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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN
ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE
REGIONS**

Towards a more resilient, competitive and sustainable Europe

1. Introduction

Russia's war of aggression against Ukraine has shaken the rules-based order and further accelerated tectonic shifts in an evolving geopolitical and economic environment, requiring an urgent, coordinated and sustained policy response across all areas. The urgent fight against climate change has brought renewed competition for resources and a technological and industrial race in clean tech, while the COVID-19 pandemic had already exposed the fragility of supply chains and the need for more resilience.

The EU has reacted promptly. Confronted with growing instability, strategic competition and security threats, the Versailles Declaration of 11 March 2022¹ committed the EU to take more responsibility for its security and to take further decisive steps towards building our European sovereignty, reducing our dependencies and designing a new growth and investment model for 2030. It set out a wide-ranging, collective agenda to enhance Europe's capacity to contribute to both regional and global security. The EU has adjusted its policies and accelerated their implementation, while remaining committed to its long-term priorities. These include the European Green Deal as the EU's sustainable growth strategy, a digital transition in keeping with our values, as well as the need to enhance the EU's economic and social resilience and preparedness for future shocks.

The EU continues to stand united with Ukraine for as long as it takes. It has mobilised a total of EUR 81 billion in military, humanitarian, and financial assistance to Ukraine while welcoming those fleeing from Russia's war of aggression. Since the start of the war, the EU has adopted eleven sanctions packages, targeting critical sectors funding the Russian war machine in addition to freezing the assets of around 1800 individuals and companies. The EU is firmly committed to ensuring that Russia is held accountable for its crimes, including the crime of aggression against a sovereign state. With a view to supporting Ukraine's recovery and reconstruction, the EU is contributing substantially to boost the country's resilience.

In light of the rising geopolitical tensions and the technological transformation, the Union has embarked on a new approach to better protect its economic, security and strategic interests. In close cooperation with the private sector, and building on its research prowess, the EU is taking steps to de-risk and address vulnerabilities in the EU economy across a number of key sectors, by promoting the resilience of its industry, diversifying and building partnerships with third countries.²

To deliver on Europe's strategic priorities and address future challenges, significant additional investment will be needed. While most of the funding will need to come from the private sector, public investment has an important role to play. The EU budget has demonstrated its value in addressing these unprecedented challenges through significant and rapid redeployments. However, the scope for such flexibility has been exhausted. While the future public and private investment needs are much greater, the targeted adjustments proposed in June 2023 are the essential minimum to safeguard the EU budget's ability to deliver in the immediate future.

¹ [20220311-versailles-declaration-en.pdf \(europa.eu\)](#)

² JOIN (2023) 20 final.

18 months after the Versailles Declaration, it is time to take stock and look to the future. Taking into account the European Council Conclusions of March 2023,³ this Communication summarises what has been achieved to promote and build a more resilient, competitive and sustainable economy, protect EU citizens and guarantee their well-being. The Communication provides a contribution to the forthcoming leaders' debate in Granada on the future-oriented approach to reinforce the EU's open strategic autonomy and on priority policy objectives for the EU in the years ahead.

2. A concerted approach to boost the EU's resilience and sustainable competitiveness

The EU has responded to the multiple crises since Russia's full-scale invasion of Ukraine in a decisive, timely and united manner. It has mobilised its collective strength and resolve in an unprecedented way, expanding the boundaries of what it had been considered to be capable of. However, important challenges remain.

2.1. Bolstering our defence capabilities and building lasting peace in Europe

Since the Versailles Summit, the EU has taken bold steps to further develop its defence dimension and bolster Europe's defence capabilities. The Union thereby responded decisively to the pressing defence needs generated by Russia's war of aggression against Ukraine. With the Strategic Compass for Security and Defence⁴, the EU has taken action to strengthen its capacity as a security provider, while ensuring complementarity with NATO. Progress was made across all dimensions of the Compass – act, secure, invest and partner. In this framework, the Commission and the High Representative respectively play an important role through initiatives spanning materials, technologies, infrastructure and industrial support, as well as fast-emerging challenges in the domains of land, space, maritime and cyber.

The EU has continued building and expanding on key security partnerships. In particular, the EU–NATO strategic partnership has been substantially reinforced with the signing of a third Joint Declaration in January 2023. New cooperation areas include emerging and disruptive technologies, climate and defence, as well as space. The EU and NATO have also launched an EU–NATO Task Force on Resilience of Critical Infrastructure, which delivered recommendations in June 2023.⁵

Important steps have been taken related to the provision of military aid, joint defence procurement and supporting ammunition production with the EU budget. The scale and nature of the EU's unwavering support for Ukraine are unprecedented. Military support, provided through the European Peace Facility and by the Member States directly is now about EUR 25 billion. Inevitably, massive and sustained donations have opened up critical gaps in Member States' defence stockpiles. Building on the May 2022 Defence investment gaps analysis⁶, legislative and coordination initiatives have been taken to promote joint procurement of urgently needed military equipment.⁷ The Council agreed in March 2023 on a three-track approach to speed up production, joint procurement and delivery of artillery ammunition and

³ EUCO 4/23.

