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Better Europe

Reforming the European Union
How to Revitalize the European Project?

A Report by Independent Polish Experts

CENTRUM STOSUNKÓW MIĘDZYNARODOWYCH
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INTRODUCTION

The roots of European integration lie in the pursuit of peace and cooperation within Europe – a motive that remains highly relevant today. However, the contemporary landscape, marked by multidimensional crises, has exposed weaknesses within the European Union's framework. Challenges such as wars in direct neighborhoods, geopolitical turmoil, climate change, the COVID-19 pandemic, and increasing economic competition demand decisiveness and more effective action from the Union.

This Report responds to the growing need for an in-depth discussion on the reform of the European Union (EU) and its capacity to address escalating geopolitical, economic, and social challenges. Our aim is to complement the numerous reports and proposals for changes in the EU that have emerged in recent years. These previous efforts have often focused on specific, albeit undoubtedly important, issues such as enlargement, the coherence of external policy, economic competitiveness, ecological transformation, and adherence to the rule of law.

Despite being based on sound diagnoses, most existing proposals insufficiently account for the interdependencies of the recommended changes. Our aspiration for the EU to be more effective, impactful, and secure drives us to highlight the necessity of a comprehensive reform program that holistically addresses the interconnectedness of various policy areas while responding to evolving internal and external conditions. The Reform Framework we advocate envisions a project-based approach, characteristic of EU management practices, which encompasses the definition of objectives, methods, actions, indicators, and sources of funding.

One of the key aspects of the reform is the need to adopt a coherent vision and ensure the consistent political leadership required for its implementation. The traditional role of the Franco-German tandem as the driving force of integration has weakened. Differences in approaches between these two nations in addressing current issues diminish the Union's ability to effectively respond to internal and external challenges. Therefore, it is necessary to expand the group of states involved in shaping changes within the European Union and to strive for commonly shared directions for its development.

The reform must address both institutional matters and political priorities. In the field of security – which encompasses military, energy, food, and cybersecurity aspects – a system capable of swiftly responding to diverse threats is essential. The proposed "Security Covenant for Europe" could serve as a mechanism to strengthen cooperation among willing EU member states and other European countries. Such an initiative, grounded in the flexibility of EU treaties, would enable deeper collaboration in key areas, even amidst significant differences in individual states' approaches.

In the economic sphere, the reform should focus on enhancing innovation, competitiveness, and resilience, which would require further deepening of the single market, advancing technological development, and supporting scientific research. Simultaneously, the social consequences of the energy and climate transition must be addressed through protective measures, particularly for regions most vulnerable to the adverse effects of these processes.

A crucial goal of the EU reform should be the redefinition of its role in the global order, enabling Europe to become more competitive and resilient to threats. In this context, it is also vital to strengthen democracy, uphold the rule of law, and foster a shared identity through education and culture. A key proposition here is to strike a balance between strategic autonomy and international cooperation, allowing the EU to effectively pursue its long-term priorities.

The conclusion drawn from the analysis underscores the necessity of a fundamental qualitative transformation in the functioning of the EU, achieved through a comprehensive and coherent approach to the reform. Only through this approach can the European Union effectively address contemporary challenges and ensure the sustainable development of its member states in an increasingly dynamic world.

PART I

PROGRAM OF REFORMS CONCEPT

1 ASSUMPTIONS

The European Communities were established to overcome the devastating conflicts that had plagued our continent and to strengthen it as a whole through a framework of close cooperation. Despite significant progress, weaknesses in this project continue to emerge, hindering the full realisation of its potential. The European Union faces ever-evolving threats, repeatedly leaving it ill-prepared to respond effectively.

