Charlie*' movement), an informal European Council meeting was held on 12 February 2015. At that meeting, Heads of State or Government adopted a statement on anti-terrorism measures, vowing to take stronger measures against terrorist threats. Subsequently, following the terrorist attacks in Paris on 13 November 2015, security, although previously not included in the agenda, became one of the main discussion points at the 17-18 December 2015 European Council meeting.

In the context of Russia's war of aggression against Ukraine, the EU has taken various measures in the area of justice and home affairs, notably concerning crisis management, internal security and border control. It has activated both the integrated political crisis response (IPCR) mechanism and

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[5]   The terms 'justice and home affairs' (JHA) and 'area of freedom, security and justice' will be used interchangeably.

its civil protection mechanism, and increased its activities to fighting Russia's disinformation campaigns concerning the war in the Ukraine. On 2 March 2022 the Council imposed sanctions on Russian state-owned outlets RT/Russia Today and Sputnik's broadcasting in the EU, on account of Russia's 'systematic, international campaign of disinformation, information manipulation and distortion of facts'.

In 2022 and 2023, there was also a greater focus on the Schengen area, with the creation of a specific Schengen Council, the decision on granting Croatia full Schengen membership and the prospect, given at the December European Council, for a positive decision on the membership of Romania and Bulgaria in 2023. On 30 December 2023, the Council agreed to lift the air and sea internal border controls with Bulgaria and Romania; a further decision to lift land border controls is due later.

B. Legal basis for European Council action

While the European Council 'shall not exercise legislative functions' (Article 15(1) TEU), a special procedure can be found in Article 82(3) TFEU, Article 83(3) TFEU and Article 87(3) TFEU, which provides the possibility for any Member State to request that a draft directive, in the area of criminal justice or police cooperation respectively, be referred to the European Council. In that case, the discussion in the European Council would need to lead to a consensus rather than qualified majority voting (QMV) in the Council.

Table 2 – Treaty articles on the role of the European Council in the area of freedom, security and justice

Treaty article	Topic	Action / role
68 TFEU	Area of freedom, security and justice	Define the strategic guidelines for legislative and operational planning.
82(3) TFEU	Judicial cooperation in criminal matters	Refer a draft directive to the European Council to be decided by consensus.
83(3) TFEU	the establishment of common rules for certain criminal offences	Refer a draft directive to the European Council to be decided by consensus.
86(1) TFEU	European Public Prosecutor's Office (EPPO)	Refer a draft directive for establishing the EPPO to the European Council to be decided by consensus.
86(4) TFEU	European Public Prosecutor's Office (EPPO)	Adopt a decision to extend the powers of the EPPO to include serious crime having a cross-border dimension.
87(3) TFEU	Police cooperation	Refer draft measures to the European Council to be decided by consensus.
222 TFEU	Solidarity clause if a Member State is the object of a terrorist attack or other disaster	The European Council shall regularly assess the threats facing the Union in order to enable the Union and its Member States to take effective action.

Source: EPRS.

Article 68 TFEU gives the European Council an important role in the area of freedom, security and justice, mandating it to define the strategic guidelines for legislative and operational planning within this area. However, the European Council failed to define such strategic guidelines for the 2019-2024 institutional cycle. The European Council was expected to adopt new 'strategic

guidelines for legislative and operational planning' within the area of freedom, security and justice in spring 2020, but at the end of this institutional cycle, EU leaders have still not complied with this Treaty obligation. The failure to do so may be linked with the substantive differences between Member States in this area.

C. European Council focus on internal security

Between June 2014 and October 2018, the European Council discussed internal security and/or terrorism at 13 out of the 29 meetings, and the topic was mentioned in the conclusions and/or in statements thereafter. At eight of these meetings, internal security and/or terrorism featured prominently in the discussions, leading to a spike in attention paid to the issues in the European Council conclusions (see Figure 3).

Figure 3 – Attention paid to protecting citizens as a proportion of European Council conclusions 2014-2019
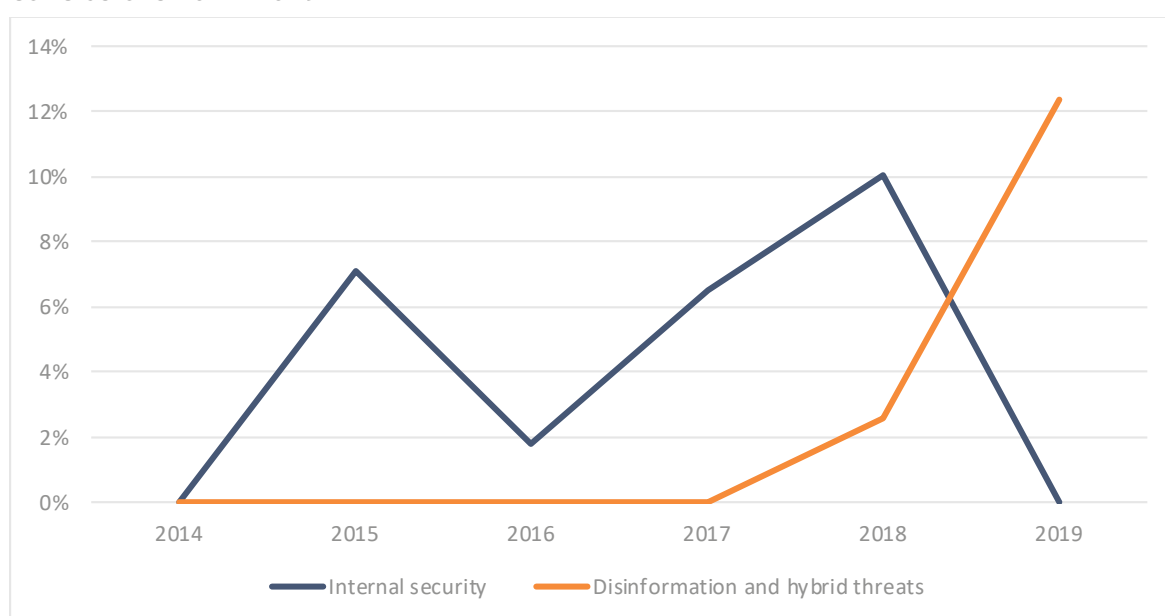
Source: EPRS.

EU Heads of State or Government increased the attention they paid to internal security and/or terrorism, mainly following major terrorist attacks in Europe. Then, the European Council either held an extraordinary meeting on the topic or devoted significant time to the issue at a previously planned meeting.

At the informal European Council meeting of 12 February 2015, Heads of State or Government adopted a statement on anti-terrorism measures, vowing to take stronger measures against terrorist threats in the coming months. As mentioned previously, the meeting of 17-18 December 2015, following the terrorist attacks in Paris in November 2015, constitutes a clear example of a major agenda change, with the European Council dedicating significant time to internal security and/or terrorism, although the issues had not originally been foreseen on the agenda.

In the absence of major terrorist attacks across the EU, EU leaders' attention to traditional areas of internal security, such as terrorism, has reduced in recent years (end of 2018 to end of 2020). In late 2018 and early 2019 EU Heads of State or Government devoted substantial attention to new internal security issues such as *disinformation* and *hybrid threats* (see Figure 3).

The fight against terrorism returned to the European Council agenda in November and December 2020 however following a series of terrorist attacks across Europe, notably in Paris, Nice

and Vienna, in the autumn of 2020. In this context EU leaders expressed their solidarity with France and Austria and stated that they would 'never shy away from defending our values and promoting our freedoms'.

Internal security was not discussed at European Council level as a specific agenda point in 2021, 2022 and 2023. The only time internal security was raised in 2023, was at the 26-27 October European Council, following the terrorist attacks in Belgium and France that month. EU leaders then condemned the attacks and called on EU institutions and Member States to mobilise all relevant instruments to enhance internal security. This includes strengthening law enforcement and judicial cooperation, information exchange through the full use and interoperability of relevant databases, protection of the external borders, the fight against people smugglers and close cooperation with third countries.

D. Strategic orientations

In the context of terrorist attacks and of the need to provide a response to the fears expressed by Europeans, most of the strategic documents adopted by the European Council over the last years have included important elements on internal security. In the Rome Declaration, EU leaders pledged to work towards 'a safe and secure Europe […] determined to fight terrorism and organised crime'. Subsequently, in Sibiu, they committed to protecting [their] citizens and keep them safe.

This focus on 'protecting citizens' was then cemented in the 2019-2024 strategic agenda, with the priority' protecting citizens and freedoms', which covers most issues in the area of JHA, featuring as first priority for the next five years.

➤ The main strategic orientations in the 2019-2024 strategic agenda for *protecting citizens* are:

➤ Fight against terrorism and cross-border crime;

➤ Resilience against natural and man-made disasters;

➤ Fight against cyber-crime and hybrid threats.

In the 2019-2024 strategic agenda, the area of internal security policy also saw a number of new additions, namely 'resilience to natural and man-made disasters', 'malicious cyber activities', 'hybrid threats and disinformation'. The 'fight against terrorism and cross border crime' was continued as a policy issue from the 2014-2019 strategic agenda.

These strategic orientations were supposed to be further detailed as part of the new 'strategic guidelines for legislative and operational planning' within the area of freedom, security and justice, which have not been adopted to date (as explained above).

Although the JHA Council did not adopt a new EU internal security strategy for the years 2021 to 2024 to follow up upon the last two Council internal security strategies for the 2010-2014 and 2015-2020 periods, it did adopt conclusions on internal security and European police partnership on 14 December 2020. These reiterated a number of political priorities to be achieved between now and 2025, including:

➤ strengthening European law enforcement cooperation;

➤ shaping the future and keeping pace with technological progress;

➤ global challenges and international cooperation in the area of security;

➤ fighting transnational organised crime;

➤ preventing and combatting terrorism and violent extremism.

Regarding European law enforcement cooperation in particular, they stressed the need to:

- make full use of the tools available for EU-wide alerts for criminal acts;
- implement the interoperability of EU information systems;
- establish an upgraded acquis on cross-border police cooperation;
- ensure that law enforcement authorities can use artificial intelligence technologies in their daily work, subject to clear safeguards;
- improve the capacity of law enforcement agencies to work with third countries and public and private partners worldwide;
- strengthen EU agencies such as Europol and Frontex.

The European Council has drawn attention to some of these priorities on numerous occasions in recent years, one such priority being to:

- ensure the interoperability of EU information systems (December 2015, December 2016, October 2018)
- strengthen EU agencies such as Europol and Frontex (June 2018, October 2018)

Back in July 2020, the European Commission presented the new 'security union strategy' for the 2020 to 2025 period, replacing the previous internal security strategies. It is based on four strategic priority actions: 1) building a future-proof security environment; 2) tackling evolving threats; 3) protecting Europeans from terrorism and organised crime; and 4) developing a strong European security ecosystem. Several strategies and action plans concerning specific crime areas have been published since then, and the Commission is keeping track of the security strategy's progress.

E. Noteworthy commitments: Specific requests and follow-up

As from 2015, the majority of commitments and meetings in the field of internal security were related to the fight against terrorism. Many European Council meetings discussed this matter and issued commitments both at a general level and regarding specific issues. In recent years, however, in the context of the COVID-pandemic, new noteworthy commitments were made in the area of protecting citizens, relating to the fight against disinformation and to internal and external border management. Both of these aspects have also been discussed by EU Heads of State or Government in the context of the Russian war on Ukraine.

Furthermore, the other institutions followed up on or completed many previous commitments of the EU Heads of State or Government in this area. An important more recent commitment of the European Council, relevant to various areas of internal security, is the call to strengthen Europol's mandate, which was subsequently adopted in June 2022. The related issues of fighting organised crime and police cooperation have also been discussed by the other EU institutions, with a view to exploring where further progress can be made. The Commission recently published an EU roadmap to fight drug trafficking and organised crime and is following up on progress in implementing the EU security strategy, with a view to steering future initiatives. A regulation on automated data exchange for police cooperation (Prüm II) – part of the legislative package on the EU 'Police Cooperation Code' – has just been adopted by the co-legislators; several legislative initiatives aimed at tracking criminals' money have been tabled or are close to adoption, and the Commission recently proposed a regulation to reinforce Europol's role in the fight against migrant smuggling and trafficking in human beings.

Fight against disinformation

Mentioned for the first time by the European Council in 2015 in relation to Russian activities, the fight against disinformation has become an important issue for Heads of State or Government in the area of protecting citizens since the June 2018 European Council. From that date, four formal European Council meetings (October 2018, December 2018, March 2019 and June 2019) have addressed the issue in the context of internal security and stressed the need to 'protect the Union's democratic systems and combat disinformation'.

Fighting disinformation has also become an important issue in the context of Russia's war on Ukraine. In their conclusions of the special European Council of 30-31 May 2022, EU Heads of State or Government stressed that the European Union and its Member States would 'step up their efforts to reach out to third countries in order to support Ukraine in all these dimensions (relating to military, economic, political support), counter the false Russian narrative and manipulation of information, and prevent sanctions evasion and circumvention'. On 26-27 October 2023, in the context of the conflict in the Middle East, the European Council stressed the need to fight dissemination of disinformation and illegal content, highlighting the legal responsibility of online platforms in that respect. The JHA Council of 5 December followed up on these issues and exchanged views on EU-level actions to counter dissemination of illegal and borderline content online.

Schengen area

Temporary internal border controls

In May 2023, five Member States (Austria, Denmark, France, Germany and Sweden) were still carrying out long-term temporary internal border controls, and in February 2024 there were eight (Austria, Denmark, France, Germany, Italy, Poland, Slovenia and Sweden). While in 2020 and 2021 these were justified by the coronavirus pandemic, temporary internal border controls were subsequently carried out on some or all of the following grounds: secondary migration movements, smuggling and human trafficking, increase in irregular migration flows, the situation at the EU's external borders, risks relating to terrorism and organised crime, and more recently the war in Ukraine and the conflict in the Middle East.

The Commission reported that Member States had introduced or extended internal border control measures on 28 occasions in 2022, including 19 times in the case of the extension of long-term internal border controls in force since 2015. Since October 2022, the Commission has been in close dialogue with Austria, Denmark, France, Germany, Norway and Sweden, as well as with the Member States affected by these controls, to remove these measures as soon as possible. However, Austria, Denmark, France, Germany, Norway and Sweden continue to notify the Commission of the prolongation of internal border controls for an additional period of 6 months, and others have joined the group.

Schengen border controls

The experience with the reintroduction of internal border controls during the pandemic has further highlighted the limitations of the current rules governing the Schengen area. [6]

At the European Council of 10-11 December 2020, EU Heads of State or Government reiterated that 'to ensure the proper functioning of the Schengen area, agreed measures should be fully implemented, and police and judicial cooperation and coordination strengthened'.

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[6]   For a critical assessment see An Assessment of the State of the EU Schengen Area and its External Borders, IPOL, European Parliament 2023.

With a view to reducing the need for temporary border controls, on 2 June 2021, the Commission put forward its new strategy for the Schengen area communication A strategy towards a fully functioning and resilient Schengen area. This strategy focuses on i) ensuring effective and modern management of the EU's external borders; ii) reinforcing the Schengen area internally; iii) improving governance and crisis preparedness; and iv) completing the enlargement of the Schengen area.

At the same time, the Commission proposed an amendment of the regulation establishing the Schengen evaluation mechanism. At their informal meeting of 15 July 2021, ministers of the interior formulated common guidelines on the proposal for updating the Schengen borders code. The long-awaited proposal for a revision of the Schengen borders code, originally planned for the second quarter of 2021, was published on 14 December 2021. On 10 June 2022, the Council adopted its general approach on the reform of the Schengen borders code. On 6 February 2024, the European Parliament and Council negotiators reached a provisional agreement on updating the rules for the functioning of the Schengen area both at external and internal borders. The preliminary agreement now needs to be formally adopted by both institutions.

Challenges and priorities for the Schengen area

Based on an idea of the President of France, Emmanuel Macron, the EU home affairs ministers agreed at their informal meeting of 2-3 February 2022 to create a 'Schengen Council', which is composed to date of the 27 countries.[7] The objective is to hold political discussions on the effective implementation of the Schengen acquis and proper functioning of the area without internal border controls. Other new initiatives in this context could include a scoreboard on the situation at the borders, a Schengen coordinator (i.e. an official to prepare and follow up on the work of the Schengen Council) and a 'solidarity platform', to be coordinated by Frontex in the event of crises at the external border. The first meeting of the Schengen Council took place on 3 March 2022, with ministers following up on the idea of a 'scoreboard on the situation at the borders' and adopting a general approach on an enhanced evaluation mechanism for the Schengen area. This mechanism aims at providing objective and impartial evaluations to identify deficiencies in the application of Schengen rules quickly and ensure they are addressed swiftly. The Schengen Council met again on 8 June 2023 and 19 October.

On 24 May 2022, the Commission presented the first annual State of Schengen Report, which identifies current challenges and recommends priority actions for the way forward as a starting point of the 'Schengen cycle'. This cycle was established with the 2021 Schengen strategy. It envisages a regular 'health check' on the state of Schengen, so as to identify problems early on, ensure common responsibility and take appropriate measures.

On 16 May 2023, the Commission published its 2023 State of Schengen report. The Commission indicated that a series of Schengen Councils would take place in 2023 and 2024 as part of the 2023-2024 'Schengen cycle'. Priority actions in this period would be to: consolidate the governance framework, accelerate operational measures on migration and border management, enhance the internal security of the Schengen area to combat organised crime, fully operationalise the police cooperation recommendation, phase out all long lasting internal border controls, continue to enlarge the Schengen area and make better use of existing tools under the EU visa policy.

Schengen membership

On 8 December 2022, JHA ministers adopted a decision on the full application of the Schengen acquis in Croatia. At the same time, they gave a negative decision on the full Schengen membership of Romania and Bulgaria. At the subsequent European Council of 9 December 2023, EU leaders

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[7]   23 Member States (and Iceland, Liechtenstein, Norway, and Switzerland) that make up the Schengen area.

welcomed Croatia's entry into the Schengen area as of 1 January 2023. European Council President Charles Michel reported on a political debate among the EU leaders on Romania and Bulgaria's accession to the Schengen area, and expressed optimism that a positive decision on that matter could be taken in the course of 2023. In that context, European Parliament President, Roberta Metsola, spoke of a 'broken promise' and stressed that there was 'no justifiable reason' not to admit Bulgaria and Romania to the Schengen area.

On 30 December 2023, the Council agreed to lift the air and sea internal border controls with Bulgaria and Romania; a decision to lift land border controls is due to follow later. Consequently, from 31 March 2024, there will no longer be checks on persons at EU internal air and maritime borders between Bulgaria and Romania and the other countries in the Schengen area.

F. Challenges ahead and outlook

Russia's invasion of Ukraine has had multiple consequences for the European Union, and this across different policy areas, including justice and home affairs. Activities in this context have included, for example, activation of the IPCR mechanism and the civil protection mechanism. Moreover, disinformation concerning the war in Ukraine and the potential exploitation of the situation at the EU borders by criminals, including via human trafficking remains an important concern. Illicit arms trafficking has become a serious concern in this context.

While EU Heads of State or Government may not have addressed terrorism in detail, the Council passed conclusions on 'Protecting Europeans from terrorism' in 2022. They state that there is 'a persistent high level of terrorist threat, fostered by an unstable international environment'. Consequently, they call on the EU institutions and Member States to continue their actions to better coordinate internal security between the Member States and make full use of the instruments available at EU level.

Just like Russia's invasion of Ukraine, the conflict in the Middle East is likely to have substantial implications for the EU's internal security. The increase in radicalisation, hate crimes and polarisation was already discussed by JHA ministers on 19 October and 5 December, and is expected to remain on the agenda for the foreseeable future. In the context of the Middle East crisis, another important challenge is a new wave of anti-Semitism across Europe. The European Council of 15 December 2023 expressed its serious concern and reiterated 'its condemnation in the strongest possible terms of all forms of antisemitism and hate, intolerance, racism and xenophobia, including anti-Muslim hatred'.

An increasingly important topic in the area of JHA is the protection of critical infrastructure. A directive on the resilience of critical entities covering 11 sectors (energy, transport, banking, financial market infrastructures, health, drinking water, wastewater, digital infrastructure, public administration, space, and food) entered into force in January 2023. Following numerous instances of damage to critical infrastructure (e.g. pipelines and telecom cables) in the Baltic Sea caused by external activity, the European Council, at its 26-27 October 2023 meeting, stressed 'the importance of a comprehensive and coordinated approach to the preparedness and crisis response of the EU ensuring that all sectors contribute to an all-hazards approach'.

Just like the European Council's Strategic Agenda 2019-2024, the Belgian Presidency of the Council of the EU added 'protecting European citizens' as one of its priorities. The Presidency will focus on intensifying the EU's efforts to combat organised crime, terrorism and violent extremism, as they pose a threat to our societies and democracies.

The 'safety of EU citizens' is also expected to be an important priority in the Strategic Agenda 2024-2029. The reflections on the next Strategic Agenda are ongoing and expected to intensify in the coming months, with a special European Council dedicated to discussion of the agenda on 17-18

April; adoption of the agenda is due in late June 2024, still under the Belgian rotating Presidency of the Council of the EU.

4. A new push for European democracy

A. Background

'The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights' (Article 2 TEU).

In times of 'fake news', alternative facts and emerging threats to our democratic system, it is of critical importance to strengthen support for EU values and the rule of law. This is not only valid for forces external to the EU, but also within.

In the Sibiu Declaration from May 2019, EU Heads of State or Government pledged to 'uphold our shared values and principles enshrined in the Treaties'. They reiterated this pledge in the strategic agenda 2019-2024, which states that 'the EU shall defend the fundamental rights and freedoms of its citizens, as recognised in the Treaties, and protect them against existing and emerging threats'. In the Granada declaration of 6 October 2023, EU leaders stressed the importance of the EU's values and principles, fundamental rights, democracy, and the rule of law to guide the European project.

In recent years however, the EU has had to face increasing challenges to the rule of law. Some Member States' changes to their national legal and political system, notably Poland and Hungary, have been deemed a clear risk of a serious breach of EU values by the European Commission and the European Parliament. Existing tools, such as the Article 7 of the Treaty on the European Union procedures, have been activated, and new ones, notably rule of law conditionality, have been created. Following the European Court of Justice dismissal of the actions brought by Hungary and Poland challenging the legality of the Rule of Law Conditionality Regulation, the European Commission activated the new mechanism against Hungary on 27 April 2022.

These issues have also been addressed at the level of Heads of State or Government on several occasions since 2020, which is a novelty since these topics had until then been absent from European Council debates previously and were never subject to conclusions.

Defending EU values and democracy goes hand in hand with improved awareness and involvement of EU citizens in EU policy-making.

Going back as far as the Maastricht Treaty, when the EU citizenship was established, EU institutions have attempted to increase the citizen's engagement. However, EU citizens continued to have the feeling that their voice did not count sufficiently in Europe, a feeling which was further strengthened during the years of the economic and financial crisis. As part of their reflection period following the Brexit referendum, EU Heads of State or Government concluded in their 2016 Bratislava Declaration that they 'need to improve communication with citizens'. This message was reiterated in the 2017 Rome Declaration, in which EU leaders pledged 'to listen and respond to the concerns expressed by our citizens and will engage with our national parliaments'.

The end of 2016 saw a turning point in public opinion: from then on, polls show that citizens' positive views as to whether their voices count in Europe have steadily increased, reaching a high point in June 2019 with 56 % of EU citizens having the feeling that their voice counted in Europe.

The Conference on the Future of Europe, which was officially launched on 9 May 2021, was designed to take another step towards greater citizens' engagement and work on the issues that are of concern to its people. It delivered its final report to the presidents of the EU institutions on 9 May 2022. However, the follow-up, or rather lack of, by the European Council - despite support for by many individual Member States to act upon the final report - strikes with the strong commitment shown by the European Parliament and the European Commission, which both supported the establishment of a Convention for the revision of the treaties.

B. Legal basis for European Council action

Article 2 TEU: the Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail.

Article 3(1) TEU states that 'the Union's aim is to promote peace, its values and the well-being of its peoples'. Article 3(2) TEU further specifies this and indicates that 'the Union shall offer its citizens an area of freedom, security and justice without internal frontiers'.

Article 7 TEU outlines two specific procedures to safeguard the values of Article 2 TEU: one preventive (Article 7(1) TEU) and one sanctions (Article 7(2) and (3) TEU. The European Council has an important role under the sanctions procedure, as it 'may determine the existence of a serious and persistent breach by a Member State of the EU's values'. So far the European Council has never declared the existence of such a breach of EU values, and the sanctions procedure under Article 7(2) and (3) TEU has never been triggered.

Article 10 TEU: Member States and citizens are the two sources of the EU's legitimacy. Whilst in accordance with Article 10(2) TEU citizens are 'directly represented at Union level in the European Parliament' and 'have a right to participate in the democratic life of the Union (Article 10(3) TEU, the Member States are represented by their Heads of State or Government in the European Council, who are 'democratically accountable either to their national Parliaments, or to their citizens' (Article 10(2) TEU. This provision gives the European Council an indirect legitimacy but a specific role in the institutional framework.

Article 11 TEU: the institutions shall, by appropriate means, give citizens and representative associations the opportunity to make known their views in all areas of Union action. The European Council is amongst the institutions concerned by this provision.

Article 68 TFEU gives the European Council an important role in the area of freedom, security and justice, mandating it to define the strategic guidelines for legislative and operational planning within this area. One outstanding task for the European Council is to define the strategic guidelines for legislative and operational planning within the area of freedom, security and justice, as required by Article 68 TFEU. The European Council had been expected to adopt new 'strategic guidelines for legislative and operational planning' within the area of freedom, security and justice in spring 2020, more than a year later, EU leaders have still not complied with this Treaty obligation.

C. European Council focus on EU values and democracy

While the European Council has addressed issues relating to EU values and democracy in its main strategic documents (see below in Section D) until recently (see below in Section E) it has hardly addressed them at all as part of its regular meetings and these topics did not appear in their conclusions. The one noteworthy exception was the area of disinformation, which has received a fair amount of attention over recent years (see below in Section E).

Contrary to the general absence of these topics in the regular European Council meetings, EU Heads of State or Government addressed EU values and democracy at great length during the series of Future of Europe debates in the Parliament's plenary sessions between January 2018 and April 2019.

Figure 4 – References to different topics related to EU values and democracy raised by EU Heads of State or Government during their Future of Europe debates in the EP, 2018-2019
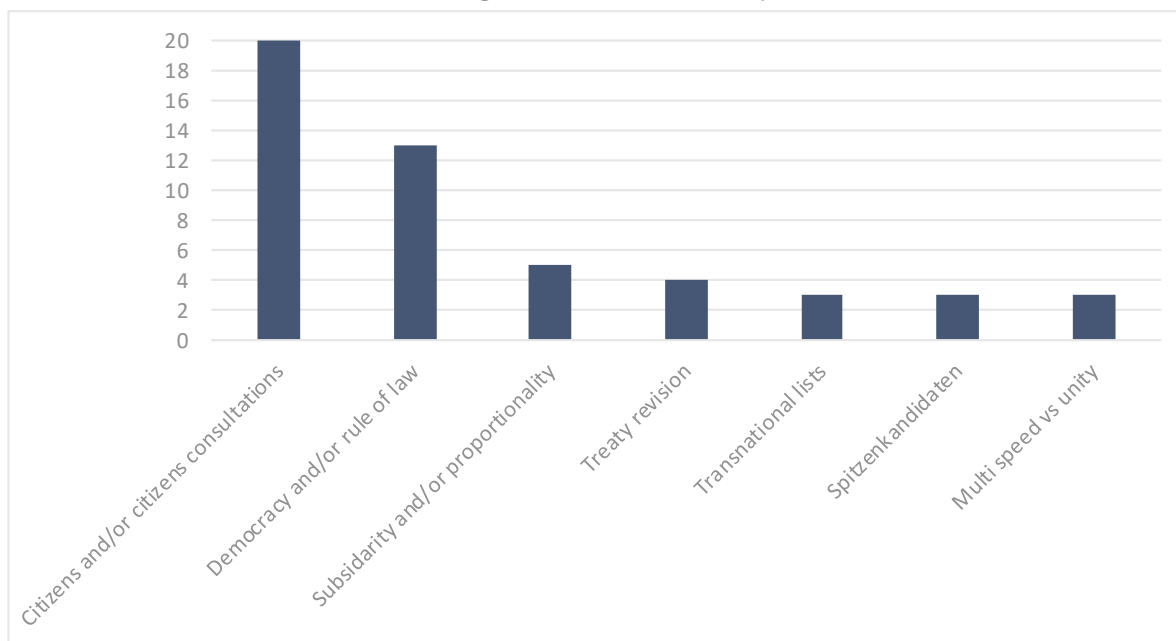
Source: EPRS.