⁴ EEAS (2022), A Strategic Compass for Security and Defence.

⁵ NATO-EU Task Force (2023), Final Assessment Report.

⁶ JOIN(2022) 24 final.

⁷ Defence Joint Procurement Task Force and the European Defence Industry Reinforcement through common Procurement Act (EDIRPA), which should enter into force this year with a budget of EUR 300 million.

missiles to Ukraine.⁸ To ramp up the existing production capacity, a new legal instrument, the Act in Support of Ammunition Production (ASAP) with a budget of EUR 500 million, entered into force in July 2023.

EU defence initiatives remain crucial to strengthening defence cooperation among Member States. The continuing implementation of the European Defence Fund (EDF) is boosting innovation and cooperative approaches in the EU's defence industry. To date, more than EUR 3 billion have been invested into tomorrow's defence technologies and systems. In 2023, another EUR 1.2 billion from the EDF will go into projects in critical defence domains, such as space situational awareness, countering hypersonic missiles and the prototype development of a European patrol corvette. With the EU Defence Innovation Scheme, the EU also supports small and medium-sized enterprises, including start-ups and other non-traditional players, in the defence industry ecosystem.

However, more needs to be done to strengthen the European defence technological and industrial base, including with more investments. The Commission proposal for the mid-term review of the Multiannual Financial Framework foresees an additional EUR 1.5 billion for the EDF as part of the Strategic Technologies for Europe Platform (STEP). In parallel, the Commission will present a European Defence Industrial Strategy to prepare the future framework for defence cooperation, drawing on the experience of EDIRPA and ASAP and identifying regulatory, programming, policy coordination and other levers to increase our defence readiness.

Efforts will need to continue to boost military mobility throughout the EU and address cyber and hybrid threats. The new Military Mobility Action Plan 2.0⁹ broadens the scope of work in this crucial area. EUR 790 million have been allocated to dual-use infrastructure projects in 2023. As a result, we will have fully used the dedicated EUR 1.69 billion budget from the Connecting Europe Facility¹⁰ military mobility envelope. Military mobility throughout the EU will require continued attention going forward. In parallel, the joint proposal for an EU Policy on Cyber Defence¹¹ aims to help the EU and Member States to better protect, detect, deter and defend against cyber-attacks. The EU has also recently revised its Cyber Diplomacy Toolbox¹². Given the vital contribution of EU sanctions to securing a just peace, the Commission contributes to a uniform and effective implementation across the Union, through extensive guidance and outreach; information exchange and tailored support to enforcement authorities; and coordination with third countries to tackle circumvention.

Disinformation and foreign interference are a core part of hybrid threats against the Union, especially as Europeans will go to the polls in June 2024. Actions will be needed at all levels to quickly and concretely react to information manipulation, along with the support of free media and improving digital literacy. The Commission and the High Representative have worked with Member States on the Toolbox to counter hybrid threats, the Toolbox to

⁸ In this context, the European Defence Agency has set up a project for collaborative procurement of ammunition.

⁹ JOIN(2022) 48 final.

¹⁰ PE/52/2021/INIT.

¹¹ JOIN(2022) 49 final.

¹² 10289/23

counter Foreign Information Manipulation and Interference, and are currently working on the future Hybrid Rapid Response Teams.¹³

Important initiatives were launched for space, which is crucial not only for our societies and economies, but also for our security and defence. The 2023 European Space Strategy for Security and Defence¹⁴ aims to enhance the resilience of the EU space infrastructure and space capabilities, the EU's response to space threats and the use of space for security and defence, while promoting partnerships for responsible behaviour in outer space. The ongoing implementation of the 2023-2027 Union Secure Connectivity Programme¹⁵ ensures the long-term, worldwide availability of uninterrupted access to secure and cost-effective satellite communication services. Furthermore, the EU Approach to Space Traffic Management¹⁶ helps to provide for the safety and resilience of the EU's and Member States' space assets. Before the end of the mandate, the Commission will put forward a proposal for an EU Space Law.

Russia's war of aggression against Ukraine also underscores the importance of the EU's enlargement, showing that the European project offers hope to many for a life in peace and freedom. In June 2022, the European Council granted a European perspective to Ukraine, Moldova and Georgia. The status of a candidate for accession has been granted to Ukraine, Moldova as well as Bosnia and Herzegovina, while accession negotiations were launched for Albania and North Macedonia. The EU continues providing assistance to all candidate countries on their path to full membership and will assess the progress made so far in its upcoming annual Enlargement Package. It has taken further actions to ease Ukraine's access to the Single Market, based on the revised Priority Action Plan for enhanced implementation of the EU-Ukraine Deep and Comprehensive Free Trade Area, including by bringing Ukraine into the EU free mobile roaming area and into the Common Transit Convention and by providing vital physical links with world markets through the Solidarity Lanes. Ukraine was speedily integrated into continental Europe's transport networks and synchronised with its electricity system. We also need to ensure that the Union, including its policies and institutions, is prepared to welcome new members.