These weaknesses often serve as a catalyst for change, yet they also risk fueling anti-integration sentiments. The current state of "polycrises" necessitates a thorough rethinking of how the Union should be reformed, what should be improved, and how it can adapt to new challenges. **While this may sound absolute, the European Union is not an end in itself; rather it is a tool for achieving the objectives it was designed to fulfill. It can only develop in a given direction – that is if its members, both governments and citizens, desire it.**

The next term of the EU institutions (2024–2029) provides an opportunity for a "new beginning," a fresh approach to defining the essence of this project and its purpose. This is critical at a time when the rationale for integration is increasingly questioned by populist and nationalist movements and under attack from externally driven disinformation and sabotage efforts.

Many of the European Union's weaknesses have been thoroughly diagnosed, leading to numerous proposals for reforms and improvements in the functioning of the European project.

In our view, the reforms of the European Union should meet four fundamental criteria:

- They must be comprehensive and considered in their interconnected context, ensuring that all aspects of the Union's operations are addressed cohesively.
- They must effectively tackle the most pressing challenges the EU is currently facing.
- They must be profound and introduce significant improvements, enhancing the functionality and efficiency of the EU.
- An particularly critical criterion: the reforms must be acceptable and feasible, ensuring their implementation is realistic and widely supported.

In the existing reform proposals, we observe numerous valuable ideas but also significant weaknesses that prevent the proposed solutions from fully meeting the above mentioned criteria. For instance, linking the reform exclusively to Treaty amendments fails to satisfy most of these criteria. Such changes are not immediately implementable, particularly in the face of urgent challenges. Moreover, it is risky to base the entire reform process on ratification in one or a few Member States. Two fundamental issues persist: the lack of a shared vision necessary to provide the political leadership required for change as well as the fragmentation, incompleteness, and inconsistency of the proposed reforms, which stem from the absence of a comprehensive approach to addressing the full spectrum of challenges.

A The Need for Leadership

Political leadership plays a pivotal role in the process of European integration and in the effective functioning of the Union. It involves the ability to plan and implement changes, present coherent proposals, and build consensus among Member States. The traditional "engine" of European integration has been the Franco-German tandem, comprising the two largest, most politically influential, and economically strongest founding Member States. Their special role stems from their unmatched capacity to mobilize mutual cooperation and integrate the political will of other Member States, particularly those with ambitions and potential to shape European integration.

In the past, the United Kingdom also played a significant role, effectively advocating for an open, market-oriented approach to economic reform. However, Brexit disrupted this process and, in a sense, complicated internal debates within the Franco-German tandem.

The growing influence of other Member States on shaping European policies must also be acknowledged. In this context, the roles of Italy and Spain are becoming increasingly significant. Nevertheless, no other constellation of Member States has yet held a predominant influence on proposing changes to European policy.

Currently, Germany and France, despite their long and fruitful history of cooperation, increasingly differ in their vision for European policy. These differences are evident both in their approach to specific legislative matters and in relation to more fundamental reforms. For instance, Germany exhibits greater skepticism toward shared financial mechanisms, such as Eurobonds, which France supports as a means of enhancing the EU's operational capacity and fostering solidarity. Disparities between the two countries on issues such as the Banking Union, the future of energy policy, the automotive industry, relations with China, and even with the United States, have weakened EU integration and stalled progress within the Eurozone.

Tensions in Franco-German relations have a direct impact on the effectiveness of the European Union's functioning. They hinder the implementation of reforms across key areas of EU operations, such as migration, defense policy, and the deepening of economic and monetary union. When the largest member states are unable to reach a common position, the decision-making process becomes fragmented and achieving consensus becomes increasingly challenging.

The weakening of this tandem also affects the EU's international standing, diminishing its ability to respond to global challenges such as climate change, geopolitical tensions, Russia's aggression against Ukraine, and the growing economic competition between China and the United States.

The Franco-German tandem has visibly weakened in recent years, partly due to Berlin and Paris focusing on their own politically and economically challenging domestic situations, which has impacted their ability to consistently and jointly work towards the strengthening of the European Union. This raises not only questions about the future of EU reforms and leadership but also about the prospects of Polish-German-French cooperation within the Weimar Triangle.