All of the 20 speakers referred to EU citizens, while some also addressed issues such as the rule of law, subsidiarity or Treaty revision (see Figure 4).

Of the six overall messages all speakers addressed in common within the framework of the Future of Europe debates, two referred to EU values and democracy:

> the importance of European values and the need to defend them, both within the EU and externally;
> the need to involve citizens more actively in the EU process and decision-making and to highlight to citizens the benefits of the EU and to deliver on their priorities.

Since 2022, individual EU leaders have discuss their visions for the future of the European Union in a series of debates with Parliament as part of the 'This is Europe' initiative, proposed by the President of the European Parliament, Roberta Metsola. Many of the EU leaders have in that context stressed the importance of democracy and the rule of law, notably Xavier Bettel in April 2023.

D. Strategic orientations

In the 2017 Rome Declaration, the EU-27 Heads of State or Government, the European Parliament and the European Commission stressed that the European Union is founded on 'common institutions and strong values, a community of peace, freedom, democracy, human rights and the rule of law, a major economic power with unparalleled levels of social protection and welfare'. In the subsequent 2019 Sibiu Declaration, EU leaders pledged to '**protect our way of life, democracy and the rule of law**' and 'uphold our shared values and principles enshrined in the Treaties'.

In the strategic agenda 2019-2024, EU leaders have elevated the priority of 'protecting citizens and freedoms' to the top position amongst the four key priorities for the five year period. Within that overall priority, *Respecting EU values and democracies*, is one of the strategic orientations, which includes the following objectives:

> upholding the rule of law;

> citizens and EU decision-making;

> fighting disinformation.

EU leaders committed to delivering on these priorities stating that 'our Institutions will work in accordance with the spirit and the letter of the Treaties. They will respect the principles of democracy, rule of law, transparency and equality between citizens and between Member States.'

In the Granada declaration of October 2023, EU leaders reiterated 'the original promise of the European project to ensure peace, stability and prosperity for our citizens, guided by our values and principles, fundamental rights, democracy, and the rule of law'.

E. Noteworthy commitments: Specific requests and follow-up

Fighting disinformation

The European Council mentioned the need to fight disinformation for the first time in March 2015, in the context of Russian disinformation campaigns. Since then, EU Heads of State or Government have widened the focus, seeing it as an integral part of its objective of protecting the Union's democratic systems. It addressed disinformation, in one way or another, at all formal European Council meetings between June 2018 and June 2019. This topic provides a typical example of the European Council's involvement in the policy cycle.

Figure 5 – European Council role in the EU policy cycle
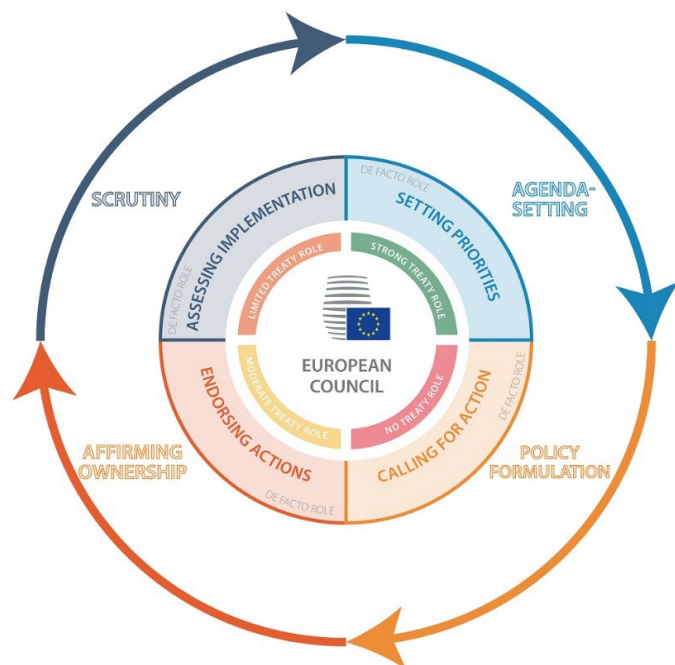
Source: EPRS.

Disinformation is also a central feature of Russia's war of aggression in Ukraine. On 2 March 2022, the Council imposed sanctions on Russian state-owned outlets RT/Russia Today and Sputnik's broadcasting in the EU, owing to Russia's 'systematic, international campaign of disinformation, information manipulation and distortion of facts'. In December 2023, the European Council stated that the 'European Union will continue its intensive work with partners to counter false Russian narratives and disinformation about the war'.

In the context of the conflict in the Middle East, the European Council stressed, at its meeting of 26-27 October 2023, the need to fight dissemination of disinformation and illegal content, highlighting the legal responsibility of online platforms in this context.

Disinformation and foreign influence on voters' behaviour ahead of elections was also one of the main topics discussed between EU leaders and the President of the European Parliament after the latter's speech to the February 2024 European Council.

On 12 December 2023, the European Commission adopted its 'defence of democracy' package, which aims to tackle the threat of covert foreign influence in the EU's democratic life and reinforce actions ahead of the elections to the European Parliament. It includes a proposal for a Directive on Transparency of Interest Representation on behalf of Third Countries, which establishes harmonised requirements in the internal market on transparency and democratic accountability of interest representation carried out on behalf of third countries.

Conference on the Future of Europe

At its 12-13 December 2019 meeting, the European Council considered the idea of a Conference on the Future of Europe starting in 2020 and ending in 2022. The idea was first suggested by the French President, Emmanuel Macron, in March 2019, and was subsequently supported by the new Commission President, Ursula von der Leyen, before her election by the Parliament. It recalled 'that priority should be given to implementing the strategic agenda agreed in June [2019], and to delivering concrete results for the benefit of our citizens'. The conference should contribute to the development of policies in the medium and long-term so that the EU can better tackle current and future challenges. It should build on the citizens' dialogues over the past 2 years and provide for broad consultation of citizens. It added that it needed to be 'an inclusive process, with all Member States involved equally'. The European Council stressed that the process should 'involve the Council, the European Parliament and the Commission, in full respect of the interinstitutional balance and their respective roles as defined in the Treaties'.

On 10 March 2021, the presidents of the three EU institutions signed a joint declaration on the Conference on the Future of Europe (CoFoE), which was then officially launched on 9 May 2021. The final report was delivered to the presidents of the EU institutions on 9 May 2022.

EU leaders were supposed to discuss the follow-up to the Conference on the Future of Europe at the June 2022 formal European Council in greater depth, and examine inter alia whether their views align with the CoFoE proposals.

The European Council however merely 'took note' of the CoFoE proposals. While calling for 'an effective follow-up', EU leaders did not provide specific guidelines in this respect; instead, they simply stated that each EU institution should ensure this follow-up 'within their own sphere of competences', rather than jointly among EU institutions. EU Heads of State or Government also noted the importance of ensuring that citizens were informed of the follow-up to the proposals made in the report. The President of France, Emmanuel Macron, indicated that the European Council would continue with its debate on this issue. This however has not been the case to date.

EPRS research (see 'The Conference on the Future of Europe and the European Council') has shown that there is significant convergence between the results of the CoFoE and the priorities of the European Council as expressed in its strategic agenda 2019-2024 and in its conclusions over the past 3 years.

At the General affairs Council of 10 July 2023, the Spanish Presidency of the Council indicated that continuing with the follow-up to the Conference on the Future of Europe, including discussions on the extension of qualified majority voting, and preparing the EU for future enlargement, would be one of its priorities during their Presidency. The results of the discussions are expected to feed into an analysis of the current 'strategic agenda' before the next will be adopted in 2024.

On 22 November 2023, Parliament adopted a resolution asking the European Council to call a convention for the revision of the Treaties, with a view to giving citizens a stronger say and creating a more effective European Union. During the plenary debate on the resolution, the representative of the Spanish Council Presidency had indicated that the Presidency would submit the document to the General Affairs Council (GAC) so that it could be submitted, in turn, to the European Council. However, the topic was not added in time to the agenda of the 12 December GAC to be included on

the agenda of the European Council meeting of 14-15 December. Adopted at the 18 December Environment Council meeting without discussion, the document could now, in principle, be forwarded to EU leaders. However, the topic was again missing from the agenda of the 1 February 2024 European Council.

At the GAC of 12 December, the Council Presidency informed ministers about the Council secretariat's assessment of the follow-up to the Conference on the Future of Europe. It argues that 'a year and a half after the end of the conference, the overwhelming majority of the conference proposals and measures have been implemented or are in the process of being implemented'.

The future of the European Union: Strategic agenda 2024-2029

At the informal European Council meeting in Granada on 5-6 October 2023, EU leaders started a reflection process on the EU's future priorities, the results of which would feed into the strategic agenda 2024-2029 to be adopted in June 2024. The discussion was based on general questions formulated by the President of the European Council: What do we want to do together? How can we ensure we will be able to act together? How should our common ambitions be financed?

The topics identified for the discussion in Granada and then for the reflection process are: i) security, defence and cyber-resilience; ii) long-term competitiveness and the EU single market; iii) crisis-preparedness; iv) the green and digital transitions; v) multilateralism and global partnerships; vi) migration; and vii) enlargement and absorption capacity.

Some EU institutions and Member States have begun offering input for the future strategic priorities and potential Treaty reform in the context of EU enlargement. The Spanish Presidency put forward its own paper, Resilient EU2030. The Commission contributed to the future priority policy objectives by outlining ways of increasing EU resilience, competitiveness and sustainability. A reflection paper on the future of the EU produced by a Franco-German working group set up by the French and German governments, suggests an EU made up of four distinct tiers: i) the inner circle, ii) the EU, iii) associated members, and iv) the EPC, each with different competences and obligations.

Following the first discussions by EU leaders in Granada, the General Affairs Council of 24 October 2023, held a working lunch on the future of Europe and preparation for enlargement.

On 8 November 2023, the European Council President outlined his plans for the next steps, involving a series of consecutive group meetings with a small number of EU leaders, representing a mix of geographic regions in the EU, political party affiliations and diversity of opinions.

So far three meetings have taking place:

> - 13 November in Berlin (attending Member States: Belgium, Germany, Greece, Cyprus, Hungary, Austria and Lithuania;
> - 14 November Copenhagen (attending Member States: Bulgaria, Denmark, Ireland, Latvia, Sweden and Finland);
> - 16 November in Zagreb (attending Member States: Croatia, Italy, Malta and Poland);
> - 28 November in Paris (attending Member States: Estonia, France, Luxembourg, Portugal and The Netherlands).

A total of 23 Member States' leaders have participated in the process to date. Charles Michel and the Secretary General of the Council, Thérèse Blanchet, attended all of these meetings, but the Commission President, also a member of the European Council, has not been involved so far.

A second round of small group meetings of EU Heads of State or Government will take place in April 2024. First draft texts are expected to be put forward in spring 2024.

Presentation of a European Council declaration, similar to the Sibiu Declaration that preceded the adoption of the strategic agenda 2019-2024, is expected in March or April 2024, at an informal European Council event under the Belgian Council Presidency.

The adoption of the strategic agenda 2024-2029 is scheduled for June 2024.

EU values and the Member States

Over recent years, EU values and the rule of law have been discussed more and more between the EU institutions and the Member States. While some aspects such as the rule of law dialogue or the Article 7(1) TEU procedures have so far not reached the level of EU Heads of State or Government, others, such as the rule of law conditionality, EU fundamental value of LGBTQI+ non-discrimination and independence of the judiciary, have been strongly debated in the European Council.

Rule of law dialogue

As indicated above, the rule of law has been mentioned more often in the European Council in recent years than previously. However, the main forum for Member States to discuss the rule of law remains the Council of the EU.

The idea for a peer review mechanism on the rule of law between the Member States was mentioned as early as 2018 by the then Prime Minister of Belgium and current European Council President, Charles Michel, as part of the Future of Europe dialogues between the European Parliament and EU leaders.

By now, the European Commission has published four annual rule of law reports (2020, 2021, 2022 and 2023). The 2022 report included, for the first time, specific recommendations to individual Member States. In doing so, it follows Parliament's resolution of 24 June 2021 on the Commission's 2020 rule of law report, which called for country-specific recommendations.

On 30 March 2023, the European Parliament adopted its resolution on the Commission's 2022 rule of law report. The resolution highlights improvements to the Commission's annual report, but calls for the scope of the analysis 'to be widened to cover all EU values (Article 2 of the Treaty)' and for the report to make a more direct link with the activation of tools to protect EU values and the EU budget. The resolution also refers to the worrying situation of press freedom and pluralism in some Member States.

On 28 February 2024, the European Parliament adopted its views on the Commission's 2023 rule of law report. In its resolution, Parliament warned about democratic backsliding across many Member States and criticised the Commission's inaction in safeguarding EU values.

The General Affairs Council regularly holds country-specific discussions on the rule of law. The December 2023 General Affairs Council evaluated the Council's rule of law dialogue. Due to the lack of consensus on the topic, Presidency conclusions were issued instead of regular Council conclusions, with 25 Member States supporting – or not objecting to them – on the day, and one more, Poland, supporting them subsequently. In its conclusions, the Presidency assessed the Council's annual rule of law dialogue as a valuable preventive tool in the EU's rule of law toolbox. It suggested further improving this dialogue by setting out a faster cycle, covering more Member States per year, and encouraging more frequent exchanges within the Council, and with external stakeholders.

Most recently, on 29 January 2024, the General Affairs Council held a country-specific discussion on the rule of law. The exchange of views focused on key developments in Spain, France, Croatia and Italy.

Article 7(1) TEU procedures

Regarding the rule of law, on 17 September 2020, the European Parliament called on the Council to 'resume the formal hearings' concerning the on-going Article 7(1) TEU procedure against Poland and to extend the scope of the procedure in order to include several deficiencies as regards the respect for fundamental rights and the democratic principle. Similarly, the Parliament called on the Commission 'to address a clear risk of a serious breach by Poland of the values on which the Union is founded', through expedited infringement procedures and interim measures before the European Court of Justice. Parliament reiterated this in its resolution of 24 June 2021 on the Commission's 2020 rule of law report, its resolution on ongoing hearings under Article 7(1) TEU regarding Poland and Hungary of 5 May 2022, and the resolution of 14 September 2022 on the proposal for a Council decision determining, pursuant to Article 7(1) TEU, the existence of a clear risk of a serious breach by Hungary of the values on which the Union is founded.

On 30 May 2023, the General Affairs Council held two hearings as part of the Article 7(1) TEU procedure concerning rule of law in Poland and respect for EU values in Hungary. This was the sixth hearing for both Member States, covering all the issues raised in the respective reasoned proposals, which triggered the procedure.

The General Affairs Council of 20 February 2024 took stock of developments regarding the Article 7(1) TEU procedure concerning Poland. The Polish justice minister, Adam Bodnar, briefed the Council on the reforms the Polish government has undertaken and/or is planning to undertake, to address the issues raised under the Article 7 procedure. The aim of the new government is to take the necessary steps to allow this procedure to be closed.

Rule of law conditionality

As part of the European Council's political agreement on the MFF of 21 July 2020, EU Heads of State or Government agreed to introduce 'a general regime of conditionality' in order 'to tackle manifest generalised deficiencies in the good governance of Member State authorities as regards respect for the rule of law when necessary to protect the sound implementation of the EU budget, including NGEU, and the financial interests of the Union'.

On 16 February 2022, the European Court of Justice ruled to dismiss the actions for annulment brought by Hungary and Poland against the conditionality mechanism.

On 27 April 2022, the European Commission sent a notification letter to the Hungarian government under the General Conditionality Regulation concerning rule of law breaches, which endanger the European budget, thereby triggering the procedure that could allow for the suspension or withdrawal of EU funding from Hungary. The Commission notably highlighted systemic conflict of interest issues, problems with public procurement, lack of trust performing public functions, and deficient anti-graft efforts After getting a final extension to reply to the Commissions notification, the Hungarian government responded on 23 August 2022, outlining numerous measures aimed at addressing all of the Commission's concerns. On 15 December 2022, the Council adopted an implementing decision suspending 55 % of the budgetary commitments for Hungary under cohesion policy.

On 17 May 2023, a delegation of the European Parliament's Budgetary Control Committee carried out a 'fact-finding mission' to Budapest in order to assess the ongoing process for the implementation of the 27 'super milestones' for Hungary to unblock payments under the Recovery

and Resilience Facility (RRF). The delegation identified a number of shortcomings regarding the effectiveness of the State Audit Office.

On 13 December 2023, the European Commission concluded that 'the risk to the Union budget remains unchanged' regarding Hungary and that restrictive measures should not be lifted. At the same time, the Commission considered that Hungary had 'taken the measures it committed to take concerning the horizontal enabling condition on the EU Charter of Fundamental Rights is fulfilled in what concerns judicial independence' and unblocked up to €10.2 billion in cohesion money that had previously been withheld. However, on 18 January Parliament adopted a resolution on the rule of law situation in Hungary and frozen EU funds, in which it considered the possibility of launching a procedure to annul the Commission's decision. The 2024 report of the Court of Auditors on the rule of law also criticises the Commission's incoherent approach.

EU fundamental value of LGBTQI+ non-discrimination

At the regular European Council meeting of 24-25 June 2021, EU leaders had an impromptu and extensive discussion on the rule of law and European values. It took place in the context of amendments to Hungarian child protection legislation including measures banning the portrayal of homosexuality to minors; this provision was considered by many as discriminatory against LGBTQI+ people. According to President Michel and President von der Leyen, the debate by EU leaders was an 'emotional, personal as well as necessary discussion'. In joint reactions ahead of the European Council, 17 EU leaders and Member States condemned developments in Hungary and called on the European Commission to 'use all the tools at its disposal to ensure full respect for EU law, including by referring the matter to the ECJ'. The Commission President referred to the Hungarian bill as a 'shame', as it 'clearly discriminates against people based on their sexual orientation' and promised to use all the legal powers of the Commission to 'ensure that the rights of all EU citizens are guaranteed'. Charles Michel stressed 'the primacy of EU law and the primacy of European values', expressing the hope that the Conference on the Future of Europe would provide the opportunity to take European beliefs and fundamental rights forward. However, the debate and views expressed at the European Council meeting are not reflected in the text of the conclusions adopted, as the inclusion of any paragraph requires consensus between EU leaders.

In its resolution of 8 July 2021, Parliament condemned in the strongest possible terms the recent anti-LGBTIQ legislation and denounced the dismantling of democracy and the rule of law in Hungary. On 15 July 2021, the EU Commission opened infringement procedures by sending a letter of formal notice to both the Hungarian and the Polish governments, to the latter for failing to fully and appropriately respond to the Commission's inquiry regarding the nature and impact of the 'LGBT-ideology free zones'. In the Hungarian case, this was followed up by a reasoned opinion on 2 December 2021.

Rule of law in Poland

The issue of rule of law developments in Poland was added to the agenda of the 21-22 October 2021 European Council at the last moment. EU leaders discussed the recent ruling of Poland's Constitutional Tribunal, which states that some parts of the EU Treaties are incompatible with the Polish Constitution, and also raised the issue of judicial independence in the country more broadly.

During Parliament's 20 October debate on the preparation of the October European Council, many MEPs expressed concern about the European Council's reluctance to perform its role as outlined in Article 15 TEU, namely to provide the general political direction for the EU, and called on the European Council to act in this respect. Considering its broad character, Article 15 TEU covers not only all policy areas that the Heads of State or Government may wish to raise but also issues related to values and the rule of law. While no concrete decisions were made at the October European Council, some EU leaders, such as the Prime Minister of Belgium, Alexander De Croo, stressed that in

the past, discussions on the rule of law did not take place in the European Council; the fact that a discussion on the matter had actually taken place was therefore significant in itself. Reports indicate that many EU leaders had expressed concern about the situation in Poland and underlined the importance of dialogue with the country.

On 27 October, the European Court of Justice imposed a €1 million daily penalty on Poland for not implementing its decision of 14 July 2021. In this decision, the Court ordered Poland to temporarily suspend the application of certain provisions of the law installing a new disciplinary regime for judges until its adoption of a final decision on the compatibility of that regime with EU law, i.e. mainly with the requirements of independence and impartiality imposed by EU law on national judges. On 22 December 2021, the European Commission launched an infringement procedure against Poland because of serious concerns with respect to the Polish Constitutional Tribunal and its recent case law. So far, no judges have been reinstated to work, despite the Court's ruling.

On 1 June 2022, the European Commission approved Poland's recovery and resilience plan, which it had previously delayed in connection with the rule of law concerns in the country. However, the Commission will only authorise the disbursement of funds if the Polish government fulfils the milestones agreed on, including those aiming to protect the EU's financial interests and strengthen the independence and impartiality of courts. On 27 February 2024, the Commission adopted two legal acts that will pave the way for Poland to access up to €137 billion from the NextGenerationEU (€59.8 billion) and Cohesion funds (€76.5 billion) as a direct consequence of the reforms the new Polish government has launched since coming to office. While the new government has a very strong commitment to EU values, especially the rule of law, rapid reforms might be challenging to undertake considering the possibility given in the Polish Constitution to the Polish President to veto some of them.

On 15 July 2022, the Commission took the next step in the infringement procedure regarding the judgment of the Polish Constitutional Tribunal, as the Polish government's reply did not address the Commission's concerns over the breach of the primacy of EU law and the lack of independence of the Constitutional Tribunal. On 23 February 2023, the Commission referred Poland to the Court of Justice of the European Union for violations of EU law by its Constitutional Tribunal.

Strengthening the European Parliament's integrity, independence and accountability

On 9 December, news broke that Belgian authorities were carrying out an investigations into 'criminal organization, corruption and money laundering' involving a small number of Members and staff of the European Parliament.

As outlined above, Article 15 TEU stipulates that the European Council's role is to 'provide the Union with the necessary impetus for its development and define the general political directions and priorities'. In addition to covering all policy areas that the EU Heads of State or Government may wish to raise, it also deals with issues related to values and the rule of law. Consequently, during the European Council of 9 December 2022, a particularly long exchange of views took place between the European Parliament president and many EU leaders, the substance of which was largely linked to the criminal proceedings involving the Parliament. The EU Heads of State or Government expressed their support to the president of the Parliament and to way the Parliament was handling the matter. President Metsola used the opportunity to announce a wide-ranging reform package, which would be ready in 2023, underlining that she would personally lead the work on it. This reform package was endorsed on 8 February by the European Parliament group leaders.

On 15 December 2022, the Parliament adopted a resolution on suspicions of corruption from Qatar and the broader need for transparency and accountability in the European institutions, with an overwhelming majority (541 votes in favour, two against, and three abstentions). Subsequently,

President Metsola proposed a reform plan to strengthen the Parliament's integrity, independence and accountability. This package was agreed on by Parliament's Conference of Presidents on 8 February 2023. More particularly, the proposed changes include a cooling off period for MEPs who wish to lobby Parliament, mandatory registration in the Transparency Register, a ban on friendship groups with third countries, and a revised declaration form on financial interests of MEPs.

In that context, the discussions between the EU institutions on the possible establishment of a European ethics body have gained new momentum. On 13 February, the European Commission Vice- President, Věra Jourová, announced that the Commission would 'in the next weeks table a proposal for a joint agreement between the institutions to establish an inter-institutional ethics body'. On 16 February, MEPs adopted by a large majority (388 votes in favour, 72 against and 76 abstentions) a resolution on establishing an inter-institutional EU ethics body, urging the European Commission to establish this body 'before the end of March 2023'.

On 13 April, the Conference of Presidents of the European Parliament's political groups (CoP) endorsed the proposals made by Parliament's President Roberta Metsola to streamline relations between MEPs and their staff, and representatives of certain third countries. From the beginning of May, MEPs whose term of office has ended will not be allowed to lobby the European Parliament for a '*cooling-off period*' of 6 months. At the end of this period, they will have to register with the EU Transparency Register if they intend to carry out new lobbying activities.

On 13 September 2023, the European Parliament revised its internal rules on the basis of the President's reform plan. The changes include a reinforced ban on all MEP activities that would constitute lobbying, an obligation on MEPs to annex information about input from external actors to all reports and opinions, and harsher penalties for breaches of the code of conduct.

F. Challenges ahead and outlook

Differing from the European Council, the European Commission, in its political guidelines for 2019-2024, places great emphasis on EU values and democracy by dedicating one of its main priorities, 'a new push for European democracy' to this area. The Commission outlined numerous projects in this area. While some projects, notably the budget conditionality mechanism and the annual rule of law report, have already been set up, others, such as: a right of initiative for the European Parliament, the improvement of the lead candidate system for the election of the Commission President, and the review of the appointment and/or election process for the presidents of the institutions, and the creation of transnational lists, are still pending. Many of these topics have been discussed as part of the Conference on the Future of Europe.

With the debates at the European Council meetings of 10-11 December 2020, 24-25 June 2021 and 21-22 October 2021, the issue of EU values has finally arrived at the level of EU Heads of State or Government. Recent developments, including court rulings at both EU and Member State levels alluding to the rule of law, indicate that deep divisions persist in the EU regarding the understanding of democracy and European values; observers argue that the EU's rule of law crisis is still far from being resolved. EU leaders' various discussions have not led to a solution on the issue, but rather postponed direct action at European level for the moment. Consequently, EU leaders might need to return to this topic again in the near future. At their meeting of 24-25 March 2022, the President of the European Parliament, Roberta Metsola, urged EU leaders to use the current 'window of opportunity' to find a way forward on the rule of law.

Rule of law will remain an important issue for the EU, not only because of the ongoing Article 7(1) TEU procedures, but also in the context of the current enlargement process; as underlined at the December European Council, 'aspiring members need to step up their reform efforts, notably in the area of rule of law'. Defending rule of law, democracy, and unity is also one of the six priorities under the Belgian rotating Presidency of the Council of the EU.

Furthermore, the Belgian Presidency plans to 'support the adoption of the Strategic Agenda 2024-2029 and prepare discussions on the future of the European Union'. Discussions on the Strategic Agenda 2024-2029 are expected to intensify at the next European Council meetings, notably at the 17-18 April informal meeting of EU leaders, which is to discuss a first draft of the next Strategic Agenda; a final version is expected to be adopted in late June 2024, still under the Belgian Presidency of the Council of the EU.

5. A strong and vibrant economic base

A. Background

The EU single market of 440 million people and 27 countries is now 31 years old. Free movement of goods, services, people and capital has, according to experts, led to increase in 'between 8 % and 9 % higher gross domestic product (GDP) on average for the EU'. The single market is in many ways a success story, yet barriers and obstacles still persist, which prevent the reaping of its full benefit. Removing them is a vital task in today's highly competitive world, where Europe is hampered by years of polycrisis.

First, in 2020, Europe and the rest of the world were hit by the coronavirus pandemic, which put the European economy under severe strain and disrupted the four freedoms underpinning the single market. Then, in 2022, when the pandemic was finally slowing down in some parts of the world, Russia launched a war of aggression against Ukraine, igniting an energy crisis, exceptionally high inflation rates and a cost-of-living crisis. Furthermore, international relations became increasingly polarised, causing severe supply-chain and raw-materials issues. Fierce international competition has been fuelled further by substantial national support packages such as the US Inflation Reduction Act (IRA); it is feared that all this may push EU companies to relocate to destinations outside the EU. Climate change and rapid technological transformation also pose challenges to EU competitiveness.

Russia's war of aggression against Ukraine has negatively affected the EU's economic prospects, setting it on a path of lower growth and higher inflation. According to the Commission's winter estimates, the EU grew by only 0.5 % in 2023 and will grow by 0.9 % in 2024. Whereas the pandemic had already made certain EU vulnerabilities apparent, Russia's war on Ukraine and the discussion around sanctions against Putin's autocratic regime have further highlighted in a dramatic way strong EU dependencies on third countries for certain strategic products.

Pointing to these vulnerabilities, EU leaders have underlined the need to secure the EU's 'strategic autonomy'. This concept is mentioned in the joint roadmap to recovery of the European Council and the Commission, in which it is defined as a 'need to produce critical goods in Europe, to invest in strategic value chains and to reduce over-dependency on third countries in these areas'. The European Council stated at its October 2020 meeting that 'achieving strategic autonomy while preserving an open economy is a key objective of the Union'; and President Michel has described it as the 'aim for our generation'. The European economic security strategy, discussed at the June 2023 European Council meeting seeks to address certain aspects of this comprehensive objective. Following up on this strategy, in January 2024 the Commission put forward an economic security package.

Strengthening of the European economic base had been identified by the European Council as one of its four headline priorities in the 2019-2024 strategic agenda. According to the Heads of State or Government, a solid foundation needs to be laid by strengthening the single market, creating a future-oriented industrial policy, addressing the digital revolution and ensuring fair and effective taxation. The objective of 'building a more robust economic base' was reiterated with strength in the Versailles Declaration adopted in March 2022. EU Heads of State or Government stressed that, faced with growing instability and strategic competition, the EU needed to 'take further decisive steps towards building our European sovereignty, reducing our dependencies and designing a new growth and investment model for 2030'.