2.2. Enhancing Europe's energy security and tackling the climate crisis

Since the outbreak of the war, the EU has severely weakened the grip that Russia had on our economy and energy supply through united and determined action.¹⁷ In light of Russia's use of energy as a political and economic weapon, we acted as a Union to reduce our dependence on Russian fossil fuels and strengthen our energy security while continuing to address the climate crisis. The emergency measures adopted in 2022 made it possible to weather the storm by reducing demand and addressing affordability and supply.¹⁸ We also took action to enhance the resilience of the EU's critical infrastructure and critical entities, including

¹³ A joint report by the Commission and the Centre of Excellence for Countering Hybrid Threats provides for the first time a comprehensive framework to increase resilience against hybrid threats: Hybrid Threats: A Comprehensive Resilience Ecosystem, EUR 31104 EN, Publications Office of the European Union, Luxembourg, 2023, ISBN 978-92-76-53292-7. Other workstreams include actions to address the climate and security nexus (JOIN (2023) 19 final) and in the field of maritime security (JOIN (2023) 8 final).

¹⁴ JOIN/2023/9 final.

¹⁵ PE/65/2022/REV/1.

¹⁶ JOIN/2022/4 final.

¹⁷ The 2023 State of the Energy Union Report will further elaborate on how the EU reacted towards the unprecedented energy crisis and reflect on remaining challenges.

¹⁸ These included the Gas Demand Reduction Regulation, the Regulation to address high energy prices, the Solidarity Regulation, the Market Correction Mechanism and the Permitting Regulation.

of crucial services in the energy sector, such as electricity production and energy storage. We must maintain the broad recognition that the energy transition is vital and urgent for our sovereignty and competitiveness as well as to address the climate emergency.

The EU has capitalised on its collective strength to reinforce ties with international partners and diversify energy supplies. It has built on existing relations and established new ties with reliable partners across the world, allowing the EU to increase its gas imports from these partners significantly, while cutting its dependency on Russian fossil fuels. Today, Norway is the EU's main gas supplier and the United States is its main supplier of liquefied natural gas. Since 2022, the EU also struck agreements with further countries, amongst which Egypt, Israel, Japan, Kazakhstan, Namibia, Argentina, Uruguay and Ukraine, strengthening energy partnerships to adapt to the new geopolitical reality. With the new EU Energy Platform, the EU is coordinating gas demand on global markets to avoid Member States outbidding each other. By leveraging its political and market weight, the EU is improving the security of supply for consumers and ensuring a high level of competition for supply. At the same time, and most notably through Global Gateway, the EU is supporting low- and middle-income countries in their twin transition and energy access. The EU is also engaged in Just Energy Transition Partnerships through G7.

With a view to becoming climate-neutral by 2050, the EU is committed to reducing its reliance on fossil fuels and massively accelerating the deployment of renewable energy. Thanks to the Commission's REPowerEU Plan¹⁹, the EU already diversified a significant part of its energy supply away from Russia, reducing Russian pipeline gas from 50% of total gas imports in 2021 to less than 10% in 2023 so far. Oil imports from Russia have dropped from 27% of total oil imports to 6% while coal imports are now at zero, down from 46% of total coal imports in 2021. In view of the EUR 210 billion of additional investments needed between 2022 and 2027 to deliver on REPowerEU, the Commission is helping Member States make optimal use of the existing Recovery and Resilience Facility (RRF).²⁰ The European Investment Bank topped up REPowerEU with an additional EUR 45 billion in loans and equity financing, allowing for EUR 150 billion of investments until 2027. In 2022, Member States put in place a temporary framework to speed up permitting processes for renewable energy projects. The revised Renewable Energy Directive²¹ introduces rules enabling Member States to establish faster and simpler permitting rules on a permanent basis and targeting an increase of the share of renewable energy in the EU's overall energy consumption to 42.5% by 2030, giving legal certainty to industry on the path to net-zero.

The EU took coordinated action to increase preparedness for the winter and shield consumers from high energy prices, but the risk of price increases remains. Thanks to the swift agreement on the Gas Storage Regulation²², Member States achieved a gas storage filling level of over 95% before the winter 2022/2023, exceeding the agreed target of 80%. As Europe enters the next winter, gas storages were already filled above 90% more than two months ahead of the November target and European traders have started storing gas in Ukraine, further strengthening our preparedness. In the year from August 2022, the Member States reduced gas

¹⁹ COM/2022/230 final.

²⁰ At the time of the publication, 21 Member States have formally submitted REPowerEU chapters to the Commission of which 4 have been adopted.

²¹ PE/48/2018/REV/1.