In its October 2023 conclusions, the European Council underlined that 'in the face of increasingly complex challenges, including a changing demographic landscape and growing global competition, the EU needs a strong economic base that ensures its long-term competitiveness and

a level playing field both internally and globally, with a fully functioning Single Market and its four freedoms at its core'.

In June 2023, EU leaders called for 'an independent high-level report on the future of the Single Market' to be presented in the March 2024 European Council meeting. Work on the report, led by former Italian Prime Minister Enrico Letta, is ongoing. In parallel, former ECB President, Mario Draghi, is preparing a report on the future of EU competitiveness, as announced in the 2023 state of the Union speech.

B. Legal basis for European Council action

A strong and vibrant economic base is such a multifaceted topic that many parts of the Treaty on the Functioning of the European Union (TFEU) apply. For the general principles, Articles 4(2)(a), 26 and 27 (on internal market), and 114 and 115 (on approximation of laws) are relevant. When looking at the general principles of EU industrial policy, they are specifically mentioned in Article 173 TFEU, and aim at securing framework conditions favourable to industrial competitiveness. As regards innovation policy, key articles in the TFEU are 173 (on industry) and 179 and 190 (on research, technological development and space). In the case of tax policy, several provisions apply, depending on the type of taxation in question.

However, none of the above-mentioned articles address the role of the European Council. The general provision that can be used in this case is Article 121(2) TFEU, where it says that 'the European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Union'. Furthermore, the European Council has an important role in the European Semester process, and in that context 'identifies the main challenges facing the Union and the euro area and gives strategic guidance on policies' (recital 14, Regulation 1175/2011).

C. Strategic orientations

According to the European Council's 2019-2024 strategic agenda, 'a strong economic base is of key importance for Europe's competitiveness, prosperity and role on the global stage and for the creation of jobs'. Furthermore, EU leaders state that to 'maximise our impact, we need a more integrated approach connecting all relevant policies and dimensions: deepening and strengthening the Single Market and its four freedoms, designing an industrial policy fit for the future, addressing the digital revolution and ensuring fair and effective taxation'. The process aimed at defining the priorities for the next strategic agenda for 2024-2029 has already begun.

Some of the most important aspects of making the EU economic base stronger include:

Strengthening the single market

The EU single market is now 31 years old. It has helped goods, services, capital and people move freely both physically and online, and created prosperity and wellbeing in the EU throughout these three decades. Even though great advances have been made over the years, barriers and challenges persist, as the coronavirus crisis and the ongoing war in Ukraine have highlighted (for further information, see the EPRS publication entitled Future Shocks 2023). As recently as March 2023, EU leaders have called for the completion of the single market, in particular for digital and services, and for 'ensuring a level playing field both internally and globally'. Removing remaining obstacles and creating no new ones has indeed been a key issue for the leaders, with the 2019-2024 strategic agenda underlining the need to deepen and strengthen the single market and its four freedoms.

The single market remains centre stage in the EU's growth efforts to strengthen its economic base and global competitiveness. As underlined by EU Heads of States or Government in the Versailles

Declaration: 'Building on the single market, which we will continue to complete, we will make Europe's economic base more resilient, competitive and fit for the green and digital transitions.'

In its March 2022 conclusions, the European Council detailed the steps to be taken to secure the functioning of the single market also in times of crisis and ensure it reaches its full potential for the benefit of European consumers, thus contributing to higher productivity and increased competitiveness of European businesses. EU leaders notably called for a) the strict implementation and enforcement of single market rules; b) the implementation of the industrial strategy and the SME strategy; c) the completion of the single market, in particular for digital and services; d) the prevention of bottlenecks, and the removal of remaining unjustified barriers and administrative burdens; e) the better interconnection of ecosystems across Member States, and the security and diversification of supply chains; and f) the promotion of the EU's capacity as an international standard setter.

In December 2022, EU leaders called on the Commission to 'present, in early 2023, a strategy at EU level to boost competitiveness and productivity'. The same message was reiterated at the special European Council of 9 February 2023, where EU Heads of State or Government also discussed the EU's short- and long-term competitiveness and prosperity in more detail. This discussion continued in March 2023, with the Commission communications on The single market at 30 and on the Long-term competitiveness of the EU feeding into the debate.

Furthermore, the European Council has asked the Commission to present an independent high-level report on the future of the single market for its meeting in March 2024.

An industrial policy fit for the future

Industrial policy has returned to the forefront of political agendas in the wake of the coronavirus crisis and the war in Ukraine. EU companies and politicians have realised that the supply chain disruptions, which the EU and the world have experienced, may severely disrupt the economy; proposed solutions notably point to the need of reinforcing manufacturing capacities in the EU and enhancing the EU's strategic autonomy.

The concept of strategic autonomy highlights the need for the EU to be less dependent on third countries, to produce critical goods in Europe and to invest in resilient infrastructure as well as strategic value chains. President Michel has mentioned strategic autonomy several times; most prominently in September 2020, when he stated that achieving this objective was 'goal number one for our generation'.

The March 2022 European Council underlined the importance of implementing the industrial strategy and the SME strategy. It also reiterated the objective set in the Versailles Declaration of fostering investment by 'drastically reforming the administrative and regulatory environment' and promoting 'industrial initiatives', including through important projects of common interest (IPCEIs) and industrial alliances, whilst 'strengthen(ing) research and innovation capabilities'.

In the Versailles Declaration, EU leaders identified five sensitive areas, which are instrumental in addressing strategic dependencies and securing the EU's strategic autonomy: 1) critical raw materials, 2) semiconductors, 3) health, 4) digital, and 5) food. While certain of these areas have been core priorities for a while already (and the subject of specific chapters in this publication) for instance digital sovereignty, or health – as a result of the pandemic (see chapter on building a social and inclusive Europe), other areas have only recently become the centre of attention in the context of the Ukraine crisis.

In October 2023, EU leaders stated that the EU 'needs to strengthen its industrial and technological base and enhance its economic resilience, secure connectivity, global market access and productivity, to achieve strategic autonomy while preserving an open economy'.

Fair and effective taxation

Taxation has been a very visible topic in the EU in recent years. According to some estimates, tax evasion, tax avoidance and aggressive tax planning could cause a loss of as much as €1 trillion in tax income to the EU annually. In its June 2018 conclusions, the European Council said that the 'fight against tax avoidance, evasion and fraud must be vigorously pursued both at global level (notably in the Organisation for Economic Co-operation and Development (OECD)) and within the EU'. Commission President Ursula von der Leyen, in her political guidelines, outlined: 'I will ensure that taxation of big tech companies is a priority. I will work hard to ensure the proposals currently on the table are turned into law.'

Discussions to find an international solution have been carried out notably at OECD level. The OECD has been pursuing work under two pillars: (i) the re-allocation of some taxing rights over multinational enterprises on the markets where they have business activities and earn profits; and (ii) a global minimum corporate tax rate that countries can use to protect their tax bases.

In October 2021, 137 countries, including the United States, China, India and the United Kingdom, agreed to support the tax reform, which will put a on the global levy for the 100 biggest companies. All EU Member States had signalled their support for the tax reform during the OECD phase. The directive on pillar two has entered into force, but work on pillar one is still ongoing.

D. Noteworthy commitments: Specific requests and follow-up

Strengthening EU economic base through industrial policy

Whereas the pandemic had already made certain EU vulnerabilities apparent, notably as a result of its dependency on third countries for basic health products, the Russian war on Ukraine has only heightened awareness of the EU's strong dependencies in sensitive areas – far beyond the health sector, making the EU vulnerable to 'blackmail' by supplying countries and to external economic shocks. Addressing those dependencies has become a major priority for the EU in order to build European sovereignty. In June 2023, the EU leaders called for 'urgent measures to ensure sufficient production and availability of the most critical medicines and components in Europe and to diversify international supply chains'.

Ahead of the European Council meeting of 9 February 2023, the Commission published a Green Deal industrial plan, the purpose of which was to make 'Europe the home of clean tech and industrial innovation on the road to net zero'. It covers four key pillars: the regulatory environment, financing, skills and trade. The European Council gave the Commission feedback on the plan in its February meeting, and the Commission published the linked legislative proposals, net-zero industry act, critical raw materials act and a reform of electricity market design, in March 2023. The co-legislators have concluded the negotiations on the three proposals, on which the European Council had requested work to be finished before the end of the legislative cycle.

Furthermore, the idea to establish a new European Sovereignty Fund was announced in Commission President Ursula von der Leyen's 2022 State of the Union speech – and EU leaders took note of the Commission's intention to publish it before summer 2023. A strategic technologies for Europe platform (STEP) proposal was published on 20 June 2023, the aim of which is to ensure that 'the future of industry is made in Europe', especially concerning critical technologies. In a recent resolution, the European Parliament has also contributed to the discussion on how to boost industrial competitiveness, trade and quality jobs.

As a result of Russia's ongoing war of aggression on Ukraine, there is now a stronger link between industrial and defence policy, and the Commission work programme envisages a European defence industrial strategy for Q1 of 2024.

Unhindered access to certain critical raw materials

Reliable and unhindered access to certain raw materials has been a growing concern within the EU. Based on a Commission list of non-energy raw materials considered to be indispensable for EU industries across all supply chain stages, the European Council has considered ways of securing supply. It has notably proposed developing strategic partnerships and exploring stockpiling, whilst promoting a circular economy and resource efficiency.

Securing supplies of critical raw materials has become an important factor in boosting the EU's strategic autonomy. The need to secure supplies of critical raw materials to European industry was discussed by the Competitiveness Council at its meeting on 24 February 2022, and further reiterated by the European Council in the Versailles Declaration.

To follow up on this priority, strongly underlined by Heads of States or Government in the Versailles Declaration, European Commission President Ursula von der Leyen announced in the letter of intent accompanying her State of the Union speech of 14 September 2022 the forthcoming submission of a European critical raw materials act. Its aim is, among others, to identify strategic projects along the supply chains and build up strategic reserves where supply is at risk. The act is also mentioned in connection with the Green Deal industrial Plan launched in February 2023 ahead of the special European Council meeting. A Commission proposal was published in March 2023 and the co-legislators are currently working on it. The European Council has asked the co-legislators to accelerate work on the file with a view to finishing before the 2024 European elections.

Reducing EU dependency in semiconductor technology

As early as October 2021, the European Council noted the importance of avoiding critical shortages in the European microchip ecosystem, which would hamper digital transformation and European competitiveness. This was evident during the pandemic when the global supply of chips was disrupted and negatively impacted, among others, the European car industry.

In February 2022, the European Commission proposed a European chips act package to ensure supply as well as European leadership in semiconductor technology. Commission President Ursula von der Leyen stated that 'the European Chips Act will be a game changer for the global competitiveness of Europe's single market'. The legislation is now in force.

With regard to semiconductors, the Versailles Declaration pledged to diversify supply chains, maintain technological leadership and further develop EU production capacity. It set a measurable objective of securing 20 % of the global market in 2030.

Space economy

Space and related activities will increase in importance in the coming years; some even talk of a new space race. According to experts, space is one of the fastest developing sectors with an annual average growth rate of 6.7 %. After a long break, the US is once again capable of sending manned missions to space, and there are a number of strong and innovative private companies in the sector. The US has also developed the capacity to reuse its rockets, which will help to reduce the cost of space exploration. An international cooperation project on a lunar space station, Gateway, is under preparation, and approximately 250 lunar missions are planned with the intention to set up a permanent colony on the Moon. There are plans to send a manned mission to Mars.

International law governs space activities. EU space ministers discussed EU space policy and Europe's role in the global space economy in an informal meeting in Seville on 6-7 November 2023. The Commission has proposed an action plan on synergies between civil, defence and space industries, and co-legislators adopted the Space Regulation on 28 April 2021, establishing a single programme including all space activities of the EU for 2021-2027. This will enable the modernisation

of EU space programmes, as well as support for the space industry in order to foster the EU's global leadership. Furthermore, the Commission's 2024 work programme includes two space-related items – an EU space law and a strategy on the space data economy.

In March 2021, the Versailles Declaration underlined the need to further invest in strategic enablers such as cybersecurity and space-based connectivity to be able to strengthen EU defence capabilities and be able to conduct full range EU missions and operations.

In March 2023, the European Space Agency published a vision document entitled 'Revolution Space' in which an independent high-level advisory group calls for a significant increase in 'European autonomy in human and robotic space exploration'.

Increasing research and innovation efforts

Research and innovation are key components of European competitiveness and prosperity, and the EU leaders have specifically addressed them in the Strategic Agenda. In this policy agenda, they state that 'we must step up investment in people's skills and education, do more to foster entrepreneurship and innovation and increase research efforts, in particular by addressing the fragmentation of European research, development and innovation'. Furthermore, in October 2023, EU leaders called for action to develop 'the EU's competitive edge in digital and clean technologies, including by focusing on innovation, research, education and skills'.

According to the Europe 2020 strategy adopted in 2010, 3 % of the EU's GDP was to be invested in research and development in 2020. The latest Eurostat figures available for research and development expenditure show that, in 2022, at 2.23 % of GDP (compared with 2.27 % in 2021), the goal remains far from being met. The EU lags behind the United States, Japan and China. The EU's new long-term competitiveness strategy confirms this and states that 'the EU has made too little progress towards the target of spending on research and development as percentage of GDP, and based on current trends will fall well short of the 3 % target by 2030'. The European Council reiterated the 3 % target in its March 2023 conclusions.

At EU level, the main tool research and innovation funding tool, the ninth edition of the Union's Horizon Europe framework programme for the 2021-2027 period, is ongoing. In addition to the twin digital and green transitions, Horizon Europe focuses on health, mobility, energy efficiency, food security, and preserving our cultural heritage. The first strategic plan for 2021-2024 sets out four strategic orientations for research and innovation investment under Horizon Europe, including on promoting open strategic autonomy[8] by leading the development of key digital enabling and emerging technologies, sectors and value chains. Horizon Europe is also designed to creating synergies with other EU funds and work with Member States and/or industry via European Partnerships, linking with the industrial strategy and the strategic autonomy concept.

On 16 July 2021, in a further step to boost research and innovation in the EU, the Commission proposed a pact for research and innovation in Europe, which the Council adopted on 26 November 2021. The pact identifies values and principles for research and innovation (R&I) and priority areas for joint actions. It also includes a renewed target of investing 3 % of the EU GDP in research and investment, while Member States are invited to set their own targets on a voluntary basis.

Minimum corporate taxation and digital taxation

In the digital age, earning profit in a country no longer necessarily requires setting-up factories or offices on the ground, but can be effected by offering products or services through digital platforms. This results in the difficulty of localising value creation, and as a result, the ensuing taxation

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[8] 'Open strategic autonomy' refers to the term 'strategic autonomy while preserving an open economy', as reflected in the conclusions of the European Council of 1-2 October 2020.

questions become increasingly complicated. The issue has caused some transatlantic tensions, as the United States (US) has a very strong 'big tech' digital presence around the world.

At its March 2021 meeting, the European Council has expressed its preference for and commitment to a global solution within the OECD framework. However, it did not rule out a unilateral EU move if a global solution were not achieved.

The European Parliament adopted its position on the matter in April 2021, emphasising that the global solution was the preferred one, but not the only way forward. Multilateral talks finally resulted in an agreement at OECD level in July 2021, the details of which were finalised on 8 October 2021. In the end, all EU Member States accepted to endorse the deal and to be included in the digital taxation framework, which was endorsed by the G20 leaders' meeting in Rome on 31 October. The agreement envisages a global minimum tax rate of at least 15 % and is designed to clarify tax revenue sharing among countries for multinational companies making profits in countries without a physical presence, especially by big digital companies.

The EU directive on pillar two entered into force in December 2022. Work on pillar one is still ongoing. In December 2022, the European Council asked the Commission to monitor the pillar I negotiations and to put forward a proposal by the end of 2023 if no joint solution was found by then at OECD level. In October 2023, the OECD published a multilateral convention for the implementation of pillar one.

E. Challenges ahead and outlook

The year 2024 is significant in many ways. It is one of the biggest election years in history, with 49 % of the global population heading to the polls. European elections and US presidential elections will take place, to name just two. Furthermore, global economic uncertainty remains high, weighing on growth. Geopolitical tensions and the wars in Ukraine and Gaza continue to have strong economic implications.

In this context, making sure the beating heart of the EU economy – the single market, with its four freedoms – works smoothly and that all obstacles to its completion are removed, is of critical importance. Last year, the single market was centre stage, because it was celebrating its 30th anniversary, but even more importantly, because of its significance for strengthening the EU's economic base. The Commission published a communication on the subject – The Single Market at 30 – in March 2023. Topics related to the single market have invariably been high on the agenda of EU leaders and are likely to remain there for the foreseeable future.

In January 2024, in a non-paper, 15 Member States proposed a new horizontal EU single market strategy. In addition, the report by Enrico Letta charting the future of the single market is envisaged to be presented in time for the March European Council. Moreover, initiatives aimed at further developing the single market will likely feature high up in the new Strategic Agenda 2024-2029.

EU leaders discussed the EU's long-term competitiveness, prosperity and role on the global stage at length on 9 February 2023. They reiterated their December 2022 request to the Commission, asking it to produce a strategy on how to boost productivity and competitiveness at EU level, which Commission published on 16 March 2023. EU leaders also gave guidance on various aspects of the Green Deal industrial plan for the net-zero age, namely on i) state aid, ii) EU-level funding, iii) regulatory environment, iv) skills and v) investment. The European Council returned to the topics related to European competitiveness in their meeting in March 2023, in which they called for work to advance on: i) the regulatory environment, ii) investment, iii) research and innovation, iv) digitalisation, v) skills and vi) circularity to boost the EU economy.

The succession of crises over the last years, and notably the Russian aggression towards Ukraine, a 'tectonic shift in European history', as the invasion is described in the Versailles Declaration – has

unveiled the stark vulnerabilities and high dependencies of the EU, lending a new sense of urgency to the EU's endeavour to building its strategic sovereignty. The 24-25 March 2022 European Council called decisively for 'work to be taken forward on the implementation of the Versailles Declaration' to build a more open and robust economic base. The follow-up to these Versailles priorities, including the discussion on a possible new European sovereignty fund, intended to strengthen EU industry and its 'made in Europe' component, has become a rolling agenda point, to which EU leaders come back at each 'forthcoming meeting'.

In this respect, the commitment made by EU leaders in Versailles to take decisive steps to build 'European sovereignty, reducing our dependencies and designing a new growth and investment model' complements initiatives previously taken, such as the adoption of a the new industrial strategy, updated in May 2021. President Charles Michel has referred to the concept on several occasions, and emphasised: 'Strategic autonomy is about being able to make choices. We want greater autonomy and greater independence in an open and global environment. This means reducing our dependencies, to better defend our interests and our values. We want more level playing field and more fairness in today's globalised world.'

The twin transition of climate change and rapid digitalisation progress, although crucial to build EU sovereignty, will bring about many challenges for the Union's economic base. The European Council has agreed on ambitious targets to reach the objective of achieving a climate-neutral EU by 2050, which will require significant efforts from all the actors and at all levels of society. Fast progressing digitalisation will, in a similar manner to climate change, have a profound impact on European societies and on the EU economic base in the coming years.

Demographic change is also a critical phenomenon shaping European societies. Europe has an ageing population with more than one fifth aged 65 or over. This will pose a challenge for the European economy and also for the creation of a strong and vibrant economic base, as the share of the population at working age (15-64 years) is forecast to decrease from 265 million in 2019 to 217 million in 2070. The EPRS 2019 demographic outlook for the EU states that: 'Demography matters. The economy, labour market, healthcare, pensions, the environment, intergenerational fairness and election results – they are all driven by demography.' Indeed, EU leaders underline in the strategic agenda that strengthening the economic base also requires addressing the demographic challenges that the EU faces. Furthermore, in June 2023, the EU leaders asked the Commission to present a toolbox, which was published in October 2023, to address demographic challenges and 'notably their impact on Europe's competitive edge'.

6. Digital sovereignty

A. Background

For decades, Moore's law about the number of transistors in a chip doubling every two years has set the pace and framework for technological development. Even though some experts suggest the law is now dead and computing power will no longer fuel innovation in the same way as before, not everyone shares the view. With 5G and 6G, artificial intelligence (AI), robotics, quantum computing, blockchain, virtual worlds and other advanced and emerging technologies, the digital revolution is rapidly changing the way Europeans live their daily lives. The transition opens many possibilities, but also poses challenges. It is therefore of utmost importance for the European Union to be proactive and stay ahead of developments.

Establishing and maintaining Europe's digital sovereignty in a world where many want to lead the technology race has been a priority for the European Council for some time already. The US, backed up by influential tech giants, and China, supported by state aid, are strong players in the global setting, and there are concerns that technological development might become dominated by these two powers and their GAMAM (Google, Apple, Meta, Amazon, Microsoft) and BATX (Baidu, Alibaba, Tencent, Xiaomi) companies. As European Council President Charles Michel stressed: 'Europe must strive for more influence, and less dependence. That applies both to our digital strategy and our geopolitical strategy. [...] Digital sovereignty is key to our strategic autonomy'. EU Heads of State or Government are fully aware of the opportunities and challenges of artificial intelligence, 5G and other new technologies in helping to create wellbeing, growth and jobs. Data use and data protection, intellectual property rights, privacy and cybersecurity are all important topics to be considered in this regard.

The regularity with which digital issues are on the agenda of European Council meetings shows not only the salience of establishing and maintaining Europe's digital sovereignty in an increasingly competitive global landscape, but also the role digitalisation plays in the recovery, growth, prosperity and competitiveness of the Union. EU leaders also place strong emphasis on a human-centred approach and on 'the environment of trust' that needs to exist broadly across society and the economy, so that the new technologies can live up to their full potential and be compatible with European democracy.

On the occasion of the September 2021 Tallinn Digital Summit, European Council President Charles Michel emphasised the importance of the digital agenda, describing digital as 'a cross-cutting tool that is revolutionising countless sectors and energising countless areas of our lives'. Michel stressed, most crucially, that digital transformation was driving forward the green technologies (e.g. enabling more precise and effective data-driven climate decisions) and the modernisation of public health management.

In the Versailles Declaration of March 2022, EU Heads of States or Government reiterated with strength the objective of 'building our European sovereignty and reducing our dependencies'. By building on the single market, 'which we will continue to complete', they pledged to 'make Europe's economic base more resilient, competitive and fit for the green and digital transitions'.

More specifically, with regard to semiconductors, which are essential components of electronic devices and crucial for achieving digital transformation in Europe, the Versailles Declaration commits to diversifying supply chains, maintaining technological leadership and further developing the EU production capacity. The declaration sets a measurable objective, also mentioned in the digital decade policy programme 2030, of securing 20 % of the global market in 2030.

The European Council usually discusses issues related to the digital single market and topics linked to research and new technologies at its spring meeting. In recent years, however, this has not always been the case as a result of acute crises, such as the coronavirus pandemic and the war in Ukraine.

In March 2022, EU leaders mentioned the need for 'reducing strategic dependencies in the most sensitive areas such as digital' under the economic issues heading and reiterated that the digital part of the single market should be completed. However, there was no broader debate on digital topics. In March 2023, EU leaders touched upon certain digital topics, such as unlocking the value of data, fostering the take-up of digital tools and solutions, rationalising reporting requirements for digital legislation, and completing the digital single market.

The debate continued in the European Council in June 2023. EU Heads of State or Government addressed advanced AI solutions – the 'hot digital topic' of the year. They stressed the 'need to rapidly seize the opportunities and address the risks of specific uses of AI with a view to fostering innovation and trust, promoting investment and uptake, and contributing to setting global standards'. The topic had already been on the agenda of some other high-level meetings, such as the G7 meeting in Hiroshima in May 2023, in which a 'Hiroshima AI process' was established to 'immediately take stock of the opportunities and challenges of generative AI, which is increasingly prominent across countries and sectors'. In a letter addressed to European Commission President Ursula Von der Leyen and US President Joe Biden in April 2023, Members of the European Parliament working on the AI act raised concern at the speed of development of very powerful AI.

On 26-27 October 2023, digital topics were again addressed by the European Council. The EU's competitive edge on digital technologies was on the agenda, with EU Heads of State or Government discussing ways to make the EU's industrial and technological base more robust. In addition, EU leaders looked into joint risk assessments of critical technology areas.

B. Legal basis for European Council action

While the EU has been working on developing a more integrated European digital economy since the mid-1990s, the concept of the digital single market is not mentioned in the treaties. The parts entitled 'internal market', especially **Articles 26 and 27**, of the Treaty on the Functioning of the European Union (TFEU) apply. However, the European Council is not specifically mentioned in these articles, as decision-making in the single market and digital single market areas fall under the ordinary legislative procedure with the European Parliament and the Council of the European Union acting as co-legislators. Therefore, its role in the area of the digital single market is to 'define general political directions and priorities', which is the core role envisaged for the European Council in Article 15(1) of the Treaty on the European Union (TEU).

In addition, under **Article 121(2)** TFEU, 'the European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Union'. The European Council also plays an important role in the European Semester process where it does a horizontal review early each year and 'identifies the main challenges facing the Union and the euro area and gives strategic guidance on policies' (recital 14, Regulation 1175/2011). The Heads of State or Government also endorse the country-specific recommendations, usually in June, before the Council adopts them, usually in July.

C. Strategic orientations

In its 2019-2024 strategic agenda, adopted in June 2019, the European Council states that 'over the next few years, the digital transformation will further accelerate and have far-reaching effects. We need to ensure that Europe is digitally sovereign and obtains its fair share of the benefits of this development.' Consultations on the next strategic agenda have begun. As the significance of digital

technologies has only increased since 2019, their importance is likely to be reflected in the [new strategic agenda](#) for the 2024-2029 period as well.

Over recent years, the European Council has raised many aspects of digital sovereignty. Currently, the strategic orientations in this field put emphasis on the following:

Digital decade

Put forward in 2015, the [digital single market strategy](#) stresses the need to complete the EU digital single market as soon as possible. Thus, in its [March 2018 conclusions,](#) the European Council called for 'increased efforts to deliver, before the end of the current legislative cycle, on the Digital Single Market strategy'. In addition, in [December 2018](#), the European Council underlined 'the need for the Single Market to evolve so that it fully embraces the digital transformation, including Artificial Intelligence, the rise of the data and service economy, connectivity, and the transition to a greener economy'. Then, at the [March 2019](#) European Council, EU leaders reiterated that 'the Single Market should be further deepened and strengthened, with particular emphasis on the development of a service economy and on mainstreaming digital services'. This call has been reiterated several times in the current institutional cycle, for instance [in March 2023](#), when EU leaders called for 'ambitious action to complete the Single Market, in particular for digital and services'.

[In June 2023](#), EU Heads of State or Government requested an independent high-level report on the future of the Single Market to be presented at the March 2024 European Council meeting; work on the report, led by former Italian Prime Minister [Enrico Letta](#), is ongoing. In November 2023, Germany developed [a 9-point plan](#), together with Estonia, Latvia and Lithuania, to reform EU digital policy; and in January 2024, [in a non-paper](#), 15 Member States outlined ideas for developing the single market in a future-proof manner. At the same time, former ECB President [Mario Draghi](#) is writing a report on the future of EU competitiveness, as announced in the [2023 State of the Union speech](#).

To modernise the EU's digital environment, in 2020 the Commission [proposed](#) two main legislative instruments: the first (the [digital services act (DSA)](#)) aimed to improve the protection of consumers and their fundamental rights online, while the second (the [digital markets act (DMA)](#)) was designed to ensure fairer and more open digital markets. Both the [DSA](#) and the [DMA](#) are now in force.

Building a data economy

To compete successfully in the big data era, the EU needs to make it easier for companies to access vast amounts of data; great computing power is needed to process and put this data to work. In the [2019-2024 strategic agenda](#), EU Heads of State or Government highlighted that 'we need to ensure that Europe is digitally sovereign and obtains its fair share of the benefits of this development [...] To this end, the EU must work on all aspects of the digital revolution and artificial intelligence: infrastructure, connectivity, services, data, regulation and investment.'

Previously, in their [March 2019 conclusions](#), they had also called for a 'forward-looking digital policy, fit for an age of digital transformation and the rise of the data economy'. At the same meeting, EU leaders also stressed that 'special emphasis should be placed on access to, sharing of and use of data, on data security and on artificial intelligence, in an environment of trust'. On 19 February 2020, the Commission published a [European strategy for data](#) that answers to the request of EU leaders. It aims to set up a single market for data that would allow the EU to reap the benefits of the data revolution and ensure that its share of the data economy amounts at least to its economic weight

by 2030. Based on the data strategy, concrete proposals, such as the data governance act, the data act and the secure public electronic identification (e-ID), have been put forward.