²² PE/24/2022/INIT.

demand by 17%, exceeding the requirements under the Demand Reduction Regulation. Against the background of high energy prices, the Commission took measures to enable Member States to use the flexibility foreseen under State aid rules to support European industry on a targeted and temporary basis, as well as to temporarily intervene, under Article 122 TFEU measures, in retail price regulation and to redistribute windfall profits from energy companies. The market correction mechanism adopted as an emergency measure aims to shield companies and consumers from any possible episodes of excessive gas prices. As price pressures eased, the focus shifted to the phasing out of national fiscal measures introduced to protect households and firms from the energy price shock.²³ In 2023 and beyond, all actors should monitor energy markets and - drawing on the experience, the tools and the guidance that the EU has put in place - remain prepared for renewed efforts to secure the supply of energy and protect the most vulnerable in the society if needed. In this context, reduced structural demand for all energy sources via energy efficiency will continue to be a goal for the EU.²⁴ As we head, much better prepared, into a new winter season, there is still no place for complacency, in particular given the still higher than targeted overall inflation rate.

The remaining bottlenecks should be addressed as a matter of priority. The reform of the electricity market design will further facilitate the integration of renewable energy and ensure access to affordable renewable and non-fossil electricity. Co-legislators should conclude the inter-institutional negotiations as soon as possible. The EU needs to improve energy interconnections in the Single Market and upgrade its grids. To this effect, the Commission is working on a set of actions to help Member States to expand and upgrade networks, making them fit for the growing share of renewables in the electricity mix. Member States should swiftly implement the simplified permitting rules to accelerate grid roll-out. The diversification away from Russian nuclear fuel is producing first results.

The EU continues to support the long-term competitiveness of its renewable energy industry in the global race to net-zero. Under the Fit-for-55 package, the Innovation Fund was strengthened to support innovative renewable energy generation alongside other low-carbon technologies and processes. The Hydrogen Bank is being finalised and the Commission will launch the first pilot auction for European renewable hydrogen production in November. Our efforts to fight the global climate crisis will reach a new milestone with the launch of the world's first carbon border adjustment mechanism.

2.3. Building a more robust and sustainable economic base

The EU has continued to build a more competitive, circular and resilient economic base that is fit for the fair green and digital transitions, while tapping into the opportunities of open trade and investment and remaining socially inclusive. In this context, the Single Market needs further deepening and has to continue adapting to the changing environment and boost the EU's long-term sustainable competitiveness and productivity, while preserving cohesion and a level playing field. In 'The Single Market at 30' Communication²⁵, the Commission has renewed its commitment to completing the Single Market in cooperation with all levels of governance and all stakeholders, focusing specifically on enforcing existing Single

²³ Communication from the Commission to the Council, Fiscal policy guidance for 2024, COM(2023) 141 final.

²⁴ Cf. the ambitious agreement on the recast Energy Efficiency Directive and the upcoming recast Energy Performance of Buildings Directive.

²⁵ COM(2023) 162 final.

Market rules and removing Member State-level barriers that may hamper investment, in particular in services. To this effect, a High-Level Report on the future of the Single Market is being prepared by former Italian Head of government Enrico Letta, in conjunction with the Council Presidencies and the Commission, and is to be presented to the European Council in March 2024. Meanwhile, the Single Market Programme and industrial alliances²⁶ are helping to build stronger and more diverse connections between relevant actors in value chains within and beyond the EU. In the event of future emergencies, the Single Market Emergency Instrument²⁷ will help preserve the free movement of goods, services and persons and the availability of essential goods and services, to the benefit of citizens and businesses across the EU.

In follow-up to the long-term competitiveness strategy²⁸, the Commission is taking further measures to reinforce the drivers of the EU's competitiveness. It will build on success stories, such as Horizon Europe, to enhance innovation in Europe. The Commission will report annually on the evolution of key performance indicators set out in this strategy, such as for 3% of GDP to be invested in research and development, and has requested former Italian Head of government and ECB President Mario Draghi to prepare a report on the future of European competitiveness. In the coming months, the Commission will come forward with further proposals to rationalise and reduce reporting requirements for companies and administrations in green, digital and economic thematic areas, with the ultimate aim of reducing such reporting burdens by 25%, without undermining the related policy objectives. The recently adopted SME Relief Package, with a focus on improving the business environment in terms of payments, tax compliance and regulatory burden, will make it easier for SMEs to set up and expand their business. Alongside the SME Relief package, the Commission also adopted a proposal for 'Business in Europe: Framework for Income Taxation' to simplify tax rules and reduce tax compliance costs for groups of companies in the EU. The Commission has also proposed far-reaching reforms of the EU Customs Union to address unfair competition and to ensure compliance with high health, safety and environmental standards.

The war has exacerbated pre-existing risks to our economic security. The European Economic Security Strategy²⁹ aims to minimise such risks to resilience of supply chains and to critical infrastructure as well as risks of technology security or technology leakage, and of weaponisation of economic dependencies in the context of increased geopolitical tensions and accelerated technological shifts. The Strategy focuses on de-risking, while ensuring that the EU continues to reap the benefits of economic openness, working together with partners around the world.

The EU continues to pursue an ambitious and robust trade policy while adjusting to increased geopolitical instability and fragmentation and to the climate emergency. The EU seeks stability in international trade by supporting the rules-based system and leading efforts to reform the WTO. It builds resilience and creates new opportunities by developing its network of trade agreements³⁰ and by deepening partnerships through flexible forms of engagement with third countries, such as the Trade and Technology Councils with India and

²⁶ https://single-market-economy.ec.europa.eu/industry/strategy/industrial-alliances_en

²⁷ COM/2022/459 final.