Artificial intelligence and frontier technologies

'Can machines think' was Alan Turing's question in a paper published in the 1950s, which launched, in a way, the age of artificial intelligence (AI). Since then, AI has taken big leaps forward, and it is already present in many everyday items such as Apple's Siri assistant, Netflix recommendations on what to watch next, or the ground-breaking ChatGPT application, which is only 'a tree in the AI forest' – meaning that new AI tools are nowadays launched almost daily.

In the coming years, the range of applications for AI will only widen and reach many sectors from healthcare to farming. Several times over the past years, Heads of State or Government have highlighted the importance of artificial intelligence and new frontier-pushing technologies, such as high-performance computing. At their meeting in October 2020, EU Heads of State or Government stated that 'the EU needs to be a global leader in the development of secure and ethical artificial intelligence'.

More recently, in March 2023, EU leaders called for more 'support for businesses and administrations in the European Union to stay at the forefront in Artificial Intelligence, quantum computing, microelectronics, 6G, web 4.0, and cybersecurity'. Furthermore, in June 2023, the European Council stated that EU should become a 'prime location' for developing AI and that there is a 'need to rapidly seize the opportunities and address the risks of specific uses of AI with a view to fostering innovation and trust, promoting investment and uptake, and contributing to setting global standards'.

In their 2019-2024 strategic agenda, they had already underlined that the 'EU must work on all aspects of the digital revolution and artificial intelligence: infrastructure, connectivity, services, data, regulation and investment'.

D. Noteworthy commitments: Specific requests and follow-up

Inclusive and ethical digital economy

In their strategic agenda EU leaders underlined the need for the 'development of the service economy and the mainstreaming of digital services'. The digital services act (DSA), is one of the actions stemming from these discussions. Proposed by Commission President von der Leyen in her political guidelines, it aims at deepening the digital single market by upgrading the liability and safety rules for digital platforms, services and products. It sets clear obligations for digital service providers, such as social media or marketplaces, to tackle the spread of illegal content, online disinformation and other societal risks. It is mentioned as one of the 'making it happen' actions in the new industrial strategy for Europe published by the Commission in March 2020. Following lengthy interinstitutional negotiations, and following a request from the European Council to make rapid progress with the files, Parliament and Council reached a political agreement on the DSA in April 2022; the legislation is now in force. The other key piece of legislation in the digital field, the Digital Markets Act (DMA), has been in application since May 2023.

As far as ethics is concerned, in a September 2022 speech at the Tallinn digital summit, European Council President Charles Michel stressed that 'our digital strategy must be based on our values: human rights and fundamental freedoms in human-centred societies. Our standards should be based on trust and transparency. Transparency does not only mean that people must know how their personal data is used. Transparency must also apply to finance, taxes, or the way in which algorithms are deployed'. In the context of the digital compass, the Commission also proposed a set of digital principles, so that EU rights and values are fully reflected in the online space. The proposed

principles include access to high quality connectivity, digital skills, public services and non-discriminatory online services.

Digitisation of European economy

EU leaders have underlined many times over the past years, in the strategic agenda notably, the need to address the digital revolution and to work on all its aspects. The Digital Europe programme, aimed at encouraging the uptake of digital technologies and developing EU's strategic digital capacities, is one of the concrete steps in this regard. As part of the MFF package for 2021-2027, the Commission initially set aside €9.2 billion for the programme, however in the December 2020 compromise agreement it suffered a considerable cut, with a budget of €7.5 billion. The budget will also support the '2030 digital compass: The European way for the digital decade', which was proposed by the Commission in March 2021 in response to a European Council's request.

Building on the February 2020 communication on Shaping Europe's digital future, the digital compass outlines a set of digital principles and sets out a vision for the digital transformation of Europe designed to ensure that the EU meets its digital transformation objectives in line with EU values. It notably contains specific objectives regarding skills, infrastructure, digital transformation of businesses and of public services, for instance a target of 80 % of all adults possessing basic digital skills and the provision of gigabit connectivity to all EU households by 2030. The Commission published its first 'state of the digital decade' report to monitor EU and Member States' progress towards the 2030 digital ambition. Such as report will be published on an annual basis and is designed to feed into the European Semester exercise. As President von der Leyen said in her 2021 State of the Union speech, 'digital is the make-or-break issue'.

At their October 2021 meeting, EU Heads of State or Government, without endorsing the initiative explicitly, called for a swift examination of the Commission proposal establishing the 2030 policy programme; the co-legislators reached a political agreement on the proposal in July 2022 and the programme is currently in force. In January 2022, the Commission proposed a 'European declaration on digital rights and principles' for the digital decade, which complements the 'path to the digital decade' proposal by outlining the principles enshrined in the declaration.

In July 2023, the Commission published an initiative on web 4.0 and virtual worlds. Three months earlier, in March 2023, the European Council had highlighted the need for the EU to stay at the forefront of web 4.0 and other key technologies.

Critical technologies – such as advanced semiconductors, artificial intelligence, quantum, biotechnologies – are driving the EU's digital transformation. On the basis of a recent communication, at their meeting on 26-27 October 2023 EU leaders called for joint risk assessments in these areas.

Access, sharing and the use of data

Data is created both by people and machines, and its generation is expected to grow steeply, especially once the internet of things (IoT) becomes mainstream. Furthermore, European Council President Charles Michel stated that 'industrial data will be the fuel of tomorrow's digital developments'. The European Council has in recent years called on several occasions for the free flow of data to be ensured; in March 2019, it notably underlined that 'special emphasis should be placed on access to, sharing of and use of data, on data security …'. The 2019-2024 strategic agenda also mentions data in the context of artificial intelligence and digital revolution. The political guidelines put forward by Commission President Ursula von der Leyen placed strong emphasis on data and big data; the document states, inter alia, that 'we will invest in … tools to allow data sharing and data usage' and 'data and AI are the ingredients for innovation that can help us to find solutions to societal challenges, from health to farming, from security to manufacturing'.

At its meeting of October 2020, the European Council endorsed the European strategy for data put forward by the Commission in February 2020. The leaders stressed the need to make high-quality data easily available, to promote and enable better sharing and pooling of data and to ensure the interoperability. The creation of common European data spaces in strategic sectors was welcomed. They also supported the idea of establishing European cloud services with the aim of storing and processing European data in Europe. European Council President Charles Michel coined the phrase 'stored in Europe' in his speech of September 2020.

After a public consultation in 2020, which gathered 800 contributions, the Commission published the first legislative proposal under the strategy, the data governance act (DGA), on 25 November 2020. One year later, on 30 November 2021, Parliament and Council reached an agreement on the new data law, which provides a framework to increase the availability of data across the EU by enhancing trust in data intermediaries. The DGA defines the rules for trading data, includes smaller actors in the data economy, and provides a mechanism for re-using public-sector data.

At its meeting in March 2021, the European Council called for more to be done to exploit 'the potential of data and digital technologies for the benefit of society, the environment and the economy, while upholding relevant data protection, privacy and other fundamental rights'. The conclusions also recognised the 'need to accelerate the creation of common data spaces', also ensuring 'access to and interoperability of data'. In October 2021, the European Council stressed again the importance of 'unlocking the value of data in Europe, notably through a comprehensive regulatory framework that is conducive to innovation and facilitates better data portability, fair access to data and ensures interoperability'. It also called for a swift implementation of 'the remaining measures necessary to establish specific sectoral data spaces, as set out in the European strategy for data of February 2020, and establishing a roadmap for this process'.

In February 2022, the European Commission published a legislative proposal for a data act. The proposal aims to achieve a harmonised framework for industrial, non-personal data sharing in the EU. At the end of June 2023, the interinstitutional negotiations on the file resulted in a political agreement. The data act was published in the Official Journal in December 2023, and will become applicable in September 2025.

Most recently, data was mentioned in the conclusions of European Council's March 2023 meeting, with EU leaders highlighting the need to 'unlock the value of data in Europe while ensuring privacy and security, and harness real-time-economy solutions'.

A European approach to artificial intelligence

At its meeting in October 2017, the European Council asked the Commission to put forward, by early 2018, a European approach to artificial intelligence. The Communication, which was published in April 2018, has three main aims: i) being ahead of technological developments and encouraging uptake by the public and private sectors, ii) preparing for socio-economic changes brought about by AI, and iii) ensuring an appropriate ethical and legal framework for AI. Based on this, the Commission and Member States published in late 2018 a coordinated plan aimed at 'increasing investment, making more data available, fostering talent and ensuring trust'. In their 2019-2024 strategic agenda, EU Heads of State or Government stressed that the 'EU must work on all aspects of digital revolution and Artificial Intelligence'; in this context, European Commission President von der Leyen tasked Commissioner Breton with working on 'a coordinated European approach on Artificial Intelligence'. The white paper on AI, published on 19 February 2020, is a part of this continuum.

The white paper highlights trust, privacy protection, a human-centric approach, European values and the need for quality data to prevent biases. It states that 'an ecosystem of excellence' should be created to help develop AI and increase its uptake. The Commission organised a public consultation on the white paper that gathered over 1 200 responses from stakeholders. The contributions fed

into new rules and actions in the field of AI, which were [published](#) in April 2021. The proposal for an '[artificial intelligence act (AIA)](#)' constitutes the first-ever legal framework for AI, and envisages the application of harmonised rules in all the Member States. The framework is also designed to guarantee the safety and fundamental rights of people and businesses, while also boosting AI uptake, investment and innovation. The rules follow a risk-based approach, and systems posing an unacceptable risk, e.g. toys using voice assistance encouraging dangerous behaviour of children, are expected to be [banned](#). [In June 2023,](#) the European Council urged the co-legislators to 'promptly finalise work on the AI Act'. The interinstitutional negotiations resulted in [a political agreement](#) in December 2023, which still needs to be [formally approved](#) by the co-legislators.

The framework is complemented by new safety [rules](#) on [machinery products,](#) aimed at the safe integration of the AI system into the overall machinery. Margrethe Vestager, Executive Vice-President for a Europe fit for the Digital Age, [stressed](#): 'With these landmark rules, the EU is spearheading the development of new global norms to make sure AI can be trusted'.

The Commission also [updated](#) the 2018 coordinated plan, which laid the foundation for policy coordination among Member States when it comes to AI. The 2021 update is designed to ensure a stronger link with the European Green Deal while also responding to the coronavirus pandemic, notably strengthening actions aimed at the environment and health fields.

As a response to increased interest in and importance of the topic of AI, the European Parliament set up a special committee on artificial intelligence in the digital age ([AIDA](#)). The committee worked for 1.5 years over the 2020-2022 period. During its mandate, committee prepared a [report](#), which provides 'a common, long-term position highlighting the EU's key values and objectives relating to artificial intelligence in the digital age'. The final outcome of the AIDA committee's work was [adopted](#) by the European Parliament's plenary in May 2022.

Security of 5G networks

The European Council stated [in March 2019](#) that it looks forward 'to the Commission's recommendation on a concerted approach to the security of 5G networks'. The [recommendation](#) was published a few days after the European Council meeting. Since then, the security of 5G networks, and especially the involvement of the Chinese technology giant Huawei in building the networks, has been a [widely discussed topic,](#) notably following the move by the US to block Huawei from its market and to encourage its allies to adopt a similar approach. [Currently,](#) there are strict security requirements on 5G networks in place in the EU to exclude high-risk providers.

In January 2020, the Commission published the [EU toolbox on 5G cybersecurity,](#) in which it outlined a set of key actions to ensure the security of the networks, such as limiting dependency on a single supplier and assessing the risk profile of supplies. EU leaders discussed 5G at their meeting in [October 2020](#) and stressed that 'potential 5G suppliers need to be assessed on the basis of common objective criteria' and asked the Member States to send their national plans on the roll-out of 5G to the Commission to 'ensure the rapid deployment of 5G across the EU'. [In June 2023,](#) the Commission announced the next steps in the implementation of the toolbox and in improving the security of 5G networks.

[In March 2023,](#) the European Council called for increased support for 6G and cybersecurity so that European businesses and administrations can stay ahead of the fast pace of developments.

Under the [Digital Compass](#) strategy the aim is to have all populated areas covered by [5G by 2030](#).

International outreach to develop global digital rules

In a statement issued after the video-conference of the Members of the European Council on [25 March 2021,](#) EU leaders called 'for international outreach efforts from the European Union and Member States to be strengthened both bilaterally and through relevant fora and organisations,

with a view to promoting EU digital standards and to developing global digital rules in close cooperation with like-minded partners'. In addition to the work done at the level of the OECD, the World Economic Forum, the United Nations and the Council of Europe, other steps were taken to pursue these goals.

For instance, the EU-US Trade and Technology Council (TTC) was launched during the EU-US summit in June 2021. The fifth meeting took place on 30 January 2024 in Washington DC to take stock of the work done so far. Furthermore, in February 2023, EU and India set up a new Trade and Technology Council (TTC) with the aim of deepening their strategic engagement on trade and technology.

In October 2023, the G7 published guiding principles for AI as a part of the Hiroshima Artificial Intelligence process. The Commission organised a stakeholder consultation on them. The UN has also set up a High-level Advisory Body on Artificial Intelligence with a view to organising a 'summit of the future' in September 2024 at which UN member states could consider a 'global digital compact'. Furthermore, in November 2023, the UK organised an AI Safety Summit, attended by the EU, which produced the Bletchley Declaration.

E. Challenges ahead and outlook

The outbreak of the coronavirus pandemic in March 2020 was a watershed moment in European history in many ways. With large parts of the globe having been brought to a standstill, an unprecedented digital leap took place, as remote working and remote learning had all of a sudden become mandatory. Just when the pandemic subsided and societies were starting to return to 'normal', Russia started its war of aggression against Ukraine. The war has generated a race for critical raw materials and components, which are vital for digital transformation, as is a reliable supply of affordable energy. EU leaders have therefore addressed strategic dependencies in a very proactive manner several times, including in the Versailles Declaration.

The 24-25 March 2022 European Council called decisively for 'work to be taken forward on the implementation of the Versailles Declaration'. The follow-up on these Versailles priorities has become a rolling agenda point, and they were once more discussed at the informal European Council meeting in Granada in October 2023. In addition, at their meeting on 26-27 October 2023, EU leaders called for work on developing the EU's competitive edge in digital technologies to be accelerated. Digital topics are likely to feature high among the priorities that EU leaders will set in their strategic agenda for 2024-2029.

The EU is also suffering from a research, development and innovation (RDI) funding challenge, which may lead to the EU falling behind its biggest global competitors, US and China. Considering the generous support packages provided by other countries, potential digital start-ups and other companies could be tempted to relocate outside the EU if sufficient resources are not made available at EU-level. The investment goal of setting aside 3 % of EU GDP in favour of research and development, set in the Europe 2020 strategy, was not achieved by 2020. In addition, the latest Eurostat figures show that EU research and development expenditure stood at 2.23 % of GDP in 2022 – a slight decrease compared to 2021 (2.27 %). The European Council restated the 3 % target in its March 2023 conclusions.

The US and China both have strong innovation cultures backed up by global tech giants. A possible challenging scenario derived from this, would be a bipolar world with respect to standards and systems, dominated by these two leaders. Being proactive in the face of the digital revolution, actively supporting innovation and striving for technological sovereignty are vital for the European Union in the digital age. Commissioner Thierry Breton has taken a strong stance on this, assuring that 'Europe has everything it needs to lead the technology race'.

As the European Union grows more digital, the digital divide is a crucial factor to take into account. The European Council emphasised this issue at its March 2021 meeting, and then, in October 2021, EU leaders stressed the need for inclusive and sustainable digital policies. According to experts, older people are often less confident to use electronic devices and services, and need more help in using them. Socio-economic disadvantage could also lead to digital exclusion; and, a shift to online learning during the pandemic is likely to have left many children experiencing poverty or social exclusion even further behind.

In September 2020, the Commission published a digital education action plan to enhance digital competences across the EU, and the digital compass proposed in March 2021 has also defined objectives for a digitally skilled population and highly skilled digital professionals. This priority was reiterated in the 2022 State of the Union speech, in which the President of the European Commission, Ursula von der Leyen, stated: 'The strength of our social market economy will drive the green and digital transition. We need an enabling business environment, a workforce with the right skills and access to raw materials our industry needs. Our future competitiveness depends on it.' In that context, 2023 was dedicated to skills development and named the European Year of Skills. In March 2023, EU leaders stressed the need to 'develop skills and match them with attractive quality jobs'.

In the context of the Russia's war on Ukraine, which has been marked by a strong increase in malicious cyber activities aimed at undermining EU democratic values and the security EU societies' core functions, it can be expected that the issue of cybersecurity will take centre-stage in further discussions on ensuring EU digital sovereignty. With incidents such as the attacks on Finnish government websites in the spring during Ukraine President Zelensky's speech to the Finnish Parliament, EU-resilience to cyber-attacks and progress on the new cybersecurity strategy (EUCSS) will be of crucial importance. In 2022, the European Commission continued to deliver on this agenda by proposing a cyber-resilience act, laying out mandatory cybersecurity requirements for products with digital elements, and a European chips act, aimed at promoting research and manufacturing of semi-conductors and reducing the EU's dependencies. Staying at the forefront of cybersecurity was also highlighted by EU leaders during their in March 2023 meeting.

7. Fair competition within the EU and globally

A. Background

The EU is facing a new geopolitical reality. The common rules and standards adopted after WWII have been increasingly challenged in recent years. Increasing competition from major economic players, global trade tensions and growing protectionist trends have given new impetus for the EU to the move towards more integrated and assertive competition and trade policies. The renewed industrial strategy adopted in March 2020 for the EU emphasised inter alia, the economic and social impact of the twin ecological and digital transitions and the importance of ensuring that competition rules remain fit for purpose. EU leaders have repeatedly underlined the essential role of industry as a major driver for growth, employment and innovation in Europe and have called for a mainstreaming of industrial competitiveness across all EU policy areas.

The Commission announced in May 2022 that the COVID-19 temporary State aid framework would not be continued after its expiry on 30 June 2022, with a few exceptions. On 23 March 2022, however it adopted a temporary crisis framework for State aid measures. The aim of the temporary framework is to support the EU's economy, which has been negatively affected by Russia's war on Ukraine. The tool includes safeguards to ensure that a level playing field in the single market is maintained. In addition, in March 2023 – after consultation with the Member States – the Commission adopted a Temporary Crisis and Transition Framework, which allows support for certain initiatives until December 2025.

The COVID-19 pandemic and then Russia's war on Ukraine have exposed long-standing vulnerabilities in global supply chains. Faced with this new reality, the EU has had to take action in order to ensure its long-term competitiveness, prosperity and global status. The measures initiated at EU-level have aimed not only to improve the EU's competitiveness, but also to tackle the distortive practices of third countries, so as to enable EU enterprises to compete on a level playing field with companies from those countries. To meet these goals, the EU has, among other things, taken forward work on distortive foreign subsidies and the anti-coercion instrument, as well as finalising negotiations on the international procurement instrument. On a global scale, within the OECD framework, there has been significant progress towards achieving fair taxation, particularly concerning large digital enterprises.

B. Legal basis for European Council action

> **Article 15 of the Treaty on European Union (TEU)**: The European Council shall provide the Union with the necessary impetus for its development and shall define the general political directions and priorities thereof […].

> Protocol No 27 on the internal market and competition where it is made clear that fair competition is included in the objective of the internal market in Article 3(3) of the Treaty on the Functioning of the European Union (TFEU);

> **Articles 101-109 TFEU**.

> **Articles 37, 106 and 345** TFEU for public undertakings and **Articles 14, 59, 93, 106, 107, 108 and 114** TFEU for public services, services of general interest and services of general economic interest;

> Merger Regulation (Regulation (EC) No 139/2004).

C. Strategic orientations

The European Council's strategic agenda is a framework agreed by the members of the European Council in June 2019 to guide the EU throughout the current institutional cycle across a number of salient issues. The aims presented in the strategic agenda indicate the need for the EU to become more united in tackling the challenges that hinder fair competition. It emphasises the importance of competitiveness for key areas including trade, market access, and strategic supply chains. Furthermore, the strategic agenda makes a specific commitment to continue to update the EU's competition framework in response to new technological and global market developments.

Moreover, faced with this new geopolitical environment characterised by trade tensions and protectionist trends, ensuring a level playing field for European business has become a critical EU objective. The European Council has in particular highlighted the need for a more assertive EU trade policy and more effective in defending itself against unfair practices.

D. Noteworthy commitments: Specific requests and follow-up

The EU's competition framework

The European Council's conclusions of 22 March 2019, highlighted the importance of ensuring fair competition in the single market and globally. EU leaders also committed to further updating the competition framework, emphasising that the Commission should identify how to tackle the 'distortive effects of foreign state ownership and State-aid financing in the Single Market'. The coronavirus pandemic, Russia's war on Ukraine, and the resulting economic challenges further impressed on EU leaders the urgent need to improve the EU's resilience and competitiveness.

The goal of the EU's competition policy is to ensure that companies, both from the EU and third countries compete on equal terms, thus protecting the functioning of the single market. To this end, the EU has recently been upping its efforts to create a level playing field and fight unfair competition deriving from the distortive subsidies that some third countries provide to companies that do business in the single market, which gives them an unfair advantage. For a number of years the European Council has been calling for the EU to address the distortive effect of foreign subsidies on the single market. Consequently, in May 2021 the Commission proposed a regulation based on three tools (two notification-based procedures and a general market investigation instrument) that would give the Commission the power to investigate subsidies granted by non-EU public authorities to companies operating on the internal market. In November 2022, the co-legislators reached an agreement on the Foreign Subsidies Regulation, which should enable the EU to re-establish fair competition between EU and non-EU companies operating in the single market. It entered into force on 12 January 2023 and started to apply as of 12 July 2023.

At a special European Council on 9 February 2023, EU leaders discussed challenges to the EU's long-term competitiveness – more specifically the growth and innovation gaps – as the EU progresses along the path of the twin digital and green transitions. As mentioned, EU competitiveness had been discussed previously, but in light of the introduction of the US Inflation Reduction Act (IRA), the issue has re-emerged as a key point on the European Council agenda over the last 18 months. In December 2022, the European Council had invited the Commission to present in early 2023 a strategy on boosting competitiveness and productivity. Consequently, in February 2023, the Commission presented the communication on A Green Deal Industrial Plan for the Net-Zero Age, which defined five key areas for action. A few days later, at the special summit, EU leaders agreed on the crucial need for the EU to boost its long-term competitiveness. At the March 2023 European Council, EU leaders called for measures in six areas to boost the productivity and competitiveness of the EU's economic base: i) the regulatory environment, ii) investment, iii) research and innovation, iv) digitalisation, v) skills, and vi) circularity. Long-term competitiveness remains a priority for the

European Council, as the Granada Declaration and the conclusions from the European Council meeting on 26-27 October 2023 attest. The former underlined the need to increase crisis preparedness and harness the potential of the digital and green transformations, while the October 2023 conclusions called for work on long-term competitiveness and resilience to be sped up.

Securing supply chains

In the strategic agenda, the European Council stated the importance of 'ensuring fair competition within the EU and on the global stage, promoting market access […] and securing our strategic supply chains'. The pandemic has caused supply chain disruptions in the EU and globally, which have been exacerbated by Russia's war on Ukraine. In the Versailles Declaration, the European Council pointed to the growing instability and strategic competition, which needed to be countered by building 'European sovereignty, reducing our dependencies and designing a new growth and investment model for 2030'. Building a robust economic base was highlighted as a key dimension. The Granada Declaration further underlined the need 'to cooperate on strengthening and diversifying our supply chains'.

Already in October 2021, the European Council noted the importance of avoiding critical shortages in the European microchip ecosystem that would hamper digital transformation and European competitiveness. This was evident during the pandemic, when the global supply of chips was disrupted and negatively impacted the European car industry. In February 2022, the European Commission proposed a European chips act package to ensure supply as well as European leadership in semiconductor technology. President von der Leyen stated that 'the European chips act will be a game changer for the global competitiveness of Europe's single market'. On 18 April 2023, a provisional political agreement was reached between the co-legislators, which was then endorsed by COREPER on 10 May 2023 and by the ITRE committee on 23 May 2023. The agreement was formally endorsed in Parliament on 11 July and in the Council on 25 July 2023.

Supply chains have become increasingly complex and global. The economic decline and recovery during the pandemic put great strain on these global supply chains as demands have shifted suddenly, and inflation, staff and material shortages, as well as logistical challenges, are aggravating this strain. However, in mid-2022, the ECB observed a certain easing of supply chain disruptions, although major issues remain. In February 2023, the European Council reiterated its call for the supply of critical raw materials to be ensured, suggesting this should be done through the diversification of sources and the recycling of materials, which ties in with the aims of the green transition. In October 2023, the European Council called for the co-legislators to intensify the negotiations on the critical raw materials act. The act identifies key critical raw materials, and seeks to ease the process for critical raw material projects within the EU, while – among other elements – better protecting the EU from risks with regard to its supply chains. The European Parliament adopted its position on 14 September, and the first trilogue took place on 20 September; the co-legislators reached an agreement on 13 November 2023, which Parliament has already formally adopted.

A single market emergency instrument (SMEI, later named IMERA) – announced in the Commission work programme for the first quarter of 2022 – was finally put forward with some delay on 19 September 2022. A provisional agreement on the legislative initiative was reached on 1 February 2024. The instrument aims to reduce threats to the single market during a crisis by ensuring free movement, functional supply chains, and availability and access to goods and services. Improving the stability of the single market in the face of disturbances should contribute to maintaining the EU's competitiveness.

Ensuring a level playing field: Strengthening policy instruments to address unfair international trade practices

In the Versailles Declaration and at the special meeting in February 2023, the European Council noted the importance of addressing unfair international trade practices in the context of building a more resilient, fair and competitive single market: 'We will complete our trade and competition policy toolbox with instruments to address distortive effects of foreign subsidies on the Single Market, to protect from coercive measures by third countries, and to ensure reciprocity in opening up public procurement with trading partners'. The Granada Declaration reaffirms this focus and the importance of ensuring that the EU has the necessary tools to ensure the EU's resilience and global long-term competitiveness.

Protecting the EU's industry from unfair trade practices has become especially important at a time when certain partners are not playing by the same rules. Upgrading the enforcement of international trade rules, trade defence instruments (TDIs), and the international procurement instrument (a new tool to address the lack of a level playing field in global procurement markets) have thus featured in the European Council conclusions in recent years. The Commission President Ursula von der Leyen announced in her 2023 State of the Union speech that the Commission had initiated an investigation on possible unfair practices regarding Chinese electric vehicles. The investigation was officially launched on 4 October 2023.

As mentioned earlier, in the Versailles Declaration, the European Council called for the completion of the trade and competition policy toolbox with instruments to protect from coercive measures by third countries. The Commission submitted a proposal for an anti-coercion instrument in December 2021. In October 2022, the INTA committee adopted the rapporteur's report and in November 2022 Council agreed on its negotiating position. On 28 March 2023, the co-legislators reached a political agreement on the file after three negotiation rounds. During its October 2023 plenary session, the European Parliament passed the act. This was followed by the endorsement by the Council. The regulation is now awaiting formal signature and will enter into force 20 days after its publication in the Official Journal of the EU. The aim of this instrument is to deter third countries from trying to influence the policy decisions of the EU or one of the Member States by applying, or threatening to apply, measures affecting trade or investment. A recent example of a third country reportedly utilising coercive measures against a Member State occurred between Lithuania and China, which resulted in the EU launching a case against China at the WTO.

In October 2022, in the context of the energy- and economy-related challenges facing the EU, the European Council called for all relevant EU and national level tools to be utilised to boost the resilience of the EU economy. However, they also noted the importance of preserving the level playing field and the 'integrity of the single market' whilst maintaining Europe's global competitiveness. The growing use of subsidies worldwide, more particularly the adoption of the US IRA, has caused concern for some in the EU, as it is considered as a discriminatory instrument, violating WTO rules and with potentially damaging effect on the EU's green tech industry. The European Council has specifically asked the European Commission to continue assessing the discriminatory and challenging elements of the IRA and to work on mitigating their consequences for the EU. One of the approaches would be to obtain a status as a free trade agreement (FTA) partner under the IRA through a specific critical minerals agreement to reduce the barriers of the IRA and strengthen the supply chains between the US and the EU. This was discussed during the EU-US Summit on 20 October 2023, but no agreement resulted and negotiations are still ongoing. Despite differing views on how or whether to change State aid policy, the European Council agreed that it was imperative for the EU to be competitive and productive, particularly in sectors connected to the digital and green transitions. In February and March 2023, the European Council agreed that State aid policy needed adjusting in order to become simpler, faster and more predictable, allowing for temporary and proportionate support. Finding the correct balance between enabling State aid to

support EU industry and preserving the level playing field in the single market will continue to be a critical issue for the EU and its Member States. To monitor these developments, the European Council has asked the Commission to report regularly on the impact of State aid policy on the single market as well as on the EU's competitiveness globally, and this call was reiterated by the European Council at its October 2023 meeting. Furthermore, the European Council called for the co-legislators to 'complete the implementation of the European Council conclusions of 9 February and 23 March 2023'.

Ensuring a level playing field: Reforming the World Trade Organization

The WTO has been under significant pressure in recent years due to the US blockage of nominations of members to the WTO Appellate Body, second and highest instance of WTO dispute settlement system. Since December 2019, the Appellate Body has only one member left and can no longer accept any new appeals. Underlying issues behind the current challenges faced by the WTO include: i) the difficulty of reconciling different economic models, notably the liberal market economies such as the US with the state-led economic model of China; ii) the lack of a definition of what constitutes a developing country, which under the WTO rules, enables countries to claim special and differential treatment. Questions have thus been raised as to whether the WTO rules are still fit to address today's economic realities, e.g. digital trade, and whether they still allow its members to effectively counter unfair international trade practices. The June 2018 European Council addressed this issue and invited the Commission to work together with like-minded partners towards a reform of the institution in its three areas: rule-making, dispute settlement and monitoring.

The change of the US administration in January 2021 has improved the possibility of reforming and modernising the WTO to achieve a level playing field. On 18 February 2021, not long after the inauguration of President Biden in the US, the Commission published its Trade Policy Review, which highlighted six objectives that are critical to achieving the EU's medium-term trade objectives. Reforming the WTO was the first objective on the list. The Commission also specified that working on enhancing transatlantic cooperation in the area of WTO reform is a priority.

In line with the twin green and digital transitions that permeate various aspects of EU policy, the Trade Policy Review underlines the critical need to tackle 'competitive distortions' and develop a 'framework for digital and sustainable trade'. These are both areas of international trade that could be a source of friction in the EU-US relationship, namely the EU's intention to implement a Carbon Border Adjustment Mechanism and tax digital giants. These differences could undermine their potential to cooperate on WTO reform.

In June 2022, the WTO's 12th ministerial conference (MC12) took place after being delayed on two previous occasions owing to the pandemic. WTO reform was discussed, and members agreed to hold discussions on how they could establish a well-functioning dispute settlement system by 2024. Despite differing opinions among WTO members on what the WTO reform should entail, discussions in the General Council and its subsidiary bodies are expected to begin. In February 2023, in the context of a discussion on boosting the EU's economic base and global competitiveness, the European Council highlighted the value of an 'ambitious, robust, open and sustainable trade agenda' and the importance of EU support for the WTO and a multilateral rules-based system. In February 2023, the EU also submitted its proposal for improving the deliberative function of the WTO. This forms part of a broader discussion on WTO reform (including the functioning of the dispute settlement system), which was a key topic at the Ministerial Conference (MC13) in Abu Dhabi in February 2024. According to the Commission, 'A fully functioning WTO dispute settlement system by 2024 remains the EU's top priority for WTO reform'. This was also reiterated in the joint statement after the EU-US summit in October 2023, where the European Council President Charles Michel, HR/VP Josep Borrell, and the Commission President Ursula von der Leyen met with the US President Joe Biden and his administration.

Ensuring a level playing field: fair and effective taxation

The current global taxation system is [one hundred](#) years old and thus is not fit for purpose in an increasingly digitalised and globalised economy. The OECD has been pursuing [work under two pillars](#): (i) the re-allocation of some taxing rights over Multi National Enterprises to the markets where they have business activities and earn profits (ii) set a global minimum corporate tax rate that countries can use to protect their tax bases. Under pillar one, [potential solutions](#) are being examined by the Council to determine where tax should be paid and what portion of profits should be taxed. However, the Commission will examine whether a directive is needed to ensure the consistent and effective implementation of [pillar one](#) at EU level. Under pillar two, a system was designed to ensure that multinational enterprises pay a minimum level of tax.

On 25 March 2021, the European Council stated the urgent need to address [tax challenges](#) resulting from digitalisation and highlighted their preference for a global solution by mid-2021 within the framework of the OECD. In October 2021, 137 countries agreed to support the tax reform, including all EU Member States. In the EU, the agreement will need an EU law to be passed and that will require the [unanimous](#) agreement of all 27 Member States. In July 2023, 138 countries agreed on an [outcome statement](#) 'recognising the significant progress made and allowing countries and jurisdictions to move forward with historic, major reform of the international tax system'. For further information on tax policy and the EU economy, see Chapter four – A strong and vibrant economic base.

E. Challenges ahead and outlook

In the [Versailles Declaration](#), the European Council highlighted the importance of securing the EU's supply of critical raw materials. The European Council's [October 2023](#) call for the co-legislators to speed up the negotiations on the critical raw materials act clearly shows the high importance given to the EU's access to key material resources for its digital and green transitions. Furthermore, the [on-going negotiations](#) between the US and the EU towards [a critical minerals agreement](#) aimed at fostering EU-US supply chains in critical raw materials needed in the production of electric vehicle batteries will remain crucial topic.

[At their June 2023 meeting](#), EU leaders requested an independent high-level report on the future of the Single Market, which is due to be [presented](#) ahead of the March 2024 European Council. Former Italian Prime Minister [Enrico Letta](#) is leading the work on the report. Furthermore, as announced in the [2023 State of the Union speech](#), former ECB President [Mario Draghi](#) is preparing a report on the future of EU competitiveness.

It is clear from the EU's recent activity in the area of competition policy, it is developing tools and instruments to level the playing field and to strengthen its own ability to take retaliatory actions against entities that are benefitting from the uneven playing field. This trend is likely to remain as the EU will continue to work towards ensuring a level playing field for its industry, notably in the area of green tech, to ensure that EU industries and businesses develop solutions to drive the green and digital transitions. In this context, the role of State aid will continue to be debated. In October 2023, [the European Council](#) called for the Commission to review the impact of current State aid policies on the integrity of the single market.

In February 2023, the European Council called for ambitious action in order to develop the skills that will be essential for the green and digital transitions and the need to speed up the work was underlined by the European Council [in October 2023.](#) Ensuring that the labour force has the correct skills to make the most of the opportunities arising from the twin digital and green transitions will contribute to reducing labour shortages and boosting the competitiveness of EU companies, especially SMEs. We can expect increased attention to this area, as it has been highlighted as one of

the five areas for action in the Green Deal industrial plan, on the path to ensuring the EUs long-term competitiveness.

At the informal European Council meeting in Granada in October 2023, EU leaders discussed how the EU could maintain and enhance its competitive edge in the light of current and future challenges. The debate initiated a broader discussion on the EU's strategic agenda for 2024 to 2029; Charles Michel pointed to competitiveness as a key issue to be discussed in connection with the proposed priority area on strengthening the EU's economic and social base.

8. Deepening economic and monetary union

A. Background

Recent years have been a time of polycrisis for the EU. First, the coronavirus (COVID-19) pandemic put the whole European Union in crisis mode and caused exceptional additional costs to Member States. Then, Russia's war of aggression against Ukraine has once again affected the EU's economic prospects negatively, setting it on a path of lower growth and higher inflation. According to the Commission winter estimates, the EU would grow by only 0.5 % in 2023 and by 0.9 % in 2024.

To bring inflation back towards to the target level of 2 %, after spikes beyond 10 % in 2022, the European Central Bank (ECB) Governing Council has raised interest rates to record high levels; however, since October 2023 it has decided to keep the rates unchanged. According to the latest estimates, the ECB might start cutting rates in early summer. Inflation has decreased in the EU area, and stood at 2.8 % in January 2024. However, the Euro Summit stated in October 2023 that 'inflation remains a key concern and it is essential that the disinflation process continues'.

The ongoing war in Ukraine, the current situation in the Middle East, as well as other uncertainties and risks in the global environment, make EU work on strengthening its economic base and the economic and monetary union all the more crucial than it was in 2019 when the current strategic agenda 2019-2024 was adopted. The work on the new strategic agenda for 2024-2029 is ongoing. These two policy directions are likely to remain priorities for the upcoming period, as indicated by the EU Heads of State or Governments' statement in October 2023: 'we remain united in our steadfast determination to increase the resilience and competitiveness of our economies'.

One of the aspects of this endeavour – reforming the EU economic governance framework – has been high on the political agenda this year. The European Semester was initiated by the European Council in 2010 as a part of a wider reform of EU economic governance. The objective is to coordinate policies and address challenges head-on to ensure sound public finances and prevent excessive macroeconomic imbalances, whilst boosting investments and structural reforms. Yet, activating the so-called general escape clause, the EU economic governance rules included in Growth and Stability Pact were lifted at the onset of the pandemic in march 2020, as public expenditure by EU countries was on the rise as a result of increased expenditure to fight the pandemic and its impact on national economies. The reform of the EU economic governance framework has been discussed several times by the Heads of State or Government in 2023, at the European Council meetings of 9 February, 23 March, 29-30 June and 26-27 October, opening the way to a political agreement between the co-legislators in February 2024.

Similarly, other key strands of action, such as completing the banking union and the capital markets union, building the fiscal capacity of the EU and strengthening the role of the euro on the global stage, have also gained in importance.

As underlined by Heads of State or Government in their Versailles Declaration of 10-11 March 2022, and adopted in the context of the war on Ukraine, the EU is faced 'with growing instability and strategic competition' and thus needs to 'take further decisive steps towards building our European sovereignty, reducing our dependencies and designing a new growth and investment model for 2030'. For that purpose, the EU needs 'more integrated, attractive and competitive European financial markets, enabling the financing of innovation and safeguarding financial stability, by deepening the capital markets union and completing the banking union'.

As announced in the State of the Union 2023 speech, former President of the ECB Mario Draghi is preparing a report on the future of EU competitiveness, expected in June or July 2024.

B. Legal basis for European Council action

Article 121(2) of the Treaty on the Functioning of the European Union ([TFEU](#)) provides that 'the European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Union'.

The European Council also [has an important role](#) in the European Semester process. Early each year, it carries out a horizontal review and 'identifies the main challenges facing the Union and the euro area and gives strategic guidance on policies' (recital 14, [Regulation 1175/2011](#)). Furthermore, usually in June, the Heads of State or Government endorse the country-specific recommendations ([CSRs](#)). This is done before the Council adopts the CSRs, which happens usually in July.

C. Strategic orientations

The European Council states in its [2019-2024 strategic agenda](#): 'We must ensure that the euro works for our citizens and remains resilient, deepening the Economic and Monetary Union in all its dimensions, completing the Banking and Capital Markets Union and strengthening the international role of the euro.'

Work aimed at [defining the priorities](#) of the next strategic agenda has already begun.

EMU resilience

[The Hague summit of 1969](#) was a defining moment for EMU, as the Heads of State or Government defined economic and monetary union as a new objective for European integration. Officially, EMU came into being with the ratification of Maastricht Treaty in 1992. Since then, as a result of progressive integration over the years, the single currency, the euro, has [grown to become](#) the most tangible symbol of European integration. Within the euro area, the coordination of economic and fiscal policies between Member States, an independent monetary policy by the European Central Bank (ECB), and single rules for as well as the supervision of euro area financial institutions, were progressively developed.

The resilience of the EMU was put to the test in the years of the financial crisis. Since then, EU leaders have placed special emphasis on the deepening of the EMU and enhancing its resilience to risks and shocks. The [asymmetric nature of EMU](#) is something that Heads of State or Government are specifically focusing on; this asymmetry refers to the fact that the Maastricht Treaty had federalised monetary policy, but left economic policy within the hands of the Member States.

A further issue to contend with are the current discussions on the review of economic governance rules. The [Stability and Growth Pact (SGP)](#) was developed as part of the introduction of the euro and was reinforced in the aftermath of the sovereign debt crisis. The framework aims to keep countries' deficit below 3 % of economic output and their public debt below 60 %. Current rules allow Member States some leeway to bend the rules and get away without any fines, which could, if applied (not applied until now) amount to 0.2 % of the country's GDP. After a considerable increase in the wake of the coronavirus crisis, reaching 100 % of GDP at the end of the first quarter of 2021, [Eurozone debt](#) has since decreased to 89.9 % of economic output (82.6 % of GDP in the EU as a whole) at the end of the third quarter of 2023. The highest levels were in Greece, Italy, France, Spain, Belgium, Portugal, and Cyprus.

The Commission has [relaunched](#) the debate on the review of EU economic governance, which had [begun](#) before the pandemic. The crisis led the EU to suspend the rules in March 2020, enabling governments to take a supportive fiscal stance and to cushion the economic and social impact of the pandemic. EU leaders [have been calling](#) for legislative work on the review to be finished by the

end of 2023. A political agreement was reached on 10 February 2024, which still needs formal approval by the co-legislators.

Completing the banking union and the capital markets union

The strategic agenda 2019-2024 places great emphasis on completing the banking union and the capital markets union as ways of strengthening the EU economy and making its structures more robust.

With regard to the banking union, the aim is to ensure that EU banks are strong and well supervised to break the 'vicious circle between banks and sovereigns' and to prevent for the future any crisis similar to the financial crisis of 2007-2008. The banking union has three pillars – two of them existing: the single supervisory mechanism (SSM) and the single resolution mechanism (SRM), and one that does not yet exist, the European deposit insurance scheme (EDIS), on which negotiations have stalled for years.

In June 2021 and December 2021, EU leaders re-iterated their call for the Eurogroup to create a 'stepwise and time-bound' work plan to complete the banking union. In June 2022, the Eurogroup issued a statement on the future of banking union, discussing a strengthened crisis management and deposit insurance (CMDI) framework. In October 2023, the Euro Summit called for 'continued efforts towards completing the banking union in line with the Eurogroup statement'.

Concerning the completion of the capital markets union (CMU), its main aim is to ease access to funding for businesses, especially SMEs, and thereby, to create growth and jobs in Europe. It also contributes to the stability of the EU financial system, complements the banking union, and makes the financial system more resilient towards risks and more competitive on the world stage.

In September 2020, the Commission published an action plan on a capital markets union with 16 targeted measures to complete the process. The topic was discussed at the 9 February 2023 European Council meeting, with EU leaders urging the co-legislators to 'accelerate the implementation of the capital markets union action plan by advancing and finalising work on the legislative proposals in this area'. The same message was reiterated at the March 2023 European Council and the March 2023 Euro Summit meetings. At the October 2023 Euro Summit, EU leaders highlighted the role of capital markets in attracting private sector investment for common challenges and allowing the EU to lead in the green and digital transitions. Progress will be reviewed at the March 2024 Euro Summit.

In June 2021, EU leaders stressed that green finance, notably the adoption of a green bond standard, could be a catalyst towards a fully-fledged CMU. On 6 July, the Commission adopted its sustainable finance strategy and the European green bond standard proposal, which are designed to create a high-quality voluntary standard for financing sustainable investment, thus setting a kind of gold standard system[9] and aiming for continued global leadership in the sustainable finance field. The strategy contains several initiatives to tackle climate change and other environmental challenges, while increasing investment in the EU's transition towards a sustainable economy.

Strengthening the international role of the euro

The euro, launched on 1 January 1999, is currently the second most important currency in the world after the US dollar. On its 25th anniversary, it is the currency of 20 countries and 341 million EU citizens. In the 2019-2024 strategic agenda, EU leaders stressed that the euro must work for the citizens and remain resilient, and that its international role should be strengthened. Making the euro stronger in the international sphere would, for example, lower the interest rates paid by European

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[9] The original gold standard was a monetary system in which participating countries fixed their currencies to the value linked to gold.

consumers and companies, and guarantee a more reliable access to finance for European businesses and governments. European Central Bank data from June 2023 suggest that 'the international role of the euro remained resilient in 2022'.

In March 2021, the Eurogroup identified elements that contribute to the euro's global potential, such as the importance of a strong economic recovery, solid foundations for the EMU and innovative and resilient financial markets and payment systems. Eurogroup President Paschal Donohoe stated: 'The discussion has shown the importance of pursuing coordinated policies that will support a solid, inclusive and sustainable recovery, which will be key to the credibility and attractiveness of the euro.' The following Euro Summit in March 2021 re-stated the observation and called for a stronger and more innovative digital finance sector and more efficient and resilient payment systems.

The Commission's plan to use green bonds to finance the investments necessary to achieve the EU's 2030 energy and climate targets, and to become climate neutral by 2050, could strengthen the international role of the euro. With debt issued under the recovery plan and more particularly via the green bonds, there is an opportunity for the EU to position itself as a green finance hub, promoting the euro as the default currency for sustainable financial products, half of which already denominated in the EU's common currency.

In parallel, work is ongoing on the digital euro project, which could prove relevant for the international role of the euro.

D. Noteworthy commitments: Specific requests and follow-up

Economic governance review

The debate on the future of the economic governance framework was launched in February 2020, with the focus on i) ensuring economic growth and sustainable government finances, and at the same time lessening the risk of macroeconomic imbalances, ii) making closer coordination of economic policies possible, and iii) trying to ensure all countries perform well economically. However, the outbreak of the COVID-19 pandemic in March 2020 put the work on hold, and the process was only relaunched in October 2021.

In November 2022, the European Commission put forward a communication setting out orientations for a reformed EU economic governance framework. It does not modify the maximum debt ratio (60%) or maximum deficit per year (3%), which are enshrined in the Maastricht Treaty, but proposes country-specific debt-reduction pathways, with variable debt reduction speeds to be agreed by EU countries with the Commission and linked to sanctions in case of non-compliance.

At their meeting on 14 February 2023, EU ministers discussed the broad topics linked with the review: 'i) ways of ensuring country-specific fiscal adjustment whilst maintaining multilateral surveillance anchored in common EU fiscal rules and benchmarks; ii) views on a possible increased focus on medium-term planning; and iii) the potential role of a risk-based analysis of public debt developments in identifying country-specific challenges'. EU leaders endorsed orientations for a reform at their 14 March meeting, and the Commission published a package of three proposals on 26 April 2023.

At their special meeting on 9 February 2023, EU leaders asked the Council and the Commission 'to swiftly advance work on the economic governance review'. In June 2023 and October 2023, they called for the work to be finished by the end of 2023. In his letter to the October 2023 Euro Summit, Eurogroup President Donohoe stated that 'swift agreement on the fiscal rules is essential for our credibility and the smooth functioning of the Economic and Monetary Union (EMU)'.

On 10 February, the negotiations between the co-legislators resulted in a political agreement, which still needs to be formally approved by both the European Parliament and the Council. The aim is to have the framework in place before the June 2024 European elections.

Resilience of the banking sector

Before the financial crisis, some European banks had been involved in risky lending and business practices, and as the effects of the United States (US) subprime crisis started to move across the Atlantic, rescuing banks caused problems for European governments in the form of rising debt levels. This, in turn, resulted in a sovereign debt crisis. To avoid a similar disastrous situation in the future, EU leaders have been focusing on improving the resilience of the banking sector. Many measures have been put into place – such as the single supervision and the single rulebook. A banking union has been set up since the crisis, with two pillars, the single supervisory mechanism (SSM) and the single resolution mechanism (SRM), already existing, and the European deposit insurance scheme (EDIS), still in preparation.

As stated in the letter from the President of the Eurogroup, Paschal Donohoe, to the President of the Euro Summit, Charles Michel, ahead of the 24 June 2022 Euro Summit, 'a robust and efficient Banking Union is a key pillar of EMU contributing to its resilience, stability and strategic autonomy'. The letter outlines the agreement reached on 16 June 2022 'as an immediate step' to focus work within the Eurogroup on strengthening the common framework for bank crisis management and national deposit guarantee schemes (CMDI framework). Subsequently, it was agreed to review the state of the banking union and identify further measures with regard to the other outstanding elements to strengthen and complete the banking union. The Commission put forward the CMDI proposal on 18 April 2023 amid turbulence in the banking sector, which saw some banks, notably the Silicon Valley Bank and Credit Suisse, face serious difficulties.

At the October 2023 Euro Summit, EU leaders stated that 'the EU banking sector is resilient, with strong capital and liquidity positions'. In his letter to the summit, Eurogroup President Donohue underlined the importance of completing the work on the CMDI package before the European elections, as it is a key element in completing banking union.

European Stability Mechanism reform

As new tasks had been suggested for the ESM, the ESM Treaty and supporting documents needed to be revised. These new tasks, including a common backstop for the Single Resolution Fund (SRF), outlined in two documents – term sheet and terms of reference – were endorsed by the Euro Summit in December 2018. The Eurogroup proposed changes to the ESM treaty in June 2019; the Euro Summit took note of this and asked the Eurogroup to continue working on the matter so that a full package could be agreed by in the end of the year. In December 2019, the Eurogroup reported to the Euro Summit that it had 'reached an agreement in principle, subject to the conclusion of national procedure'; the Euro Summit then asked finance ministers of the Eurozone to continue working on the ESM reform and said that they would return to the matter in June 2020 at the latest. However, the Euro Summit did not convene until December 2020 as the focus was on the coronavirus crisis response and recovery.

In the meantime, the Eurogroup did however take the work forward. At its meeting on 30 November 2020, the Eurogroup finally managed to reach an agreement on a reform of the ESM, which sets a significant milestone towards the completion of the banking union. The reform notably includes the establishment of a line of credit to the single resolution fund by 2022 with a view to safeguarding financial stability further and strengthening the euro area's resilience. The agreement signals that there has been a sufficient reduction in the level of risk in the banking sector. This agreement was discussed in the Euro Summit on 11 December 2020, and signed in January 2021. Since the agreement is an intergovernmental instrument, the revised Treaty on the ESM requires ratification

by all national parliaments of the euro area. To date, 18 euro area Member States – i.e. all except one, Italy – have ratified the agreement. Once ratified, it will allow the ESM to become the backstop to the Single Resolution Fund (SRF). Therefore, in his October 2023 letter to the Euro Summit President, Charles Michel, Eurogroup President Donohue expressed the hope that ratification of the ESM Treaty by Italy would occur in the near future.

Digital Euro

In its statement of 25 February 2022, the Eurogroup considered that a properly-designed digital euro – safe, easy to use and widely accessible to the public – had the potential to foster innovation in the financial system and deliver major benefits for citizens, businesses and Member States. It notably underlined that the digital euro could 'strengthen our financial and monetary sovereignty and contribute to the overall functioning of our economic and monetary union, building on mutual trust and engagement among all stakeholders involved, and it is relevant for the international role of the euro'.

At its meeting in September 2022, the Eurogroup came to the conclusion that the digital euro was only meant to complement cash, and should not replace it. While the issuance of a digital euro should neither impede the ECB's ability to fulfil its mandate nor impair financial stability, it should be an attractive means of payment and support innovation in a digitalised economy.

To be successful, the possible issuance of a digital euro will need to be a common European project, supported by the European public and rely on a solid democratic basis. The creation of a digital euro would require an intervention of the Union legislature; as announced by the President of the European Commission, Ursula von der Leyen, in the letter of intent accompanying her 2022 State of the Union speech of 14 September and in the 2023 Commission work programme, the Commission put forward legislative proposals on establishing the digital euro on the basis of Article 133 TFEU. The single currency package of 28 June 2023 aims to offer citizens both cash and digital options when using central bank money. Furthermore, the ECB has decided to move to the preparation phase of the digital euro project. The Euro Summit reviews progress on the digital euro project on a regular basis.

Recovery Fund

In its video-conference meeting on 26 March 2020, the European Council tasked the Eurogroup with presenting within two weeks economic policy proposals to address the crisis generated by the coronavirus pandemic, which the Eurogroup did on 9 April 2020. As a part of the 'comprehensive economic policy response', the idea of a recovery fund was presented. However, EU finance ministers could not agree on the way to finance the fund and asked for guidance from the EU Heads of State or Government. The latter, however, were not able to reach an agreement either, and asked the Commission to analyse the different needs and present a proposal.

The fund was expected to amount to €1.5 trillion and have a link with EU's 2021-2027 long-term budget (MFF). Commission President Ursula von der Leyen outlined the plans of the Commission during the European Parliament plenary on 13 May 2020. The European Parliament, in a resolution of 15 May 2020 called for 'the new 'recovery and transformation fund' to be €2 trillion, to be financed 'through the issuance of long-dated recovery bonds' and to be 'disbursed through loans and, mostly, through grants, direct payments for investment and equity'. Parliament also stated that the new fund should come on top of the MFF and should not affect the 'existing and upcoming' programmes in a negative way. The following week, on 18 May 2020, France and Germany presented a joint initiative for European recovery, in which they proposed to set up an ambitious recovery fund of €500 billion at EU level for solidarity and growth.

The Commission's €750 billion proposal, entitled 'Next Generation EU', was published on 27 May 2020. The agreement reached by the European Council at its four-day meeting of 17-21 July 2020

set the basis for the biggest financial package in Europe's history – €1 824.3 billion (2021-2027 MFF and Next Generation EU (NGEU)), aimed at funding European recovery. The agreement also opened the way for the first ever bond issuance by the European Commission on the financial markets. Negotiations with the European Parliament resulted in a compromise deal that was formally approved in February 2021 by the co-legislators.

The current situation on the finance markets means that interest payments on the recovery fund are likely to be higher than expected.

E. Challenges ahead and outlook

Before the coronavirus crisis hit Europe and the world, economic outlooks (IMF, Commission, EPRS) forecasted slow growth for Europe and the euro area for the next two years. The greatest economic uncertainty was caused by geopolitical and trade tensions; the shock caused by the world-wide pandemic, which has made GDP figures plummet worldwide, or a war of aggression on European soil, did not feature in the forecasts.

After record-high inflation in 2022, which caused difficulties for both European citizens and businesses, the European Central Bank started a series of interest rate increases, which have brought inflation closer again to the ECB's 2 % target. For the moment, the ECB Governing Council has paused the rate hikes, and markets expect rates to start going down in early summer 2024. Nevertheless, at the October 2023 Euro Summit EU leaders underlined again that 'inflation remains a key concern and it is essential that the disinflation process continues'.

EU Heads of State or Government are focused on getting the EU economies back on a solid and sustainable growth track, stating that 'we remain united in our steadfast determination to increase the resilience and competitiveness of our economies'. One aspect of this objective is the finalisation of the review of the economic governance rules, and another is the completion of the banking union and the capital markets union.

Confronted with a 'tectonic shift in European history', EU Heads of State or Government underlined in their Versailles Declaration in March 2022 that the EU needed to build European sovereignty and, to that end, accelerate the deepening of the CMU and complete the banking union. In 2023, both topics have featured regularly on the EU leaders' meeting agendas, and they are expected to remain rolling agenda points in the near future. 'Our goal is to ensure that European capital markets can renew and enhance private sector investment, unlock funding for common challenges, and allow the EU to demonstrate leadership on green and digital transitions', wrote Eurogroup President Donohoe in his letter to the October 2023 Euro Summit.

Building trust in the euro, especially in the international context, and strengthening its global role are important objectives for the European Council. Achieving these goals would give the EU a stronger standing in the global setting as well as more 'financial autonomy' and, for example, ease access to funding for European governments and companies. As requested by the European Council, a number of initiatives can be taken – some of which already in the pipeline – to improve the euro's international standing – its use as reserve and investment currency, international exchange markets, debt and loan markets, key sectors and as invoicing currency.

One such initiative could be the green bonds standard, which could strongly contribute to cementing the EU's global leadership in sustainable financial products, considering the fact that half of them are already denominated in euro.

The digital euro is one of the key ongoing projects in the EU economic setting. Commission and ECB experts have looked into the potential benefits and risks, as well as the technicalities, enabling the single currency package to be published in June 2023. EU Leaders will need to be aware of the digital euro's impact on potential further gains in payment efficiency, on financial inclusion, on the

digitalisation of the economy, as well as its data protection and anti-money laundering impact. More debate and action on these topics are expected in the coming months, as the ECB has decided to move to the preparation phase of the digital euro project.

9. A European Green Deal

A. Background

EU leaders have addressed climate and energy regularly at their meetings in recent years. Climate change has usually been a topic for the October European Council, allowing EU leaders to focus on the preparation of the annual United Nations Conference of Parties (COP). EU leaders affirmed on several occasions the Union's ambition to take a leading role in the implementation of the Paris Agreement on Climate Change (hereinafter, the Paris Agreement) and in the fight against climate change, through, inter alia, sustained EU climate diplomacy action. These elements are also prominent in the 2019-2024 strategic agenda, where more attention was given to climate issues compared with energy security.

The ongoing geopolitical shifts marked by great power rivalry, accentuated by energy market speculation, leading to a spike in energy prices since autumn 2021, exacerbated in 2022 by Russia's war of aggression on Ukraine, made the EU pivot towards energy security, with a focus on ending dependency on Russian fossil fuels, diversification, security of supply and support to home grown green energies. Between autumn 2021 and early 2023, EU leaders regularly addressed the spike in energy prices, agreeing to pursue at the national level short-term, tailor-made measures in line with the European Commission's communication on energy prices. They have agreed to maintain the topic rolling on their agenda in order to shape a commonly shared long-term vision.