²⁸ COM/2023/168 final.

²⁹ JOIN/2023/20 final.

³⁰ Including finalising negotiations with Chile, New Zealand and Kenya, and advancing negotiations with Australia, Mexico and Mercosur, as well as India and Indonesia.

the US, as well as developing the Critical Raw Materials Club. The Union has put in place and continues to develop the tools needed to better deal with geopolitical risks and fragmentation and to better identify, assess and mitigate potential risks for security or public order, while ensuring EU openness to foreign investment. These include the Anti-Coercion Instrument³¹, the Dual-use Export Control Regulation³², the Foreign Direct Investment Regulation³³ with its forthcoming review and the upcoming initiative on outbound investments.

To preserve and promote the EU's unique social model in the context of the twin transitions and disruptive geopolitics, the Commission has continued to deliver on the European Pillar of Social Rights action plan. To meet the 2030 employment, skills and poverty goals and sustain the competitiveness of the EU, additional efforts are necessary to address the increasingly pressing issue of labour and skills shortages while ensuring that the twin transition is fair and leaves no one behind. Building on the European Skills Agenda, the Green Deal Industrial Plan and the Net-Zero Industry Act proposal foster a skills-first approach. New actions have been launched to boost reskilling and upskilling, such as new skills partnerships for onshore renewables, heat pumps and energy-intensive industries. The European Year of Skills³⁴ is giving an additional boost to these efforts. The Commission will come forward with a Demography Toolbox in the coming weeks to assess how the EU can maintain its competitive edge. It is also necessary to make Europe a more attractive destination for talent from third countries: this calls both for proactive steps to help match employers and employees, and an approach of partnership with key countries as set out in the New Pact on Migration and Asylum. To tackle the labour market challenges stemming from labour and skills shortages or the impact of artificial intelligence, the Commission and the Belgian Presidency plan to convene a new Social Partner Summit at Val Duchesse in the first half of 2024.

The EU has acted decisively to address economic risks and strategic dependencies by taking steps for de-risking in key areas, including:

a) Critical raw materials

Critical raw materials are indispensable for a wide set of strategic sectors including the net-zero industry, the digital industry, health, aerospace and defence sectors. With the proposed Critical Raw Materials Act and Communication³⁵, the EU will have a comprehensive set of actions to improve its access to a secure, diversified, affordable and sustainable supply of critical raw materials. In this area, public authorities will work closely with industry, for instance through a large-scale skills partnership on critical raw materials and by improving recovery and recycling capacities to limit dependency on imports. The STEP will also help finance critical raw materials necessary for the development and manufacturing of critical technologies in the Union. Moreover, the EU is strengthening its global engagement with reliable partners, seeking mutually beneficial partnerships with resource-rich countries and developing economies, including by establishing a Critical Raw Materials Club to strengthen global supply chains.

³¹ COM/2021/775 final.

³² PE/54/2020/REV/2.

³³ PE/72/2018/REV/1.

³⁴ COM/2022/526 final.

³⁵ COM/2023/160 final and COM(2023) 165 final.

b) Semi-conductors

Ambitious and rapid actions on semi-conductors will also help enhance the EU's technological leadership and further develop domestic production capacity. With the EU Chips Act³⁶, policy-driven investment, at EU and national level, will scale up research, development and production capacities of semi-conductors across Europe, stimulating long-term private investment. The Commission has already approved State aid of almost EUR 3.2 billion for two projects in Italy and France, unleashing investments of more than EUR 8 billion. The Important Project of Common European Interest in microelectronics and communication technologies approved by the Commission in June 2023 brings EUR 8.1 billion of public support by the Member States, which is expected to unlock an additional EUR 13.7 billion in private investments. Since the proposal for the Chips Act by the Commission in February 2022, several companies have announced investments in semiconductor-related manufacturing facilities for a total amount of approximately EUR 100 billion. This will contribute to ensuring Europe's digital sovereignty and rebalancing global supply chains. The EU is also partnering with like-minded countries to work on semi-conductors.

c) Net-zero technologies

To scale up manufacturing of clean technologies in the EU, the Commission proposed the Net-Zero Industry Act³⁷ following the Green Deal Industrial Plan³⁸. It aims to create better conditions to set up net-zero industrial projects in Europe faster and attract investments. The Act has the ambition to enhance the Union's strategic net-zero manufacturing capacity so that it can satisfy at least 40% of its deployment needs by 2030. The Act covers issues like permitting, auction design and procurement, innovation, skills and notably addresses technologies that will make a significant contribution to decarbonisation. Complementing the 2022 Solar Energy Strategy, the announced European Wind Power Package will accompany and anticipate the implementation of the Net-Zero Industry Act by supporting companies in the sector, including through the acceleration of permitting, improvements of the auction systems across the EU, skills, access to finance and stable supply chains. More broadly, the Commission has presented a series of initiatives to advance resource efficiency and the circular economy in key value chains, including batteries and vehicles. The Commission closely monitors existing and possible future effects of support programmes applied by other countries on European markets and competitiveness. It acts rapidly to address possible discriminations. As requested by the European Council, the Commission will report in the coming weeks on impacts of the US Inflation Reduction Act on investment in Europe and the effectiveness of measures taken in response.

d) Health

Drawing on the lessons from the pandemic, the EU is enhancing the security of supply of medicines and making sure they are available to patients regardless of where they live in the EU. The recently proposed reform of the EU Pharmaceutical legislation³⁹ intends to support access and availability of medicines and boost Europe's innovation capacity as well as the sustainable European production of affordable medical products. Research and

³⁶ COM/2022/46 final.