B. Legal basis for European Council action

➢ Article 15(1) of the Treaty on European Union (TEU): the European Council defines 'the general political directions and priorities' of the EU, including for climate and energy. The Lisbon Treaty expressly introduced an interdiction for the European Council to 'exercise legislative functions'.
➢ Article 15(4) TEU: European Council decisions on climate and energy are taken by consensus whilst Council decisions are taken by qualified majority voting (QMV) (Articles 191 and 194 TFEU).
➢ Article 121 of the Treaty in the Functioning of the EU (TFEU): the European Council, following a report from the Council based on a recommendation from the Commission, shall 'discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Union'. This provision applies to the energy market, the completion of which is a perennial European Council priority.

C. Strategic orientations

The European Council's 2019-2024 Strategic Agenda and the political priorities of the European Commission placed climate action among the Union's top priorities. The Strategic Agenda highlights building a climate-neutral, green, and fair Europe as one of four main priorities. This is a unique opportunity for the EU to become the global leader of the green economy, in both economical and societal terms. The Strategic Agenda emphasises the importance of various aspects of the economy for a successful green transition, such as public and private investment and the circular economy. It also highlights the importance of an integrated, interconnected and properly functioning European energy market that provides sustainable, secure and affordable energy, specifying the important role of renewables and mobility solutions. Targeting biodiversity loss and enhancing the quality of natural environments were also considered as critical. More generally, the Paris Agreement was the yardstick against which EU policies should be measured.

Similarly, the European Green Deal presented in December 2019 focuses on both climate and environment protection challenges. The core priority areas are: 1) achieving climate neutrality by 2050; 2) developing the energy union to allow for sustainable, affordable and secure energy; 3) becoming a world leader in circular economy and 4) preserving Europe's natural environment. The roadmap for recovery – the medium to long-term recovery strategy adopted in response to the coronavirus outbreak – confirms the EU's commitment to invest, as a matter of priority, in green transition and digital transformation. The Commission's 2021 'fit for 55' package brings together proposals to deliver on the increased climate ambition, while other proposals focus more broadly (e.g. restauration of healthy ecosystems). The Council agreed its general approach for several of the 'fit for 55' files in June 2022.

D. Noteworthy commitments: Specific requests and follow-up

Implementation of the Paris Agreement

The Paris Agreement establishes a new global climate regime from 2020 onwards. It commits signatories to limit global warming to well below 2 degrees Celsius, aspiring to keep it to 1.5 degrees above pre-industrial levels. It thus endeavours to stem climate change as a global threat to security and, for that purpose, encourages all parties 'to put forward their best efforts through 'nationally determined contributions' (NDCs) and to strengthen these efforts in the years ahead'. Participating countries report regularly on their emissions and implementation progress, while collective progress, on a global scale, will be evaluated every 5 years. The European Council set the implementation of the Paris Agreement as one of its main long-term climate and energy priorities. This requires both domestic EU and international action. The two dimensions have been intertwined in the European Council conclusions for the past few years.

The European Green Deal announced by European Commission President Ursula von der Leyen in her agenda for Europe is the dedicated instrument for streamlining climate action across the entire spectrum of EU policies. Several new initiatives have been put forward under the European Green Deal, most of which have already been adopted (e.g. the European Climate Law, the Just Transition Fund, the EU Green Taxonomy, the 'farm to fork' strategy, carbon border adjustment mechanism) and, most recently, in February 2024 Parliament voted in favour of the nature restoration law, which is now awaiting adoption by the Council before it can be published in the Official Journal. In April 2023, the European Parliament and the Council of the European Union approved several pieces of legislation that are part of the 'fit for 55' 2030 package, including an EU Social Climate Fund and the reform of the emissions trading system.

At the December 2023 European Council meeting, EU leaders welcomed the conclusion of the COP28 UN Climate Conference and the first Global Stocktake of the Paris Agreement. In particular, they signalled their support for i) an agreement to accelerate emission reductions towards net zero by 2050, ii) the agreement on reducing global emissions by 43 % by 2030 and 60 % by 2035 relative to the 2019 level, and iii) the agreement to transition away from fossil fuels in energy systems. Nevertheless, there are concerns that the EU may not reach its own 2030 targets.

Energy security

As early as 2011, the European Council identified security in energy supply as a key element for the EU's overall security, and stressed the importance of coherent EU external action in the field of energy. It also called for increasing transparency towards the EU institutions and other Member States when one country is negotiating a cooperation agreement in the field of energy with third countries on a bilateral basis. The emergence of the crisis in Ukraine in 2014 led the European Council to consider energy security at several of its meetings that year. It reiterated its previous calls for 'energy dependency reduction', stressed the importance of maintaining affordable energy prices, and mandated the European Commission to explore means to address the energy

dependency challenge. In response, in 2014, the European Commission presented the European energy security strategy followed by the 2030 framework for climate and energy and the energy package in 2016.

In 2022, Russia's war on Ukraine has brought about a major shift in the EU's energy policy. For the first time in over a decade, the security aspect has started prevailing over the price component, making LNG a key element of EU energy policy in the short to medium-term. Infrastructure modernisation, now being carried out to increase LNG capacity, should be beneficial in the longer term to hydrogen development and to the overall green transition. EU Member States individually and collectively are net importers of energy products, in particular crude oil and natural gas. Until 2021, Russia was the main external supplier for both these energy sources, as shown in Figure 6. EU leaders addressed the spike in energy prices three times during the autumn of 2021 and five times in 2022 – a first since 2014 when the topic was last rolling on the European Council's agenda.

Figure 6 – EU imports of natural gas and crude oil from Russia (share of total imports)
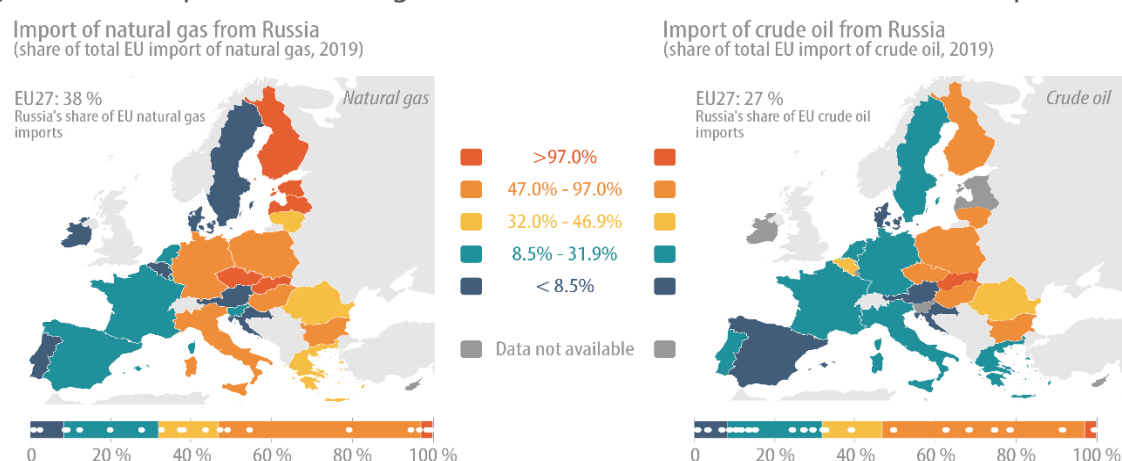
Source: EPRS, Future Shocks 2022, based on Eurostat (NRG_TI_OIL and NRG_TI_GAS) data.

In December 2021, they reverted to the discussion on energy prices and took stock of progress made in ensuring that the EU is better prepared to respond to future energy crises. At their 10-11 March 2022 informal summit in Versailles, EU leaders agreed to cut EU dependency on Russian fossil fuels, and at their 24-25 March 2022 formal meeting in Brussels, they confirmed that, by mid-May 2022, the European Commission would present a plan to phase out Russian fossil fuels by 2027. In May 2022, the EU leaders took stock of the situation and exchanged views on the REPowerEU plan, calling for accelerated renewables deployment along with new infrastructure required for that purpose. In the autumn of 2022, EU leaders discussed three lines of action: 1) reducing energy demand; 2) increasing security of supply; and 3) reducing energy prices. They also considered the reform of the energy market, a sensitive topic that had been raised for the first time a year earlier at the informal summit in Brdo pri Kranju. In the Granada Declaration, EU leaders highlighted how they effectively responded to energy blackmail by reducing dependencies and diversifying sources. Another method for responding to energy blackmail, was to ensure a higher level of reserves. On 17 August 2023, the EU's reserves of natural gas hit an historic high with Member States' gas storage moving beyond the 90 % target, 3 months ahead of schedule. Furthermore, energy was less prominent in the debate at the European Council meetings in 2023 than it was in 2022.

At the March 2023 European Council, EU leaders took stock of actions taken to achieve the energy-related objectives, particularly the three lines of action discussed in autumn 2022. In March 2022, EU leaders had called on the co-legislators to reach a 'prompt agreement' on the EU's internal electricity market design. EU energy ministers held their first policy debate on the proposed revision in late March 2023. On 14 September 2023, the European Parliament plenary gave its green light for negotiations with the Council to start. On 17 October, the Council reached an agreement (general

approach) on a proposal to amend the EU's electricity market design. On 14 December 2023, the co-legislators reached a provisional agreement to reform the EU's electricity market design.

Concerning renewable Energy and the energy performance of buildings Directive, at its meeting in December 2022, the European Council had called for the swift finalisation of discussions on both directives. Following trilogue negotiations on the Renewable Energy Directive, the co-legislators reached an agreement and the Directive was signed in October 2023. Two months later, on 7 December 2023, the Council and the Parliament reached a deal on the revision of the Energy Performance of Buildings Directive.

E. Challenges ahead and outlook

Climate change, a top priority for the 2019-2024 strategic agenda, will continue to feature high on the European Council's agenda in the years to come. Some Member States have explicitly called for a more ambitious approach to fighting climate change. In the broad context of threats facing the EU in coming years, climate change and energy security will remain two major ones. A fine balance will have to be struck between climate action and energy security.

In Granada last October, EU leaders agreed that they would focus on energy and resource efficiency, circularity, decarbonisation, resilience to natural disasters and adaptation to climate change. President Michel recently noted that the next strategic agenda will build upon the discussions in Granada. It is therefore likely that energy and climate related issues will be discussed by EU Leaders in the preparation process for the new Strategic agenda.

Energy security and affordability was a big issue in the European Council in 2021 and 2022. Considering, for instance, the progress achieved in increasing the EU's gas reserves, in combination with lesser tensions on the gas market, the issue was less prominent in 2023 and was not discussed at the February 2024 European Council. Looking forward, the Indicative Leaders' Agenda does not envisage energy being a key topic for discussion in the European Council in the first half of 2024.

10. Building a social and inclusive Europe

A. Background

Social Europe has developed mainly in the margins of the social policies carried out at the national level due to the EU's limited competencies in this field. Despite restrictions in capacity to act, the European social framework has developed gradually over time as a result of treaty changes and the progressive extension of EU competences. In recent years, support for working towards a social Europe has been expressed at the highest political level by the European Council, the European Parliament and the European Commission.

A Special Eurobarometer survey on the attitude of Europeans to social issues that was published in March 2021, after being carried out during November and December 2020, found that 88 % of respondents considered social Europe important to them personally. It also highlighted that a large majority of Europeans surveyed believed there should be more decision-making at European level in the eight [10] areas mentioned, including health and social security issues. The most recent Standard Eurobarometer of November 2023 showed a decrease since 2021 in EU citizens' concerns regarding social issues such as pensions, unemployment and health. Despite a decrease since the end of the coronavirus pandemic, concerns regarding social issues remain high, notably the increased cost of living crisis in the context of the consequences of the war in Ukraine.

People at risk of poverty or social exclusion, 2022
(% of total population)
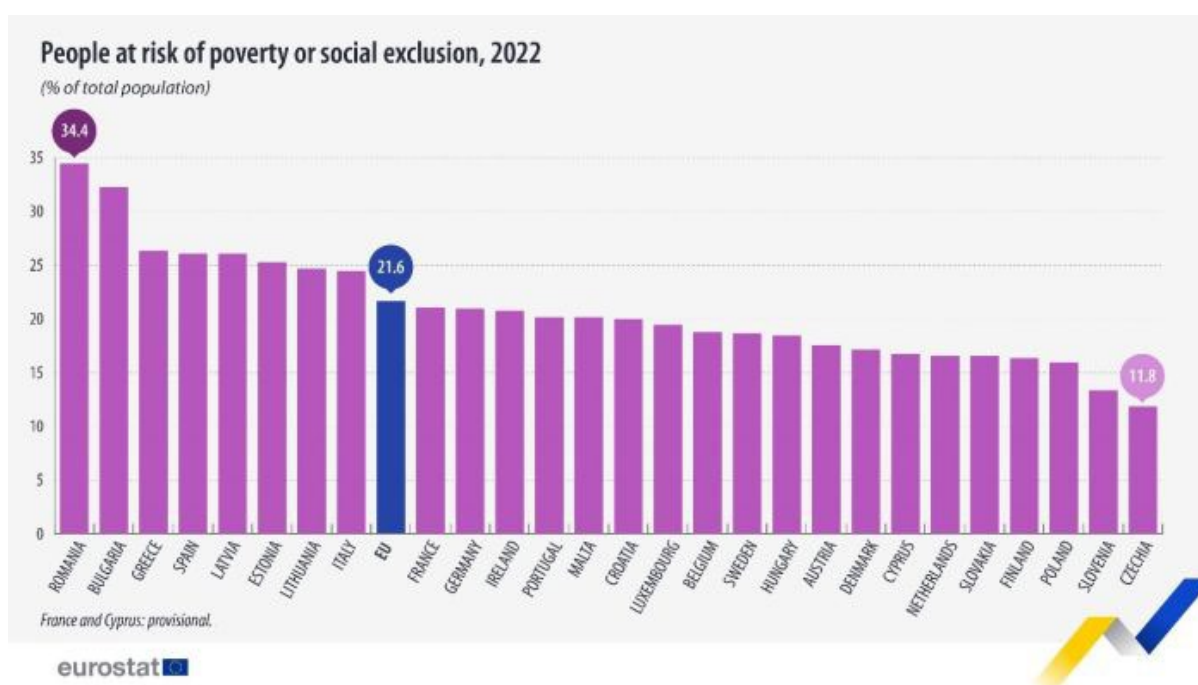
Despite a reduction in unemployment throughout the EU and a growth in nominal wages, the cost of living has increased for EU citizens owing to rising costs in areas such as food and energy. A report from 2022 found that inflation had likely deepened material and social deprivation, absolute poverty and energy poverty, widening existing social inequalities within the EU. In response, many EU governments introduced various forms of assistance and subsidies to support the most vulnerable, such as energy credits, energy price caps, and reduced public transport fees. Some of

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[10]   (i) Protecting the environment and reducing climate change (76%), (ii) Promoting decent working conditions in the EU and abroad (74%), (iii) Promoting equal treatment of women and men (70%), (iv) Stimulating sustainable investment and job creation (65%), (v) Supporting education, training and skills (63%), (vi) Dealing with health issues (61%), (vii) Promoting digitalisation and automation (60%), (viii) dealing with social security issues (59%).

these measures were extended into 2023, others will continue into 2024 and/or have become permanent to address the increased cost of living.

B. Legal basis for European Council action

Article 15 of the Treaty on European Union (TEU). The European Council, when fulfilling its Treaty role of 'defining general political directions and priorities' will consider the following provisions of general application:

> ➤ Article 8 TFEU: in all its activities, the Union shall aim to eliminate inequalities, and to promote equality, between men and women.

> ➤ Article 9 TFEU: in defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health.

> ➤ Article 10 TFEU: in defining and implementing its policies and activities, the Union shall aim to combat discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation.

Employment policy

> ➤ Article 3(3) TEU and Articles 8-10, 145-150, 156-159 and 162-164 TFEU.

> ➤ Article 148(1) TFEU: 'The European Council shall each year consider the employment situation in the Union and adopt conclusions thereon, on the basis of a joint annual report by the Council and the Commission'.

Social policy, including fight against poverty, social exclusion and discrimination

> ➤ Article 3 TEU, and Articles 9, 10, 19, 45-48, 145-150 and 151-161 TFEU.

> ➤ Article 153 TFEU allows the EU to act in the wider area of equal opportunities and equal treatment in matters of employment and occupation, and within this framework Article 157 TFEU, authorises positive action to empower women.

Education, vocational training and culture

> ➤ Article 3 TFEU and Articles 165-167 TFEU.

Equality between women and men

> ➤ Articles 2 and 3(3) TEU, Articles 153, 157, 19 and 8 TFEU.

Health

> ➤ Article 168 TFEU and Article 114 TFEU.

C. Strategic orientations

In the 2017 Rome Declaration, EU Heads of State or Government pledged their support for working together for a 'social Europe'. While the objectives of the Rome Declaration are reiterated in the strategic agenda for 2019-2024, they are now placed in the context of a just transition to a carbon neutral economy. This will require that high standards of social protection and inclusiveness of

labour markets be maintained, and that particular attention be paid to groups that may need extra support and/or are more likely to experience inequality, such as ensuring access to education.

The Gothenburg Social Summit in November 2017, which was followed by an EU leaders' meeting to discuss social issues, led to the endorsement of the European Pillar of Social Rights. The Social Pillar includes 20 principles designed to act as sign posts towards a fairer and more inclusive EU. Some principles reiterate rights already present in the Union acquis, whilst others set goals for the European Union in response to the challenges stemming from the digital transition as well as socio-economic developments.

On 4 March 2021, in advance of the Porto Social Summit, the Commission released the European Pillar of Social Rights Action Plan, thus setting steps for the further implementation of the principles of the Social Pillar. Following the trend set in Gothenburg, the Porto Summit was also followed by an informal EU leaders' meeting taking place in the margins. This provided EU leaders with the opportunity to discuss social issues, which are only rarely on the European Council agenda. The Porto Declaration adopted at that meeting signalled the European Council's support for the 'the new EU headline targets on jobs skills and poverty reduction' and the updated social scoreboard. However, the European Council did not go as far as to endorse the Commission's action plan, despite a specific request to do so. Given the sensitivity of certain aspects of social policy and the European Council's method of working by consensus, the lack of endorsement of the European Pillar of Social Rights (EPSR) is not necessarily surprising. EU leaders did however highlight the importance of following the implementation of the EPSR and the headline targets for 2030 at the highest level, whilst recognising the 'useful guidance' provided by the Commission's Action Plan.

The European Council's Strategic Agenda 2019-24 already acknowledged the significance of developing EU Social policy in response to the green and digital transitions. The outbreak of the coronavirus pandemic, followed by a cost of living crisis, has further heightened the need for a strong social Europe. These elements were also discussed during the informal European Council in Granada on 6 October 2023. The Granada Declaration adopted at that meeting underlines the need for a cohesive Europe, provision of social welfare and action to preserve the social dimension of the single market.

The Conference on the Future of Europe, which was officially launched on 9 May 2021, was designed to take another step towards greater citizens' engagement and work on the issues that are of concern to European citizens. It delivered its final report to the presidents of the EU institutions on 9 May 2022. This final report contains many proposals related to social issues, notably on inclusive labour markets and stronger social policies. However, the follow-up, or rather lack of, by the European Council – despite support from many individual Member States to act upon the final report – contrasts with the strong commitment shown by the European Parliament and the European Commission, which both supported the establishment of a Convention for the revision of the treaties.

D. Noteworthy commitments: Specific requests, and follow-up

Social partners and the European Council

The representatives of European workers and employers are referred to as 'social partners', and their role in labour relations and European social dialogue is recognised at EU level in Article 152 TFEU. Article 154 TFEU stipulates that, before submitting proposals in the social policy field, the Commission shall consult management (i.e. employers' representatives) and labour (i.e. workers' representatives) at Union level. Article 155 TFEU gives them the possibility to conclude agreements between each other at EU level, which can 'be implemented either in accordance with the procedures and practices specific to management and labour and the Member States' or 'a Council decision on a proposal from the Commission'.

Since 1997, the Presidency of the Council of the EU has invited the social partners to meet the 'troika' (i.e. the past, current and next Presidency of the Council of the EU) immediately before European summits. The 2001 Laeken European Council agreed that a social affairs summit with European social partners would be held before each spring European Council, which is traditionally dedicated to economic and EU internal market issues. This was confirmed by the Barcelona European Council of 15 and 16 March 2002 and detailed in a Council Decision of 6 March 2003.

Nowadays, the tripartite social summit takes place twice a year (in the context of the March and October European Council meetings) and is a 'forum for dialogue between the EU institutions at president level and the European social partners at top management level. The summit is co-chaired by the President of the European Council and the President of the European Commission' and attended by the Head of State or Government representing the Presidency of the Council of the EU.

The participants at the October 2023 tripartite social summit discussed i) labour shortages and ii) an industrial and energy policy for a successful Europe delivering quality jobs and sustainable growth. Social partners also gave their views on iii) the response to the United States' Inflation Reduction Act and measures for the European economy.

Fighting youth unemployment, social exclusion and poverty

Addressing inequalities, affecting young people in particular, remains an important objective for the European Council. The strategic agenda cautions against the potential ramifications of inaction in the long term with a risk of generational, territorial and educational divides increasing across the EU. The COVID-19 crisis and resulting lockdowns caused the percentage of unemployed young people in the EU to increase sharply from around 15 % in 2019 to 18 % in 2020. Then, the rate of youth unemployment in the EU began falling again, returning to the trend observed prior to the outbreak of the COVID-19 crisis. In August 2023, the youth unemployment rate was 14 % in the EU. In the Porto Declaration, the European Council agreed to prioritise action to support young people in accessing the labour market and to develop their skills. EU leaders also emphasised the role of the Erasmus+ instrument as a tool to boost youth mobility.

A number of initiatives and actions to boost the levels of youth employment have been introduced. They mainly focus on educating, reskilling and upskilling, and thus aim at preparing this generation for the challenges of the twin digital and green transitions as well as the fallout from the Covid-19 pandemic. The aforementioned support includes, but is not limited to the 2020 Youth Employment Support package, which is built on four branches (i) the reinforced Youth Guarantee (ii) Council Recommendation on Vocational Education and Training (iii) The European Alliance for Apprenticeships (iv) the European Network of Public Employment services and the Action Plan for the Social Economy. In June 2023, the European Parliament voted in favour of a report calling on the Commission to propose a directive on quality traineeships and to update the existing quality framework for traineeships. The Commission initiated the process in July 2023 through consultations with social partners on how the framework could be improved.

Reducing the number of people at risk of poverty or social exclusion by at least 15 million by 2030 was one of the three headline targets set out in the Commission's EPSR action plan. In the Porto Declaration, the European Council welcomed this headline ambition. Whilst the number of people at risk of poverty or social exclusion in the EU-27 fell to 95.3 million in 2022 after it had peaked at 108.7 million in 2012, the relative income of the most vulnerable has not improved. In order to reach this headline target, European institutions and Member States will have to work together to address the causes of social exclusion and poverty. In June 2022, EU ministers adopted a recommendation to increase the number of adults participating in training every year. Insufficient financial support and time constraints are some of the barriers to adult training that the Council has highlighted. In March 2023, the European Council underlined the importance of investing in training to ensure an inclusive digital and green transition. In October 2023, EU leaders highlighted the need to accelerate

work on the EU's competitive edge in digital and clean technologies, by focusing on innovation, research, education and skills.

Fair working conditions

Out of the 20 principles outlined in the European Pillar of Social Rights, six relate to chapter two on fair working conditions. The European Council stated, in the Porto Declaration, that the implementation of the principles of the EPSR was essential to ensuring the creation of more and better jobs in the context of an inclusive recovery. This demonstrates that fair working conditions are an important issue even at the highest level in the EU.

The Porto Declaration, the Porto Commitment, and the European Pillar of Social Rights Action Plan all signalled the need to ensure fair working conditions, adequate minimum wages and decent quality employment conditions in Europe. These aspects of social Europe are increasingly important in the aftermath of the Covid-19 pandemic, the current economic context in Europe, and rapid changes in the labour market due to digitalisation and the transition to a carbon neutral economy.

Such changes may make it more difficult to ensure that all workers benefit from fair and dignified working conditions. Moreover, ensuring adequate minimum wages has become even more salient since the pandemic has affected low-wage earners predominantly, in particular in the cleaning, retail and health sectors, but also in long-term care. This was a sensitive subject, as signified by the differences in language used in the Porto Declaration adopted by EU Leaders and refers to 'defending fair wages', whilst in the Porto Social Commitment signed by social partners, the European Parliament, the European Commission and the Portuguese Presidency reads 'supporting decent wages'. Nonetheless, on 4 October 2022, the Council adopted the Directive on adequate minimum wages. The directive does not state the amount at which minimum wages should be set, but provides a framework to promote adequate minimum wages across the EU. More specifically, it stipulates that Member States shall take measures to enhance access to statutory minimum wage protection. Denmark brought the directive before the Court of Justice in January 2023 and requested its annulment on account of the lack of EU competence in the area. The case is still awaiting the Court's decision.

Empowering people: education and culture

In 2017, an informal meeting in Gothenburg of Heads of State or Government was dedicated to education and culture. At the December 2017 European Council, following a discussion on a leaders' agenda note on education and culture, EU leaders set out a number of work strands to guide the work of the institutions and the Member States for the next years. These include strengthening strategic partnerships among universities (European Universities), facilitating the recognition of academic diplomas, stepping up youth mobility (Erasmus+), participating in educational activities (European Student Card), improving digital skills and language learning. The European Council's Strategic Agenda 2019-24 has emphasised the importance of education and training for both the economy and the society and called for more investment in people's skills and education. This sentiment was reiterated in the Porto Declaration.

These objectives contribute to the implementation of the European Education Area, which the Commission has set out to achieve by 2025. A communication on the European Education Area was released in late September 2020. Moreover, as part of the Skills Agenda for Europe, the Commission adopted a Council recommendation on vocational education and training, supporting, inter alia, the establishment of 50 centres for initial training of young people and for up- and reskilling of adults. Furthermore, in June 2022, the Council made two recommendations to the Member States in the area of skills: one on individual learning accounts and the other on micro-credentials.

At the special European Council on 9 February 2023, building on the Commission communication on a Green Deal industrial plan, the European Council outlined five areas in which the EU should

take action to ensure the EU's long-term competitiveness and support the green and digital transitions. One of these five areas highlighted by the European Council is the development of the relevant skills through education, training, upskilling and reskilling; this is linked to the fact that the transition to climate neutrality and digitalisation is expected to have a substantial impact on the number of jobs and their nature. The importance of skills for the competitiveness of the EU economy was reiterated at the March 2023 European Council. Furthermore, 2023 has been designated the European Year of Skills with the goal of helping to address the major skills gap in the EU. The activities are running until 30 April 2024.

Union of equality for all

Ensuring equality between women and men is both a social imperative and an economic asset, the strategic agenda reads. Despite progress in this area, women in the EU earned on average 12.7% less than men per hour in 2021 while the average pension income gap between women and men was at 30 % in 2018, with variations among Member States. The December 2017 European Council had underlined the need to prioritise the implementation of the EU action plan on the gender pay gap. More recently, in the Porto Declaration, the European Council agreed to increase efforts to tackle discrimination and close gender gaps in employment, pay and pensions. This is in line with the second principle of the EPSR and the fundamental principles of the European Union.

Despite the adoption of the Pay Transparency Recommendation in 2014, not all Member States had pay transparency measures in place, leading to inconsistency between standards across the EU. On 4 March 2021, the Commission presented a proposal for a directive on pay transparency, aimed at introducing measures to ensure that women and men receive equal pay for equal work. On 15 December 2022, the co-legislators reached a political agreement on this file, which was then confirmed and the directive was published in the Official Journal on 17 May 2023.

E. Challenges ahead and outlook

Since the European Council meeting in March 2022, the coronavirus pandemic and health issues have fallen off the agenda of the European Council; and EU leaders have not given a great deal of attention to social topics as stand-alone agenda points either. However, certain social issues, such as the cost of living difficulties linked with the rise in inflation or training initiatives to equip the EU labour force with the skills needed for the twin green and digital transition, have been discussed at recent European Council meetings in connection with economic and competitiveness topics.

In the medium term, as anticipated by the European Council at its meeting in March 2023, developing digital skills will be an essential aspect of efforts aimed at boosting EU competitiveness and productivity in the coming years. In October 2023, the European Council took stock of the work on EU competitiveness and emphasised the need for training to develop the skills necessary for the green and digital transition. Research has shown the potential of digitalisation to improve many aspects of citizens' lives. EPRS has also highlighted how demographic groups (older people, those living in rural areas) are experiencing an increasing digital divide. Ensuring that people have the relevant digital skills and trying to prevent a large digital divide in the EU will be key to a successful transition to a more digital society. As shown by a recent evaluation by the Commission, it is not only digital skills that need to be improved; labour shortages and skills mismatches are also increasing and will need to be addressed. The need to address challenges facing the EU labour market, such as skills and labour shortages, and the digital transition, were mentioned by Ursula von der Leyen in her state of the Union speech. Following a request by the European Parliament on 24 January 2024, the European Commission proposed to revise the directive on European Works Councils to further improve social dialogue in the EU. EWCs are information and consultation bodies that ensure that employees are involved in decisions related to transnational issues. They concern companies with more than 1 000 employees operating in at least two EU and/or European Economic Area (EEA) countries.