³⁷ COM(2023) 161 final.

³⁸ COM(2023) 62 final.

³⁹ COM/2023/190 final.

development in the health and pharmaceutical sectors as well as medical countermeasures benefit from EU financial support, especially under Horizon Europe, but also under Cohesion Policy funds, RRF and EU4Health. The Commission's Health Emergency Preparedness and Response Authority (HERA) has taken specific measures to support the development and availability of medical countermeasures necessary for pandemics and other emerging health crises, with almost EUR 2 billion allocated. The EU has also increased cooperation with partners around the world to foster pandemic prevention and preparedness, and support resilience of health systems at global level.

The STEP will, together with the EU Biotech and Biomanufacturing Initiative planned for 2024, provide additional support for biotechnology production, for health and across the economy. Finally, in October 2023, the Commission will come forward with additional initiatives to contribute to ensuring the availability of medicines at all times and to prevent critical shortages.

e) Digital transformation

The EU has made significant steps towards building a digital economy that promotes rights and principles for a human-centred digital age and the digital dimension of the Single Market. With the 2030 Digital Decade Policy Programme⁴⁰, Europe has a robust framework for its digital transformation. It has taken decisive steps towards strengthening its normative framework. With the swift adoption of the Data Act⁴¹, the Digital Markets Act⁴² and the Digital Services Act⁴³, the Commission set the standards for a safer and more open digital space for users and a level playing field for companies operating in the Single Market. Once adopted, the Artificial Intelligence (AI) Act⁴⁴ would be the world's first comprehensive legal framework on AI to provide innovation-friendly, risk-based guardrails and a governance system to promote trustworthy AI. The EU is determined to continue and step up its active engagement at various international fora, notably the G7 Hiroshima Process, and bilaterally to promote the development and uptake of trustworthy AI globally.

To enhance its digital leadership, the EU needs to step up its investment in key digital technologies. The Commission estimates that substantial public and private investments are needed to achieve the targets in this area. In particular, investments are needed for AI, quantum, cloud and 5G, and to foster EU leadership in the development of standards for 6G and beyond. For instance, under the Coordinated Plan on Artificial Intelligence, the objective is to gradually increase public and private investment in AI to a total of EUR 20 billion per year until 2030 (up from an estimated EUR 12.7 - 16 billion in 2020).⁴⁵ Moreover, the Gigabit and 5G connectivity investment gap will require at least EUR 174 billion of cumulative private and public funding until 2030.⁴⁶ As highlighted in the Commission's first State of the Digital Decade report, the EU must further develop more sovereign digital technologies, fostering the development and scale-up of innovative startup ecosystems in key areas⁴⁷. The EU is also

⁴⁰ PE/50/2022/REV/1.

⁴¹ COM/2022/68 final.

⁴² PE/17/2022/REV/1.

⁴³ PE/30/2022/REV/1.

⁴⁴ COM/2021/206 final.

⁴⁵ Tatjana Evas, Maikki Sipinen, Martin Ulbrich, Alessandro Dalla Benetta, Maciej Sobolewski and Daniel Nepelski, AI Watch: Estimating AI investments in the European Union, Publications Office of the European Union, Luxembourg, 2022.

⁴⁶ European Commission (2023), Investment and funding needs for the Digital Decade connectivity targets.

⁴⁷ COM(2023) 570.

taking a more strategic approach to the geopolitics of technology through its digital diplomacy and partnerships with like-minded partners, notably through its digital partnerships and the Trade and Technology Councils.⁴⁸ Digital trade rules, including on data flows, will drive economic growth by balancing openness with the protection of our values and regulation, and project the EU's approach internationally to shape global rules.

f) Food

The EU has taken further measures to ensure food security, sustainability and resilience globally both in the short and medium term. Adding to increased pressure on farm productivity and fisheries due to environmental deterioration and climate change, the consequences of the war have driven up food production costs and destabilised agricultural markets. In response, the Commission put forward a package⁴⁹ of financial support and crisis measures to support EU farmers and improve the resilience of EU food systems, including the activation of the European Food Security Crisis preparedness and response Mechanism⁵⁰. Nature and nature-based solutions will be essential for the fight against climate change and the long-term sustainability and resilience of the agriculture sector. The Farm to Fork Strategy and the different initiatives thereunder aim to accelerate the transition to a sustainable food system, a prerequisite to ensure future food security and resilience. For example, the proposed Regulation on plants obtained by certain New Genomic Techniques⁵¹ will contribute to the availability of plant varieties that are adapted to changing climatic conditions and can deliver stable yields, while the proposed Soil Monitoring Law will incentivise farmers to enhance the quality of soils and of the food produced on them. The Commission will also launch a strategic dialogue on the future of EU agriculture.

The Commission has spared no effort to facilitate Ukraine's agricultural exports, contributing to global food security. Between May 2022 and August 2023, the EU-Ukraine Solidarity Lanes have helped Ukraine export agricultural goods amounting to more than 53 million tonnes and close to 42 million tonnes of non-agricultural products, while enabling the import of goods which the country needs. After the unilateral withdrawal of Russia from the Black Sea Grain Initiative, the Solidarity Lanes remain the most important lifeline for Ukrainian agricultural exports. In addition, through its Team Europe Response to Global Food Insecurity, the EU invests in solidarity, sustainable production and trade while working together on multilateral fora.⁵²

g) Critical technologies

As part of the European Economic Security Strategy, a list is being established of technologies with potential dual use applications, which are critical to economic security. The risks associated to the security and leakage of these technologies will be assessed with a view to devising appropriate mitigating measures. Based on initiatives such as the STEP, the list and the common risk assessments are the next stages in the new approach to EU economic security that promotes our competitiveness, protects against economic security risks and partners with countries sharing our concerns and interests. Additionally, the Commission has

⁴⁸ Among the first deliverables of the EU-US TTC is the Joint Roadmap for Trustworthy AI and risk management.

⁴⁹ COM/2022/133 final.

⁵⁰ COM/2021/689 final.

⁵¹ COM/2023/411 final.

⁵² Team Europe spends EUR 18 billion for food security until 2024.

set up an EU Observatory of Critical Technologies to provide regular monitoring and analysis of critical dual-use technologies, their potential applications, value chains and existing gaps and dependencies for the defence, space and related civil industries.

2.4. Fostering public and private investment

The EU is facilitating investment in key areas to overcome market failures, leverage private investment and boost innovation as the global race to net-zero accelerates. The Recovery and Resilience Facility provided a much-needed boost to the recovery and is helping put the EU on a path to sustainable growth by incentivising ambitious reforms and investments. In addition to the EUR 338 billion in non-repayable financial support provided by the instrument, Member States have requested over EUR 292 billion in loans by 31 August 2023.⁵³ Cohesion policy programmes contribute to strategic priorities, for instance with EUR 92 billion going towards green transition objectives. Horizon Europe will dedicate EUR 20.2 billion to research and development of clean tech; EUR 11.5 billion to biotech and medicines; and EUR 19.3 billion to digital technologies. Furthermore, InvestEU helps mobilise private investments for the EU's top policy priorities, such as the green and digital transition, innovation and social investments and skills as well as support for SMEs. Due to the strong uptake of InvestEU,⁵⁴ and the fact that demand exceeds supply, a budgetary reinforcement is needed to continue to provide support in the coming years, as proposed under the STEP. The Temporary Crisis and Transition Framework (TCTF) for State aid enables Member States to support the economy by allowing for crucial support and investments needed to withstand and recover from the crisis, move away from fossil fuels and develop a net-zero economy. Until 20 September 2023, the Commission has approved aid of around EUR 743 billion under the Temporary Crisis Framework (TCF) and the TCTF. These EU efforts are complemented by the investment support delivered to EU partners through the Global Gateway initiative, as well as joint work with G7 partners under the Partnership for Global Infrastructure and Investment.

The EU's long-term budget for 2021-2027 has proven to be a flexible instrument in times of multiple crises. Extensive use of redeployments and reprogramming, on top of existing budgetary flexibilities, has been necessary to address unforeseen challenges. The swift amendments to Cohesion Policy Regulations (CARE, FAST-CARE, SAFE) allowed Member States to mobilise investments for housing, healthcare, translation services or training for people who were displaced as a result of Russia's war of aggression and to address its consequences on vulnerable people and businesses within the EU. Other instances where redeployments have been used to respond to emerging challenges include REPowerEU, the Secure Connectivity Programme and the Chips Act.

Since the comprehensive and rapid action outlined above has brought us to the limits of what can be achieved with the current MFF, the Commission has proposed a targeted mid-term revision limited to the vital minimum for the EU's immediate policy and investment priorities. The key areas to be reinforced under the review include the long-term support to Ukraine, migration and strengthening partnerships, as well as promoting the EU's long-term competitiveness.⁵⁵ The Commission proposed the STEP⁵⁶ initiative, which would

⁵³ So far, 20 Member States have submitted payment requests equalling a total of EUR 188.22 billion.

⁵⁴ The deployment is well on track with 87% or EUR 22.75 billion of the initial guarantee already contracted with implementing partners, allowing to mobilise over EUR 320 billion in additional investments so far.

⁵⁵ COM/2023/336 final.