The European Council has started the process of formulating a new strategic agenda for the new 2024-2029 legislative cycle. European Council President Charles Michel has mentioned the EU's economic and social base as one area where EU leaders will need to set out the EU's future priorities. Elements of the Granada Declaration, such as a cohesive Europe, provision of social welfare and action to preserve the social dimension of the single market, indicate what could be some of the social priorities of the Strategic Agenda 2024-2029. Discussions are expected to intensify at the next European Council meetings, notably at the 17-18 April special European Council, which is to discuss a first draft for the next Strategic Agenda; a final version is expected to be adopted in late June 2024, still under the Belgian rotating Presidency of the Council of the EU. The Belgian Presidency's programme envisages consolidating 'the European Pillar of Social Rights, setting forth a robust social agenda for 2024-2029'.

11. Promoting EU interests and values in the world

A. Background

Russia's war on Ukraine has altered the European security architecture profoundly, highlighting its fragility. During the first year of war, the EU Heads of State or Government held nine – formal and informal – meetings, where they closely followed the evolution of the situation in Ukraine. In June 2022, the European Council – responding to the European aspirations of the people of Ukraine and neighbouring Moldova – granted candidate country status to both countries, while expressing its readiness to grant Georgia candidate country status 'once the priorities specified in the Commission's opinion on Georgia's membership application have been addressed'. In her 2022 State of the Union speech, President von der Leyen addressed the people of the Western Balkans, Ukraine, Moldova and Georgia: 'You are part of our family, your future is in our Union, and our Union is not complete without you!' The European Council will, most probably, continue to follow the evolution of the situation in Ukraine in the months to come, reaffirm the EU's support, and call on Russia to end its war and withdraw from Ukraine.

The war against Ukraine is the latest display of the revisionist policy Russia has pursued over the past decade, greatly contributing to the decline of the security landscape in the EU's wider neighbourhood, through its actions in Syria, in Libya, in Africa, but also previously in Ukraine, where it annexed Crimea illegally in 2014 and has since conducted a war in Donbas. In previous years, EU leaders had pointed to the threat posed by Russia's growing assertiveness, including its disinformation activities, condemned and outlined the illegal character of Russia's annexation of Crimea, and monitored the war in Donbas.

In parallel, the European Council has continued to deal with 'pressing international issues', such as the conflict in the Middle East, Turkey's natural gas exploration within the EU Member States' exclusive economic zones (EEZs) in the eastern Mediterranean, the situation in Nagorno-Karabakh and instability in the Sahel. The fragile situation in the Western Balkans also remains a matter of concern, with EU leaders regularly returning to the subject. This was the case in October 2023, when they called for de-escalation and for both parties – Kosovo and Serbia – to implement the Agreement on the Path to Normalisation. While the EU has been determined and united in its support for Ukraine, defining a united position has been more difficult when responding to other international issues, particularly the conflict in the Middle East.

The return of the United States (US) to multilateralism under the Biden administration offered the opportunity to strengthen the transatlantic bond and focus on a wide range of areas, from security to trade and climate change. The President of the US, Joe Biden, has attended the European Council twice since early 2021, once online (March 2021) and more recently in person (March 2022). At the latter meeting, President Biden and EU leaders discussed the situation in Ukraine and transatlantic cooperation, including security and defence cooperation, stressing the unfailing unity binding the two sides of the Atlantic. Analysts concur that Russia's war on Ukraine has helped strengthen the transatlantic bond, with NATO and the EU playing complementary roles, the former on collective defence and the latter on the development of European military capabilities.

The EU's relations with China have been on the European Council's agenda regularly in recent years, most recently in June 2023, when EU leaders adopted conclusions on China for the first time since 2020. These conclusions highlight the political will to move towards a common approach on relations with China, based on a de-risking strategy. They also expressed concern about human rights abuses and a willingness to engage with China on global issues, such as climate change and food security. In December 2020, the EU-China comprehensive agreement on investment was agreed, but its ratification is on hold for as long as sanctions on EU entities, Members of the European Parliament and the Member States' parliaments remain in place. In early December 2023, Charles

Michel and Ursula von der Leyen travelled to China for the first face-to-face EU China summit in four years.

B. Legal basis for European Council action

Foreign affairs remain the embodiment of the intergovernmental method in the EU. Decisions pertaining to foreign and security policy are taken unanimously within the European Council. A few Treaty-based exceptions, such as the appointment of the High Representative of the Union for Foreign and Security Policy (hereinafter, the High Representative), allow for the use of qualified majority voting (QMV). According to Article 31 TEU, the European Council can also decide by unanimity to extend the list of foreign policy items to which QMV applies, with the exception of decisions having military and defence implications, where Treaty change is required.

General orientations for foreign and security policy

Articles 15, 16(6), 22, 24 of the Treaty on European Union (TEU): the **European Council** identifies 'the Union's strategic interests' and 'objectives' and sets out strategic orientations for the EU, including for matters of foreign, security and defence policy.
Article 24(1) TEU: the EU's common foreign and security policy (CFSP), of which defence is an integral part, is 'defined and implemented by the European Council and the Council'.

European Council preparation and decision-making

Article 16(6) TEU: the Foreign Affairs Council, in cooperation with the President of the European Council, prepares and ensures the follow-up of the European Council foreign, security and defence policy meetings.
Articles 15 TEU: the European Council President 'ensures the external representation of the Union' in a way that does not hamper the action of the High Representative.
Articles 18, 22, 24, 31 TEU: unanimity is required in the European Council for foreign and security policy decisions, unless qualified majority applies (for example, when appointing the High Representative). Under Article 31(3), the European Council can, by unanimity, extend qualified majority voting to more foreign policy areas than those identified in Article 31(2) TEU. In his 'state of the Union' address of September 2018, then European Commission President, Jean-Claude Juncker, called for the use of this treaty mechanism and for the extension of QMV to cover more foreign policy areas, including civilian CSDP operations.
Article 26 TEU: the President 'shall convene an extraordinary meeting of the European Council' with the objective of defining 'strategic lines' should the international situation so require. On several occasions, extraordinary meetings have been convened to discuss foreign policy matters (for example, Ukraine in 2014), while defence has been considered only at regular European Council meetings.

C. Strategic orientations

The European Council's strategic agenda 2019-2024 identifies the promotion of European interests and values in the world as one of the main priorities for the years ahead. There is an increase of 7 % in attention paid to foreign and security policy in the strategic agenda 2019-2024 in comparison to the 2014-2019 agenda. This can be explained by the rise of international volatility as well as by the growing awareness amongst EU leaders that 'the EU needs to pursue a strategic course of action and increase its capacity to act autonomously to safeguard its interests'. In this context, EU leaders decided that, in the next years, priority will continue to be given to four strategic orientations: 1) promotion of EU strategic interests; 2) a European perspective for those 'European States able and willing to join' the EU; 3) an ambitious neighbourhood policy; and 4) engagement with partners.

Promotion of European interests and values. EU leaders put strong emphasis on the need for unity and coordination, two prerequisites for a 'more assertive and effective' foreign and security

policy. To protect economic, political and security interests, the EU needs to overcome the silo approach, leverage all policies and address internal and external challenges in a coordinated manner. In this context, priority would be given to countering disinformation, supporting sustainable development, supporting a robust trade policy as well as to boosting an active EU climate diplomacy. Furthermore, the roadmap for recovery – jointly presented by President Charles Michel and President von der Leyen at the request of the European Council following the coronavirus outbreak – confirmed the EU's commitment to 'multilateralism and a rules-based international order', and underlined the Union's 'responsibility' to help shape a global response to the pandemic. The Strategic Compass presented in March 2022 and endorsed by the European Council, puts strong emphasis on the Union's capacity to act on the world stage, and for that purpose, on the need to 'enhance the EU's strategic autonomy and its ability to work with partners to safeguard its values and interests'. In June 2023, EU leaders acknowledged progress made in implementing the Strategic Compass.

European perspective for those 'able and willing to join' the EU. On 5 February 2020, the European Commission published a communication on 'Enhancing the accession process – A credible EU perspective for the Western Balkans'. In this communication, it presented a new methodology for enlargement negotiations, underlining the merit-based nature of the accession process. A major change is the introduction of six thematic clusters, which will be open for negotiation as a whole, with the aim of rendering the accession negotiation process more dynamic. The first cluster on rule of law will be opened first and remain open until the end of negotiations. On 6 October 2020, the European Commission published the communication on EU enlargement policy. More recently, in June 2022, EU leaders granted Ukraine and Moldova candidate country status, and recognised Georgia's European perspective. In June 2023, at the second EPC Summit, the leaders of Ukraine and Moldova leaders expressed their strong European aspirations and their countries' willingness to open accession negotiations by the end 2023. This demand was backed by European Parliament President Roberta Metsola and enshrined in a resolution of the European Parliament.

An ambitious neighbourhood policy**. Commission President von der Leyen** underlined that 'working hand in hand with our neighbours and our partners' is vital for the EU. In the first quarter of 2020, the European Commission presented a new Eastern Partnership strategic document outlining 'new long-term policy objectives for the Eastern Partnership'. A renewed agenda for the southern Mediterranean was adopted by the Council in April 2021. In June 2023, EU leaders welcomed the conclusion of a comprehensive partnership package with Tunisia and supported the idea of developing similar partnerships in the region, notably with the aim of tackling illegal immigration.

Engagement with partners. EU leaders stressed that engaging 'on an equal footing' with partners both bilaterally and multilaterally is a key element of a dynamic, effective and 'robust' EU foreign and security policy. To this end, it is expected that the review of regional and country-related strategies, initiated as early as 2016 as part of the implementation of the EU Global Strategy, will continue. In her agenda for Europe, President von der Leyen called for a comprehensive strategy on Africa, which was put forward in March 2020, outlining that the EU will continue to support African peace efforts and step up cooperation on fighting criminal networks. More recently, on 17-18 February 2022, EU and African Union leaders met to discuss long-term partnership on several thematic issues, including growth, health, migration, climate and energy, and peace and security. More recently, on 17-18 July 2023, Brussels hosted the first EU CELAC summit since 2015, seeking to renew the EU partnership with Latin American and Caribbean states and bring work forward on trade agreements with Chile, Mexico and Mercosur.

D. Noteworthy commitments: Specific requests and follow-up

European perspective for the Western Balkans

The Western Balkans featured regularly on the agenda of the European Council in recent years. The agenda was dominated by counter-terrorism cooperation, by the need to stem migration on the Western Balkans route and, more recently, by enlargement. At the end of 2019, the enlargement process was in stalemate with several Member States in the European Council opposing the opening of

accession negotiations with North Macedonia and Albania, while France was calling for a revision of the enlargement rules. In February 2020, the European Commission presented a new approach to enlargement with its communication on 'Enhancing the accession process – A credible EU perspective for the Western Balkans', the aim of which was to further streamline the accession process. Subsequently, on 26 March 2020, EU leaders endorsed the General Affairs Council conclusions, which green-light – under stricter country-related conditionality rules – the opening of accession negotiations with Albania and North Macedonia, albeit without indicating a clear date for their start. In July 2022, once a positive outcome to the Bulgaria–North Macedonia dispute was reached, that accession negotiations with Albania and North Macedonia could be opened. Earlier in 2022, the European Council discussed the worrisome political situation in Bosnia and Herzegovina, reaffirming the country's European perspective and calling for the finalisation of the long-overdue constitutional and electoral reform. In December 2022, EU leaders endorsed the conclusions of the General Affairs Council granting Bosnia and Herzegovina candidate country status. On 8 November 2023, the Commission presented its enlargement package, highlighting that a significant number of reforms still need to be carried out in the region. The Commission also recommended opening accession negotiations with Bosnia and Herzegovina, once the country has achieved the necessary degree of compliance with the membership criteria. In March 2023, the European Council welcomed the Agreement on the path to normalisation of relations between Kosovo and Serbia, reached in the framework of the EU-facilitated Dialogue led by the High Representative Josep Borrell. EU leaders described the implementation of the Agreement as an integral part of Kosovo and Serbia's European path. Most recently, in October 2023, EU leaders reiterated support for the Western Balkan countries as they work on their reforms as part of their European path. In November 2023, the Commission adopted its Growth Plan for the Western Balkans (a €6 billion package for the 2024-2027 period), which aims to support Western Balkan countries in their socio-economic convergence with the EU and in accelerating the reforms necessary for EU membership. At the December 2023 European Council, EU leaders asked the Commission to report before March 2024 on progress in compliance with the membership criteria for Bosnia and Herzegovina (BiH); if BiH successfully meets the criteria, the European Council would consider opening accession negotiations. EU leaders also called on North Macedonia to accelerate the completion of the 'constitutional changes' listed in the Council conclusions of 18 July 2022. As a follow-up to the Western Balkans summit, which preceded the December 2023 European Council meeting, EU leaders reiterated their commitment to the EU membership perspective of the Western Balkans, and called on the countries of the region to speed up EU-related reforms and to advance on regional economic integration.

Russia's war on Ukraine

The EU leaders were monitoring the situation in Ukraine closely before the start of the war (December 2021 and 17 February 2022) and have continued to do so since at the meeting since then: 24 February 2022, 10-11 March 2022, 24-25 March 2022, 30-31 May 2022, 23-24 June 2022, 6-7 October 2022, 20-21 October 2022, 15 December 2022, 9 February 2023, 23 March 2023, 29-30 June 2023, 26-27 October 2023 and 14-15 December 2023. They have (re)affirmed the EU's support for Ukraine's territorial integrity, called on Russia to end its unjustified aggression immediately and stressed that 'war crimes must stop immediately', expressing confidence in international justice to hold those responsible to account. The European Council responded in a united manner to Russia's aggression, giving the green light to successive packages of sanctions and committing to move quickly on further sanctions. During the first year of war, the EU and the Member States offered €67 billion in support to Ukraine, of which €12 billion in military support. The EU offered temporary protection to all war refugees from Ukraine, as well as assistance to (non-)EU countries coping with the uninterrupted wave of Ukrainians fleeing the war. Since the start of the war, the President of Ukraine, Volodymyr Zelenskyy, has regularly addressed the European Council by video-conference, calling on EU leaders not to be 'late' in 'preparing Ukraine's membership' of the EU. On 9 February 2023, he addressed the European Council in person, calling for support and warning EU leaders of Russia's intention to replicate the Ukraine scenario elsewhere. Earlier that day, Zelenskyy had

addressed the European Parliament at an extraordinary plenary session during which [Metsola](#) stressed that 'our response must be proportional to the threat– and the threat is existential'. Most recently, on 26 October 2023, Zelenskyy [addressed](#) EU leaders by video-link once again. He focused on Ukraine's progress on the path to EU membership and the importance of this for Ukrainian people.

From the start of the war, EU leaders praised the courage of the Ukrainians and strongly emphasised that the EU would [continue](#)to 'offer humanitarian, medical and financial support to all refugees and the countries hosting them'. At the same time, the European Council has also started discussing support for the reconstruction of a democratic Ukraine and [agreed](#)on the creation of a Ukraine solidarity trust fund. A donors' conference was [held](#)on 5 May 2022. In their attempt to formulate a long-term response to the crisis, EU leaders adopted the [Versailles Declaration,](#) in which they articulated a medium to long-term response, identifying the economy, energy security, security and defence, and food security as areas that the EU should bolster in order to strengthen its resilience. EU leaders stressed their attachment to a rules-based international order, outlining that war crimes committed in Ukraine would not remain unpunished. EU leaders have also repeatedly expressed their support for [Ukraine's peace formula](#) and the organisation of a [global peace summit](#) with the widest international participation.

At the December 2023 European Council and the February 2024 special meeting, EU leaders discussed additional funding to support Ukraine – [which](#) would include a [€50 billion](#) top-up to the multiannual financial framework (MFF) for Ukraine(non-military support), a [€20 billion](#) segment of the European Peace Facility, [€500 million](#) as part of the eight package of assistance measures. In December, EU leaders did not manage to reach an agreement on the MFF multi-year funding for Ukraine, as only 26 Member States approved the [negotiation box](#) as proposed by President Michel. However in February, an agreement was [facilitated by a breakfast meeting](#) with Hungarian Prime Minister Viktor Orbán (made up of a small group of EU leaders) ahead of the European Council meeting.

In addition, EU leaders [discussed](#) the use of extraordinary revenues stemming from frozen Russian assets, and welcomed the [agreement](#) on using them to support Ukraine's recovery and reconstruction in line with EU and international law. The EU leaders' conclusions opened the way to the [Council decision](#) of 12 February 2024 'immobilising' the assets held by financial institutions in the EU Member States.

Food security

Food security has not been on the European Council's agenda in the decade prior to the start of Russia's war against Ukraine. In a world where up to [828 million](#)people were already affected by hunger in 2021, the war has exacerbated existing food security and affordability issues by causing a massive shock to food supplies. Both Ukraine and Russia play an important role in the global food supply chain. In 2021, they accounted for [28 %](#) of global exports of wheat, [20 %](#) of corn and mineral fertilisers, and [more than 70 %](#)of the world's sunflower oil trade. As highlighted by the European Council in March 2023, Russia has been using food as a weapon since the start of the war, [attacking crops](#), [stealing](#) Ukrainian agricultural products, and [blocking exports](#). The European Council has held Russia [responsible](#)for the crisis it has induced artificially, and which has a global impact. It affects first and   foremost vulnerable countries. In December 2022, the European Council reiterated its support for ['solidarity lanes](#)'. In July 2022, supported by the UN, Russia, Turkey and Ukraine signed a [deal](#)agreeing to allow Ukrainian grain exports via Black Sea ports. This initiative[, backed](#)by the European Council, played a role in reducing food prices. However, in July 2023, Russia announced that it was [pulling out](#) of the deal unilaterally. Since this decision, Russia has launched a number of attacks on Ukraine's maritime infrastructure and agricultural produce storage facilities. Russia has set out demands that it wants the West to meet, before it will re-join the grain deal. In [October 2023,](#) the European Council criticised Russia's actions, which 'weaponise food and undermine global food

security'. In this light, they called for the capacity of solidarity lanes to be increased and invited the Commission to propose new measures to address this.

Eastern enlargement

In June 2022, the European Council decided to grant the status of candidate country to Ukraine and Moldova and signalled its readiness to grant the status of candidate country to Georgia once the priorities specified in the Commission's opinion on Georgia's membership application have been addressed. In August 2023, Michel stated in his speech at the Bled Strategic Forum that both the EU and the candidate countries must be ready for enlargement by 2030; He did so without prior consultation with the Commission, which then underlined that the process was not based on any target date. Thus, at the October European Council, EU leaders reiterated the EU's willingness to work closely with Ukraine, Moldova, and Georgia by supporting their reform efforts. On 8 November 2023, the Commission recommended that the Council open EU accession negotiations with Ukraine and Moldova, while granting candidate status to Georgia, once a number of conditions have been fulfilled. Despite uncertainties ahead of the December 2023 meeting, the European Council managed to reach the historic decision to open accession negotiations with Ukraine and Moldova and to grant the status of candidate country to Georgia, with the caveat that the relevant steps set out in the Commission's recommendations of 8 November 2023 be taken.

Middle East

The recent escalation of Israeli-Palestinian violence, following the brutal and indiscriminate terrorist attacks by Hamas across Israel on 7 October 2023, is the most recent chapter in a longstanding and often violent conflict. The Israeli–Palestinian conflict has been a subject of EU foreign policy debates for decades. Member States signed the Venice Declaration in 1980, recognising both Israel's right to live in peace and security, and the Palestinians' right to self-determination. Since then, the EU has continually reiterated its commitment to a two-state solution – with an independent Palestine and Israel co-existing peacefully. On 7 October, Hamas militants launched a terrorist attack on Israeli territory close to the Gaza Strip, killing 1 200 Israelis and taking roughly 239 hostages. In response, the Israeli military declared the country to be in a national emergency and launched air strikes and a ground offensive, which have reportedly resulted in the deaths of over 29 000[11] Palestinians and led to a dire humanitarian situation in Gaza.

In contrast with Russia's war against Ukraine, this conflict has demonstrated more division, at times, between EU leaders. The EU has been criticised for its disjointed initial response in the first days after the Hamas attack. On 15 October 2023, the European Council released a statement outlining its position: (i) condemnation of Hamas's terrorist attacks; (ii) support for Israel's right to defend itself in line with international law; (iii) a call for the release of hostages; (iv) a call for protection of civilian lives; (v) attention to the urgent need to supply humanitarian aid to civilians; and (vi) a commitment to the two-state solution. In order to unify the messaging of the various EU actors and address the escalating situation in the Middle East, European Council President, Charles Michel called an extraordinary meeting of EU leaders via video-conference on 17 October. Michel emphasised the importance of setting a common line building on the EU leaders' joint statement of 15 October, as well as the need to establish a clear and unified course of action. At the meeting, EU leaders identified four strands of action to guide the work of EU foreign ministers (humanitarian assistance, engagement with partners, domestic security issues, and migration). On 26 October 2023, EU leaders reaffirmed the main points of their 15 October statement. They also called urgently for humanitarian access and aid to reach those in need through all necessary measures including humanitarian corridors and pauses for humanitarian needs. In addition, they called for an international conference to be convened within six months so as to revive the Middle East peace process on the basis of a two-state solution. At the December 2023 and February 2024 European

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[11] The figure reported on 21 February 2024.

Council meetings, EU leaders discussed the situation in the Middle East, but did not adopt any conclusions on the matter. The invitation letter for the December meeting stated that Israel had the right to defend itself 'against Hamas' – the nuanced addition of 'against Hamas' could be a way of indicating that Israel should do more to prevent civilian casualties (differentiating between inhabitants of Gaza and Hamas) when addressing the terrorist threat of Hamas. The February meeting took place in the context of an increasingly volatile security situation in the broader region. When reporting on the debate, President Michel stated that EU leaders had underlined the need to avoid regional escalation.

E. Challenges ahead and outlook

The EU will continue to face a volatile security situation in its neighbourhood in the years to come. In this context, the European Council will have to play its Treaty role to the full and continue to set strategic guidelines for foreign policy action. This requires a regular assessment of the threats and risks the European Union is faced with, as requested by several Heads of State or Government, in the 'Future of Europe' debate in the European Parliament plenary, and outlined by the Strategic Compass. It would also require close monitoring of the Western Balkans' progress towards European integration, reinforced cooperation with allies such as the United States, regular collective debates, a reassessment of the EU's position regarding China, and continuous support to Ukraine.

According to the indicative leader's agenda for the first half of 2024, external relations is due to be discussed at both the March and June regular European Council meetings. Notably, Ukraine is in line to be discussed at those meetings and at the informal European Council meeting in April. However, Ukraine continues to be a topic in its own right on European Council meeting agendas and is not covered under the external relations section.

European Council members are currently participating in meetings aimed at preparing the next strategic agenda (2024-2029), which is expected to include foreign and security policy as one of the main priorities to be addressed in the coming years. In the Versailles Declaration EU leaders stressed how Russia's war in Ukraine 'constitutes a tectonic shift in European history'. They also stated that, in response to growing instability and security threats, the EU would take more responsibility for its security and bolster its defence capabilities. The increased international volatility will most likely lead to increased attention on foreign and security policy in the upcoming strategic agenda, as it did in 2019. For now, EU leaders recognised that 'the EU needs to pursue a strategic course of action and increase its capacity to act autonomously', opening the way to longer-term strategic action in various policy areas, including security and defence, trade, and energy security, which will most likely be pursued in the coming years.

12. Greater responsibility for our defence

A. Background

The 2019-2024 strategic agenda indicates that European defence cooperation (EDC) remains a priority for the EU in the years to come. A rolling item on the agenda of the European Council, EDC began to gain impetus nearly a decade ago, but the process has accelerated significantly over the past six years with the introduction of a series of mechanisms – permanent structured cooperation (PESCO), and the European Defence Fund (EDF) – aimed at fostering cooperation. Whereas at the start of the period (2012), the European Council security and defence conclusions included mainly statements on the need to strengthen defence cooperation, over time there has been a progressive increase in the number of commitments, i.e. concrete policy steps to develop joint initiatives in the field of defence.

Russia's war on Ukraine has altered Europe's security architecture profoundly, calling into question the principles of the Helsinki Final Act and the Charter of Paris for a New Europe and giving a new push to European defence cooperation. On 10-11 March 2022, EU leaders adopted the Versailles Declaration, affirming their political will to further strengthen and deepen, in close partnership with NATO, European defence cooperation by inter alia investing more and better in defence capabilities and innovative technologies. At its subsequent summit of 24-25 March 2022, the European Council endorsed the Strategic Compass, the Union's first-ever white paper on defence, which includes robust language on Russia and clearly reflects the latest developments related to Russia's 'unjustified and unprovoked aggression against Ukraine'. On 30-31 May 2022, the European Council considered the joint communication on the defence investment gaps analysis presented by the European Commission on its request, strengthening the importance of bolstering European defence industrial capacities in line with the Versailles Declaration. Progress has since been made, with different instruments put forward by the European Commission. The European Defence Industry Reinforcement through Common Procurement Act (EDIRPA) was tabled on 19 July 2022, followed by the Act in Support of Ammunition Production (ASAP) in May 2023, both have now been adopted. The adoption of ASAP marks the first time the EU has used its budget in support of production in the field of defence. The commitments of the Versailles Declaration and the Strategic Compass were reaffirmed with the Granada Declaration adopted by the EU leaders at their informal European Council meeting on 6 October 2023.

Addressing EU leaders in October 2022, President Metsola recalled the unjustified nature of Russia's invasion of Ukraine and stressed the importance of continuing to provide Ukraine with military assistance, including air defence systems, tanks and financial support. She stressed that security and defence had to be kept at the top of the EU's agenda. At the March 2023 European Council, she expressed her support for the Council's agreement on the supply and joint procurement of ammunition, describing it as a 'landmark moment' for Ukraine and for Europe. When addressing the EU leaders during the 26-27 October European Council meeting, Metsola reiterated the need to show support for Ukraine and the need to keep supporting the country in military terms.

B. Legal basis for European Council action

The treaty provisions outlined above in the external relations chapter (chapter 10) also apply to defence cooperation. They are complemented by specific provisions, of which some are discussed below:

> ➤ **Article 42(2) TEU**: the 'progressive framing of a common Union defence policy' may lead to 'common defence' should the European Council 'acting unanimously' so decide. This treaty provision remains unimplemented to date, as no action has yet been taken by the European Council in support of 'common

defence'.

➢ **Articles 42(6) and 46 TEU and Protocol No 10**: Member States willing to make 'more binding commitments' in defence may use permanent structured cooperation (PESCO) for this purpose. Successive attempts to activate PESCO remained unsuccessful until December 2017, when 25 EU Member States expressed their commitment to the mechanism and the European Council welcomed its launch.

C. Strategic orientations

The European Council's 2019-2024 strategic agenda outlines five strategic orientations that will be pursued up to 2024, namely: 1) strengthening CSDP; 2) cooperation with partners, including the UN, NATO, and the African Union; 3) addressing new security challenges; 4) support for the development of capabilities; and 5) the strengthening of the defence industry and the defence market.

The Strategic Compass process allowed Member States to jointly identify and assess the common threats and risks to security that the EU faces. In February 2021, the European Council was presented with the results of the first ever EU threat analysis prepared by the EU's Single Intelligence Analysis Capacity, based on input from the Member States' intelligence agencies. In October 2021, EU leaders discussed progress on the Strategic Compass at their informal Brdo pri Kranju meeting and committed to closely monitoring this process until its completion in March 2022, when they finally endorsed the document and called for its implementation. The Strategic Compass offers a common vision of what the EU needs to do for its security and outlines a guide for action as well as practical proposals and timelines for numerous initiatives that are to be implemented by 2025. One such initiative – new financing solutions for joint procurement – is key to ensuring that the vision set out in the Strategic Compass is met by adequate means. Addressing the EU leaders in Versailles and in Brussels, the European Parliament President, Roberta Metsola, stressed that the Union 'must make the EU budget work for our security and defence policy whenever it adds value'. She advocated more effective use of the EU budget, stressing that EU funding should be channelled 'towards the causes that need them the most'.

The Strategic Compass seeks to bring 'greater coherence and strong common sense of purpose' to the EU's security and defence efforts. It provides a vision for the next 5 to 10 years as well as practical proposals and timelines for the coming 3 years. Every year, on the basis of a progress report, the European Council will discuss and review progress made over the previous 12 months. Based on a revised threat analysis and the achievement of key objectives, a possible revision is planned for 2025.