⁵⁶ COM/2023/335 final.

reinforce existing EU instruments (such as InvestEU, the Innovation Fund, the European Innovation Council and the European Defence Fund) and leverage others (such as the Cohesion Funds) in order to finance investments in deep tech and digital, clean and bio technologies in the EU as well as in people who can develop and deploy those technologies. This initiative is a first step towards addressing the heightened need for EU public investments in such critical technologies, to leverage much greater private investments. The increased frequency of extreme weather events, such as the fires, droughts and floods that swept Europe during the summer, also highlight the need to reinforce the EU's prevention, preparedness, response and solidarity tools, notably the European Union Solidarity Fund.

A swift agreement on the reform of the economic governance framework is a pressing priority at the current critical juncture for the EU economy, with higher interest rates, increased climate-related fiscal risks, Russia's on-going war against Ukraine and geopolitical instability. Therefore, it is crucial that debt ratios are brought on a sustainable downward path by feasible and credible fiscal-structural plans that combine gradual consolidation and growth-friendly reforms and investments. As a matter of fact, the green and digital transitions will require a sizeable, sustained increase in investment. While the private sector will take on the major share, public investment has a crucial role to play to de-risk innovative ventures and correct market failures. The Commission's proposals for a reform of the EU's economic governance framework aim to strengthen public debt sustainability while promoting sustainable and inclusive growth in all Member States in line with common priorities. Given the expiry of the general escape clause at the end of this year, it is crucial to swiftly agree on the proposed reform to adequately respond to the challenges ahead and to create clarity and predictability for fiscal policy going forward.

As most of the financing for the EU's key priorities will have to come from the private sector, it is crucial to create an investment-friendly business environment. The regulatory environment in the EU also needs to help effectively raise and channel private financing towards economic activities that contribute to the decarbonisation, digitalisation and enhanced resilience of our economies. Deep and integrated capital markets, progress in completing the Banking Union and an effective sustainable finance framework are essential pre-requisites for mobilising the funding necessary for the twin transition. Following up on the 2020 Capital Markets Union Action Plan, the Commission has tabled all the planned legislative proposals. The swift adoption by the co-legislators of the pending Listing Act and of the proposals to harmonise certain aspects of corporate insolvency law, to facilitate cross-border withholding tax procedures and to improve the efficiency and resilience of Union clearing markets would help improve access to finance, diversify sources of funding for companies, tackle structural obstacles in cross-border financial services and address risks to the EU's financial stability. While developing the sustainable finance framework, the Commission has remained responsive to the needs of the users and adopted a series of measures and initiatives to reduce complexity, enhance the usability of the rules and support stakeholders in their implementation. It also took steps to streamline reporting obligations in view of reducing the administrative burden for companies.

3. Conclusion

Russia's war of aggression against Ukraine has exposed strategic dependencies and vulnerabilities, including through supply chain disruptions. The EU has taken important steps to address these across several areas including defence, energy, food, critical raw materials, digital technologies and health. The EU has made progress in promoting its competitiveness, building on its assets including a skilled workforce, good infrastructure, innovation, technology, and a strong industrial and manufacturing base. Green growth and trusted digital tools are the EU's strength.

However, in the face of adversity, the EU must stay the course and transform into a more resilient, competitive and sustainable economy that fosters citizens' well-being.⁵⁷ Further efforts are required to build a more innovative and interconnected Single Market, to preserve internal cohesion, and to foster alliances with a wide range of international partners. We must continue work to de-risk and reinforce Europe's economic and industrial base while protecting its economic security. We must address with renewed vigour strategic dependencies and critical risks, assertively promoting and enforcing a global level-playing field, in the face of major economic distortions. We must be prepared for both direct and indirect attempts to undermine our democratic processes. Stability and resilience also rely on providing long-term solutions to the common challenges faced by European society today: the New Pact for Migration and Asylum – backed up by delivering immediate operational steps – is a key building block in providing lasting and credible answers where we need to act as one.

To achieve these important steps, the EU budget has demonstrated flexibility in adapting to the changing environment. However, it has reached a point where targeted adjustments are urgently needed if the MFF is to continue to deliver on the most essential objectives, for example, on the continued financial support for Ukraine, for competitiveness, on migration and partnerships with our closest neighbours. The Commission therefore calls on the European Parliament and the Council to swiftly agree on the relevant proposals.

The new security challenges, rising inflation and the investments needed to deliver on the green and digital transitions have also put extra pressure on national budgets. This highlights the need to swiftly agree on the reform of the EU's economic governance framework. This will strengthen public debt sustainability, and promote sustainable and inclusive growth, through investment and reforms, and support the welfare and well-being of citizens, in particular the most vulnerable.

The new geopolitical reality requires the Union to strengthen its capacity to protect the Union's strategic interests and to act as a credible security provider for our citizens and our partners, thereby contributing to global security. The Union must stand together when faced with new security challenges, while further deepening ties with partner countries as well as those that share our concerns and interests on specific issues. Future enlargement of the Union presents important opportunities and provides a foundation for building lasting peace in Europe.

⁵⁷ COM(2023) 376 final, 2023 Strategic Foresight Report: Sustainability and people's wellbeing at the heart of Europe's Open Strategic Autonomy.