D. Noteworthy commitments: Specific requests and follow-up

A series of cooperative mechanisms – the coordinated annual review on defence (CARD), PESCO, and the EDF – were introduced since 2016, with the aim of enabling EU Member States to jointly identify defence capability shortages and, subsequently, to develop new ones. Their interaction is presented in Figure 7. Their introduction has boosted the secretarial role of the European Defence Agency (EDA), progressively leading to an increase in resources (financial or manpower). It has also led to the creation in the von der Leyen Commission of the Directorate-General for Industry and Space, as part of the Internal Market portfolio of Commissioner Thierry Breton.

In response to the May 2022 European Council's call to strengthen the EU's defence industrial capacities, the Commission started work on three instruments for the short to long term: the EIDRPA, the ASAP and the European defence investment programme (EDIP), which is expected to be presented in March 2024 alongside the European defence industry strategy (EDIS). On EDIRPA, the co-legislators reached an agreement in June 2023, paving the way for its adoption on 18 October

2023. The Act in Support of Ammunition Production was adopted in record time, as less than three months elapsed from the Commission proposal to its adoption in July 2023.

Coordinated annual review on defence

The coordinated annual review on defence (CARD) is a voluntary mechanism allowing the identification of EU Member States' capabilities and shortfalls. The EU leaders tasked the then High Representative Federica Mogherini with making a proposal to define the mechanism. The CARD modalities were agreed upon in the Council in the first half of 2017, and the European Defence Agency (EDA) was tasked with the secretariat work. The first CARD trial run took place in 2017-2018, based on a methodology developed by EDA. The exercise showed that defence spending was on the rise, although its 2017 level remained in real terms lower than the 2005 level. It has also shown disparities between Member States as regards their defence investments. Another area of concern was defence research and technology as Member States were unable to meet the undertaken collective benchmark of 2 % of total defence spending. A first full CARD cycle exercise was conducted in 2019, based on lessons learned from the trial run, and a first report was presented to the Council on 20 November 2020. In December 2021, a second CARD cycle (2021-2022) was launched with the aim of supporting the development of European capabilities, whilst offering Member States solutions tailored to their individual situations. In November 2022, the Foreign Affairs Council was presented with and adopted the 2022 CARD report, which inter alia makes recommendations regarding better defence spending, planning and cooperation. In November 2023, the EU defence ministers approved the EU capability development priorities, which will serve as a baseline for different initiatives, including EDA's work within CARD in its third cycle (2023-2024).

Figure 7 – Interaction between CARD, PESCO and the EDF
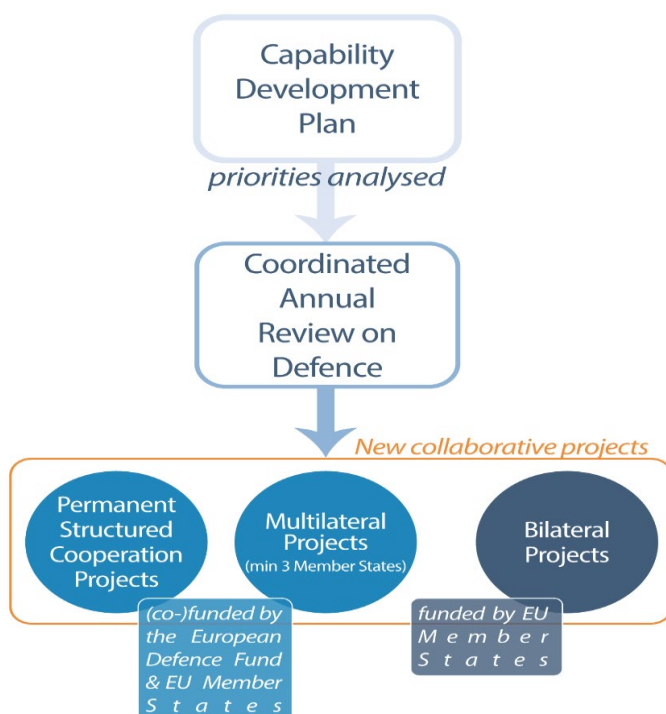
Source: EPRS, based on EEAS and EDA data.

Permanent structured cooperation

The European Council agreed to launch Permanent Structured Cooperation (PESCO) in June 2017 to meet the ambitions of the 2016 Global Strategy presented by the High Representative (HR/VP), Josep Borrell. Twenty-five Member States informed the HR/VP of their intention to take part. Then, in December 2017, the Council formally established PESCO with 25 participating members.

An initial set of 17 PESCO projects was agreed in Council in March 2018, followed by three additional sets of projects, raising the number of PESCO projects so far to a total of 68. New projects could be added and some of the existing ones, following a progress assessment, could be confirmed, re-grouped or discontinued. Following the Danish referendum vote in favour of waiving the country's opt-out from the EU's defence policy, Denmark became the 26th member participating in PESCO in May 2023. Malta remains the only EU Member State not participating in PESCO.

'Military mobility' is the flagship project – and the only individual PESCO project that the European Council has focused on so far. It is also the most inclusive PESCO project, with 25 out of 26 PESCO participating Member States. It is complemented by two other initiatives developed by the European Commission (the November 2017 joint communication on improving military mobility in the EU, funded through the Connecting Europe Facility instrument as a dual-use project), and the EU-NATO initiative. The overall aim is to facilitate the rapid movement of military capabilities from one side of the continent to the other, if need be. After lengthy debates, on 5 November 2020, the Council adopted the conditions for third-country participation in PESCO projects. To be invited to participate, non-EU countries must, inter alia, share the values of the EU and have a classified information exchange agreement with the Union. In November 2022, the Council recognised that the United Kingdom met the requirements for participation in PESCO. The Strategic Compass underlines the key strategic value of the military mobility project in the context of Russia's military aggression against Ukraine and emphasises that ongoing implementation efforts will be accelerated. It also underlines that the action plan will be revised, and harmonisation of cross-border procedures completed by 2025. In the first Strategic Compass annual report, published in March 2023, HR/VP Josep Borrell emphasized the significance of the November 2022 Action Plan on Military Mobility and highlighted the Commission's financial support of €1bn for dual-use transport infrastructure for military mobility in 2022. The next annual report is due to be presented in the spring of 2024.

European Defence Fund

From December 2016 onwards, the European Council discussed the European Defence Fund (EDF) at each of its meetings dedicated to matters of defence. The EDF is comprised of two windows, one dedicated to defence research and another to capabilities. The research window is fully funded by the EU budget. The capability window includes the development of prototypes co-financed by the EU budget (20%) and Member States (80%), and an acquisition dimension fully funded by the EU Member States. In July 2020, the European Council agreed on an envelope of €7 billion for the EDF under the forthcoming 2021-2027 MFF; this represents nearly 40% less than the amount initially proposed by the European Commission back in 2018, namely €11.4 billion. The European Parliament has on several occasions expressed its concern that reduced funding for key projects such as the EDF and military mobility would endanger the EU's ability to stand by its level of ambition. The Strategic Compass recognised that the full potential of the EDF's financial weight should be harnessed and that the EU 'should be prepared to match the increased ambition at Union level with the adequate long-term financial weight' of the EDF.

Bolstering European defence industrial capacities

In May 2022, the European Council stressed the importance of bolstering European defence industrial capacities in line with the Versailles Declaration. To this end, the European Commission presented a short term-instrument, the European defence industry reinforcement through common procurement act (EDIRPA) on 19 July 2022, on which the co-legislators reached a political agreement on 27 June 2023. The EDIRPA benefits from a budget of €300 million for the period 2022-2025. In June 2023, EU leaders welcomed the agreement reached by the co-legislators on EDIRPA (which has since been adopted) and called on the European Commission to move speedily to present the EDIP – which Commissioner Thierry Breton said in October 2023 needed to be ambitious to sustain capabilities in the long term. The EDIP is a longer-term instrument and would build on EDIRPA and

aim to foster joint procurement of capabilities developed collaboratively, notably benefiting from a value-added tax (VAT) exemption. The proposal for EDIP is due to be presented by Commissioner Breton and High Representative Borrell in March 2024. The aim of the proposal is to enable the defence industry to expand its production capacity further. Moreover, in December 2023 the European Council tasked the High Representative and the Commission, together with the European Defence Agency, to prepare an over-arching European defence industrial strategy (EDIS), which the HR/VP is expected to present at the European Council meeting in March 2024.

Faced with the important need for ammunition to support Ukraine and replenish stocks, in March 2023 EU leaders welcomed the Council's agreement on the three-track proposal on ammunition (delivery from existing stocks, joint procurement from industry, increasing production), aimed at providing Ukraine with 1 million rounds of artillery ammunition over a 12-month period. At the European Council meeting on 1 February 2024, however, Commission President von der Leyen revealed that the EU will only have delivered 520 000 rounds by March 2024 and will only reach the target of one million rounds at the end of 2024, which the High Representative acknowledged fell short of the original commitment to Ukraine. To support the ramp-up of missiles and ammunition production capacity in the European defence industry, on 3 May 2023 the Commission presented the ASAP. Adopted on 20 July 2023, the ASAP will benefit from a budget of €500 million, of which €240 million was originally allocated to the future EDIRPA. The Commission is in the process of evaluating the proposals by the manufacturers and due to select the projects that will benefit from ASAP in February 2024.

At the June European Council, President Metsola highlighted the importance of strengthening the EU's industrial base, and welcomed the progress on EDIRPA and ASAP, stressing that these regulations will be necessary to support Ukraine. President Metsola welcomed the determination of the Member States to deliver the one million ammunition rounds by the end of 2024, amid the difficulty in meeting the original March 2024 target.

E. Challenges ahead and outlook

The European Council has regularly monitored progress in security and defence cooperation and will continue to do so in the months to come as commitments undertaken under the Versailles Declaration and the Strategic Compass start being implemented. The European Council underlined on 1 February 2024 that more needed to be done to implement the objectives of the Declaration and the Strategic Compass. Defence cooperation remains a priority for both the European Council and the European Commission; however, only the latter sets work towards a European Defence Union as an objective to attain, whilst the European Council only calls on the EU to take 'greater responsibility for its own security and defence, in particular by enhancing defence investment, capability development and operational readiness'.

Defence and security will most likely feature in the upcoming discussions on the new strategic agenda, as Charles Michel has outlined security and defence capabilities as one of the four main areas and a priority after the informal meeting in Granada. The Commission has announced new proposals and initiatives to fulfil the requests made by the European Council, including a European defence industrial strategy, supported by an ambitious European defence investment programme, which, according to Thierry Breton, seeks to enhance the EU's defence capabilities and industrial base beyond 2025. According to the Commission's 2024 work programme, the strategy will be presented during the first quarter of 2024, after consultations with the Member States began in October 2023. The High Representative is expected to present the strategy to the leaders at the European Council meeting in March 2024. On 1 February 2024, the European Council called on the High Representative and the Council to reach an agreement on increasing the support for Ukraine within the European Peace Facility based on the proposal by the High Representative. President Metsola also stressed that it was of utmost importance to provide substantial and predictable financial assistance to Ukraine's military.

13. Free and fair trade

A. Background

Profound changes have occurred in the global trading landscape, with common rules and standards questioned and new actors entering the world stage. A high level of economic interconnectedness and the ineluctable rise of emerging economies on the global level, notably China, have highlighted differences across economic systems and divergences over the impact of certain policies and practices in the global economy. Recent crises, such as the coronavirus pandemic and Russia's war in Ukraine, have caused countries and economic blocs to rethink their trade-related vulnerabilities.

The existential threat to the core of the multilateral trading system, which seemed to be dwindling, is now facing new challenges. The EU and US have different priorities and visions for reforming the WTO, the WTO two-step dispute settlement system remains blocked and the lack of fruitful multilateral negotiations for a number years is jeopardising the relevance of the WTO system. These trends have been further reinforced by the Russian invasion of Ukraine, which has created a fault line with the EU, US and Ukraine refusing to be in the same room as Russia during small group negotiations.

The election of US President Biden in November 2020 and the subsequent EU-US summit in June 2021 gave rise to new dynamics in EU-US trade relations. The worsening of EU-China relations was apparent in 2021-2023, and remains difficult in 2024, despite the resumption of the EU-China Human Rights Dialogue after a three-year standstill and an EU-China Summit on 7-8 December 2023. As for relations between the EU and the United Kingdom, they have taken a more positive step with the agreement on the Windsor Framework.

B. Legal basis for European Council action

Article 22(1) of the Treaty on European Union (TEU): On the basis of the principles and objectives set out in Article 21 TEU, the European Council shall identify the strategic interests and objectives of the Union. Decisions of the European Council on the strategic interests and objectives of the Union shall relate to the common foreign and security policy and to other areas of the external action of the Union.

Such decisions may concern the relations of the Union with a specific country or region or may be thematic in approach [...].

Article 216(1) of the Treaty on the Functioning of the EU (TFEU): The Union may conclude an agreement with one or more third countries or international organisations where the Treaties so provide or where the conclusion of an agreement is necessary in order to achieve, within the framework of the Union's policies, one of the objectives referred to in the Treaties, or is provided for in a legally binding Union act or is likely to affect common rules or alter their scope.

Article 16(6) TEU: The Foreign Affairs Council shall elaborate the Union's external action on the basis of strategic guidelines laid down by the European Council and ensure that the Union's action is consistent.

C. Strategic orientations

'Relations with strategic partners, including our transatlantic partners, and emerging powers have to be a key component of a robust foreign policy' the European Council strategic agenda reads. The EU

is to take a holistic approach, redesign and realign its policies to better cope with a rapidly changing environment. Guaranteeing a level playing field has become the EU mantra, especially with respect to trade policy, which has taken centre stage in recent years. EU leaders have therefore placed strong emphasis on 'ensuring fair competition within the EU and on the global stage, promoting market access, fighting unfair practices, extraterritorial measures and security risks from third countries, and securing our strategic supply chains'. In this context, the EU continues to pursue 'an ambitious and robust trade policy ensuring fair competition, reciprocity and mutual benefits, both at the multilateral level in a reformed WTO and in bilateral relations between the EU and its partners'.

The need for the EU to show unity and assertiveness on the global stage can indeed be seen as a running thread throughout the European Council strategic agenda. This focus on unity and on the EU's ability to act to respond to geopolitical events has been reinforced in the Versailles Declaration.

D. Noteworthy commitments: Specific requests and follow-up

Global supply chain strain

The COVID-19 pandemic and Russia's unprovoked invasion of Ukraine have exposed long-standing vulnerabilities in global supply chains, and shown how disruption to them can negatively affect both the economy and society. As a result, businesses and policymakers are readjusting their priorities and moving towards more resilient supply chains. In the Versailles Declaration, the European Council called for building 'European sovereignty, reducing our dependencies and designing a new growth and investment model for 2030'. EU leaders also highlighted some of the EU's strategic dependencies (critical raw material, semiconductors, health, digital, and food). The EU has made some progress in addressing these dependencies: the Commission has, for example, proposed the EU chips act, which will ensure that strategic parts of the supply chain for semi-conductors will be produced in the EU in future. Not all resources are available in Europe, however; diversifying supply chains will therefore also help reduce EU dependency on a single trade partner.

Russia's invasion of Ukraine has put a strain on the global food supply chain. Russia and Ukraine are important global exporters of wheat, corn, mineral fertiliser, and sunflower oil. EU leaders have directly denounced Russia's illegal seizure, destruction, and blockage of Ukrainian agricultural produce. And, European Council President Charles Michel has several times clearly underlined, notably when speaking at the United Nations in June 2022, that food security issues were not caused by EU sanctions, but rather by Russia 'stealing grain, blockading ports and targeting agricultural resources. Concerned about how to get millions of tonnes of Ukrainian grain out of the country, EU leaders signalled their support for solidarity lanes, as well as for UN attempts to unblock exports through an agreement on secure corridors between Russia, Turkey and Ukraine. At European Council meetings in May and June 2022, EU leaders considered ways to bolster food security and affordability by facilitating food exports from Ukraine and reducing disruptions to fertiliser manufacturing. They signalled their support for specific initiatives at EU and international levels, such as 'solidarity lanes' and the Food and Agriculture Resilience Mission.

Learning from the supply chain vulnerability that was unmasked by COVID-19 and Russia's invasion of Ukraine, supply chain diversification continues to be an important consideration for EU leaders and policymaker. In February 2023, the European Council called for the development of resilient, diversified and reliable supply chains, particularly in terms of access to critical raw materials. The EU may seek to conclude more free-trade agreements as part of its efforts to diversify its supply chains. Recently the EU reached an agreement in principle on a new EU-Chile Advanced Framework Agreement, which was signed by both sides on 13 December 2023. At the EU-CELAC summit, the EU and Chile signed a memorandum of understanding on sustainable raw materials value chains. This further emphasises the importance the EU is placing on diversifying its trade partnerships, particularly for critical materials. Going forward the EU will look to conclude free trade agreements with other countries that have access to critical materials. At the meeting in March 2023, the

European Council emphasised that stable and sustainable supply chains were necessary for the twin transitions to be successful and an important element in the EU's long-term competiveness.

In November 2023, the EU concluded a Free Trade Agreement with New Zealand. It is the first of the EU's trade agreements to include the EU's new approach to trade and sustainable development. The Granada Declaration of October 2023 emphasised the importance of 'strengthening and diversifying our supply chains, fostering partnership, trade and investment agreements, promoting sustainable development to meet our agreed goals towards net-zero emissions'. The European Parliament gave its consent to the trade agreement during its November plenary session.

Pushing for WTO reform

The WTO has been under significant pressure in recent years due to the US blockage of nominations of members to the WTO Appellate Body, second and highest instance of the WTO dispute settlement system. The Appellate Body has no remaining judges and can no longer accept any new appeals. The European Council stated its concern regarding the paralysis of the WTO's dispute settlement mechanism. Underlying issues behind the current challenges faced by the WTO include: i) the difficulty of reconciling different economic models, notably the liberal market economies such as the US with the state-led economic model led by China; ii) disagreement about the definition of what constitutes a developing country, which under the WTO rules, enables countries to claim special and differential treatment. Questions have thus been raised as to whether the WTO rules are still fit to address today's economic realities, e.g. digital trade, and whether they still allow its members to effectively counter unfair trade practices.

At a previous European Council meeting, EU leaders addressed this issue and invited the Commission to work together with like-minded partners towards a reform of the institution in its three areas: rule-making, dispute settlement and monitoring. In February 2021, the Commission released the Trade Policy Review, a trade strategy for the next decade that prioritises WTO reform, with one annex focusing solely on WTO reform. At the February 2023 special European Council meeting, EU leaders highlighted that supporting the WTO and a multilateral rules-based system will be key to strengthening Europe's sovereignty and prosperity. In February 2023, the EU also submitted its proposal for improving the deliberative function of the WTO. This forms part of a broader discussion on WTO reform (including the functioning of the dispute settlement system), which was a key topic at the Ministerial Conference in Abu Dhabi (MC13) in February 2024. As reiterated by the Commission, 'A fully functioning WTO dispute settlement system by 2024 remains the EU's top priority for WTO reform'. Nevertheless, officials at MC13 did not reach any agreement of substance regarding WTO dispute settlement reform.

Improved EU-US trade relations

The EU and the US have not concluded a free trade agreement, despite being among each other's largest trade and investment partners. The most recent attempt to reach an agreement was between 2013 and 2016; however, the negotiations on the TTIP were formally closed in 2019.

In June 2021, both sides agreed to end the Airbus-Boeing dispute that lasted 17 years. In May 2021, the EU and the US also agreed to begin discussions to resolve their ongoing section 232 steel and aluminium conflict, which corroded EU-US trade relations during the Trump-era. In October 2021, both sides agreed to a truce, resulting in the US replacing section 232 tariffs with tariff rate quotas for the next 2 years. October 2023 was the initial deadline for reaching an agreement on this dispute. However, as no agreement could be reached at the EU-US Summit in Washington, negotiations are set to continue until the end of December 2023.

In December 2020, the EU proposed the idea of the Trade and Technology Council (TTC) as a forum for the EU and the US to coordinate approaches on a number of important issues, including on extending the transatlantic trade and investment relationship. At the EU-US Summit in June 2021,

both sides agreed to establish the TTC and the first ministerial level meeting took place on 29-30 September 2021. The TTC includes 10 working groups that will each cooperate on a specific topic and it will continue to meet periodically at political level. The TTC may also serve as a forum to resolve differences between the EU and US on sensitive upcoming issues. According to Commission Executive Vice-President Margrethe Vestager, the TTC has helped the EU and US to respond to the Russian invasion of Ukraine by facilitating ongoing communication between both sides of the Atlantic, thus helping to speed up and align their responses. A key outcome of the December 2022 TTC was the agreement to launch the Transatlantic initiative on Sustainable Trade. The objective of the initiative is to boost the TTC's work in support of the transition to a low-carbon economy and explore areas of cooperation in terms of trade and environmental sustainability. After the fifth TTC meeting in January 2024 in Washington, the next TTC is due to take place in April 2024 in Belgium.

In August 2022, the US introduced its Inflation Reduction Act (IRA). While welcoming this move as a sign of the US' commitment to investing in the decarbonisation of the US economy, it placed some strain on EU-US relationship. A major EU concern is that the IRA discriminates against EU manufactured products and could cause a subsidy race as well as an uneven playing field. However, a dedicated task force has been established with a view to solving these issues.

EU-China trade and investment relations

The EU's engagement with China covers a large number of areas (over 60 sectoral dialogues), the trade relationship being the most developed area of cooperation. At the virtual EU–China Leaders' meeting on 30 December 2020, leaders concluded in principle the negotiations on the EU-China Comprehensive Agreement on Investments (CAI). The CAI was meant to replace the 26 existing bilateral investment promotion and protection agreements between China and EU Member States. However, due to concerns around human rights issues in China, ratification became increasingly unlikely following the introduction of the first EU-sanctions against China in 30 years in March 2021. The Chinese Foreign Ministry retaliated by introducing sanctions against 10 Europeans, including five Members of the European Parliament. In May 2021, European Parliament then passed a resolution stating that it would not consider ratifying the CAI while the sanctions remain in place.

In 2022, the EU-China relationship has further deteriorated. When Taiwan opened a representative office in Lithuania, China reportedly responded by imposing an import ban, an export ban and restriction of services to and from Lithuania or linked to Lithuania. This led to the EU launching a case against China at the WTO for 'discriminatory trade practices' that impact both Lithuania and the EU single market. In recent months, Lithuania's exports to China have resumed. As a result, the EU has requested that the WTO dispute settlement panel, which was working on the case, suspend proceedings.

On 21 October 2022, the European Council held a strategic discussion on the EU's relationship with China, which lasted over three hours but without written conclusions. When summarising the discussion, Michel mentioned three elements. The European Council's commitment to more reciprocity and balance, especially in terms of economic relations between China and the EU, was one of those. In May 2023, at an informal meeting in Sweden, EU foreign ministers agreed to reduce the EU's economic dependence on China. In his press conference after the meeting, High Representative Josep Borrell stated that he would work on a paper to be presented at the next European Council meeting, based on the one he had presented at that meeting, taking into account the considerations raised by the various Member States. At the June European Council, EU leaders converged towards a position on China. In the conclusions, trade was one of the areas of EU-China relations that was specifically addressed. As regards EU-China trade, EU leaders stressed that the two blocks would remain important partners, but that the EU would seek to ensure the economic relationship is balanced, reciprocal and mutually beneficial. In line with the Versailles Declaration and recent conclusions on trade in general, EU leaders noted that the EU will 'continue to reduce critical dependencies and vulnerabilities, including in its supply chains, and will de-risk and diversify

where necessary and appropriate'. However, this was the first time that the European Council conclusions made this statement specifically about their trade and economic relationship with China.

In December 2023, Presidents Michel and von der Leyen attended the first in-person EU-China summit since 2019. They met Chinese President Xi Jinping and Premier Li Qiang. Trade was one of the main discussion points, and the EU side stressed the importance of rebalancing the trade relationship – the EU's trade deficit with China has reached an all-time high of almost €400 billion.

EU–UK relations

On 1 February 2020, the Withdrawal Agreement entered into force and opened a transition period as the UK left the EU. On 24 December 2020 when the European Commission (negotiating on behalf of the EU) and the UK reached an agreement on their future relationship. The Council adopted the decision on the EU-UK Trade and Cooperation Agreement (TCA) on 29 December 2020. European Council President, Charles Michel, and European Commission President, Ursula von der Leyen, signed the agreement on behalf of the EU, and Prime Minister, Boris Johnson, on behalf of the UK, on 30 December 2020. The Agreement entered into force on 1 May 2021. At the May 2021 meeting, the European Council welcomed the entry into force of the TCA.

The Agreement set out the conditions of the new partnership between the EU and the UK and consists of three main parts: (i) a Free Trade Agreement (FTA); (ii) a close partnership on citizens' security; (iii) an overarching governance framework. The Agreement foresees that there will be no tariffs or quotas on trade in goods, however trade will be subject to some barriers, such as increased customs bureaucracy. The Agreement covers trade in goods and services, but also other areas of importance for trade and competition, such as investment, subsidy control, and tax transparency.

The introduction of the TCA has not resolved all the trade issues between the two sides. In July 2021, the UK called for a 'standstill period' and the renegotiation of the Northern Ireland Protocol. The Commission agreed to halt legal proceedings, but maintained that the Protocol was not up for renegotiation. In July 2022, in addition to the infringement procedures launched in June, the European Commission initiated four separate legal proceedings against the UK, to protect the EU's commercial interests and ensure compliance with the Northern Ireland Protocol. Through the Northern Ireland Protocol bill, the UK has sought to unilaterally disregard elements of the protocol. In March 2022, the Commission proposed an instrument that would empower it to take action if the UK breaches the TCA or the Withdrawal Agreement. In February 2023, the European Parliament approved the instrument during a plenary session. EU-UK trade relations took a more positive turn on 27 February 2023, when it was announced that an agreement had been reached in principle on the Windsor Framework. The framework outlines new arrangements for the Protocol on Ireland and Northern Ireland. In May 2023, the European Parliament endorsed the Windsor Framework, implementing legislation proposed by the Commission. The framework came into force on 1 October 2023.

Strong and fair trade

The European Council has been calling for the EU to enhance its trade defence capabilities for a number of years already. It reiterated this call in the Versailles Declaration and at the special European Council in February 2023, insisting on need to complement the trade and competition policy toolbox with instruments to defend the EU from unfair trade practices by third countries. On 3 October 2023, Parliament approved the new anti-coercion instrument, which was then adopted by Council on 23 October. The instrument will form part of a wider array of trade defence measures developed by the EU. Other developments in the EU trade defence arsenal include the amended Enforcement Regulation, the EU foreign investment screening mechanism, the new industrial strategy, and a proposal for a directive on corporate sustainability due diligence.

The latter proposal on corporate sustainability due diligence, put forward by the Commission in February 2022, would oblige companies to monitor respect for human rights and mitigate negative environmental impacts throughout their supply chains. In December 2023, the Parliament and the Council had reached a provisional agreement. However, on 9 February 2024 Member States were unable to reach an agreement in COREPER, and the vote was postponed.

E. Challenges ahead and outlook

President Michel had placed clear emphasis on trade, by designating it as the EU's 'most effective tool' to exert global influence. In the Versailles Declaration, the European Council signalled the importance of a robust EU trade policy to respond effectively to 'growing instability, strategic competition and security threats'. This suggests that trade may be increasingly used by the EU as an instrument to achieve its objectives, with the European Council, which has held a strategic informal discussion on trade, providing the necessary guidance in this respect.

At the March 2023 European Council, EU leaders held a strategic discussion on the geopolitical aspects of trade, clearly underlining the importance of trade for the competitiveness of the EU economy. Previously, in February 2023, EU leaders had also highlighted trade as one of the tools that could be used as leverage to ensure swift and effective returns to third countries, as migration re-emerged on the European Council agenda. This indicates that trade is coming back onto the agenda of the European Council, not necessarily as a stand-alone topic for discussion, but most likely as an issue that will permeate other policy areas.

At the 2023 EU ambassadors' conference, Ursula von der Leyen noted that China was the EU's most important trading partner for trade in goods; at the same time, she pointed to China's unfair and at times predatory practices distorting the EU single market, including trade coercion, boycotts of European goods, and export controls on critical raw materials.

As it gets closer to the European Parliament elections and all the knock-on effects they will have, EU policymakers will be trying to finalise any trade legislation (such as the corporate sustainability due diligence directive) that should be in the EU's Official Journal before the elections.

In that context, according to the European Council's provisional Leaders' Agenda, trade is high on the agenda of issues to be discussed by EU leaders at the March 2024 Summit.

This EPRS publication, 'Key issues in the European Council', which is updated every quarter to coincide with European Council meetings, seeks to provide an overview of the institution's activities on major EU issues. It analyses 12 broad policy areas, explaining the legal and political background, the main priorities and orientations defined by the European Council and the results of its involvement to date, as well as some of the future challenges in each policy field.