A crucial condition for fostering partnership in this format is rebuilding trust and the development of concrete initiatives agreed upon and promoted by all three capitals. Achieving this, however, requires greater openness from Western European politicians to proposals emanating from Central and Eastern European countries, including those related to EU reform.

Cooperation within the Weimar Triangle remains pivotal for the further development of the European project, particularly given Poland's role in the process of European integration and defence. After two decades of EU membership, Poland is no longer a "new" participant in the integration process. It is the largest country in the region, with the greatest economic potential, and an important player in the Baltic region and on the EU's eastern flank.

B The Need for a Comprehensive EU Reform Program

Proposals for reform circulating within the EU's public debate are often based on insightful diagnoses and contain valuable suggestions – some of which are addressed in this report. However, their primary weakness lies in their piecemeal approach. By focusing on selected challenges, such as institutional reform, climate policy, enhancing competitiveness, deepening the single market, strengthening security, or safeguarding the rule of law, these proposals fail to account for the incompleteness of the proposed changes in the radically altered internal and geopolitical context in which the EU currently operates.

This is precisely why a comprehensive approach is necessary: all reform proposals must be considered as an interconnected whole. Their interdependencies demand a coherent strategy regarding legislative changes, implementation methods, and budgetary consequences.

> We propose adopting a project-based approach, commonly used within the EU, to construct a coherent vision for the necessary reforms. The changes should be treated as interrelated projects within a Framework Reform Program. This approach requires defining objectives, identifying methods, formulating a list of actions and indicators, and specifying sources of funding.

In contrast to recent reform proposals, which predominantly adopt a *top-down* approach focused primarily on EU institutions and decision-making mechanisms, we propose complementing this with a *bottom-up* approach. This approach takes into account the existing differences among member states and the internal political pressures within each of them. Such a method would ensure the division of responsibilities in line with the principles of multi-level, networked governance and subsidiarity, addressing challenges not only at the supranational level but also at the national and regional levels. Furthermore, it would actively involve civil society, fostering a more inclusive and comprehensive approach to reform.

Our objective is to deepen the pan-European discussion that will lead to the development, agreement, and initiation of the *EU Reform Program* before the end of the current term of EU institutions in 2029. This discussion should be accompanied by the preparation of tools necessary to implement the reforms within the framework of the next multiannual financial perspective for 2028–2034. The growing list of needs, tasks, and citizens' expectations of the EU, particularly in the areas of security, defense, and development, raises the pressing question of significantly increasing resources to be used for this purpose including the Union's budget.

2 OBJECTIVES

While the discussion on EU reform has often been framed as necessary in light of the prospect of further enlargement, the scale of fundamental transformations both within the Union and in its external environment necessitates a deeper redefinition of how the Community operates if it is to meet the challenges it faces. This also raises critical questions about the future role of our continent in the global landscape and the emerging international order.

A Overarching Objective

When defining the objectives of the European Union, it is important to remember that the EU lacks many attributes typical of a state or even federal construction. Therefore, the effectiveness of its actions depends not only on the Union's institutions but also on the commitment and cooperation of its member states. At the same time, the conditions for collaboration are already determined not only by the treaties but also by intergovernmental agreements (e.g., Schengen), deeper dimensions of integration (e.g., the Economic and Monetary Union), the entirety of the EU's institutional and legal framework, the practices stemming from the implementation of common policies, and the limitations of the EU's mandate in areas of shared and supplementary competencies.

This does not change the need to revisit a fundamental question: why do we need the European Union in the current era, and what do we expect from it? The answer to this question will help formulate and present to the citizens of Europe the overarching goal of the reform project – a guiding compass for change. It is particularly important for this goal to be clear to voters, who are increasingly exposed to anti-EU rhetoric and externally driven disinformation campaigns.

The overarching goal of the European Union for the coming decades can be defined as follows:

To secure that Europe is resilient to geopolitical turmoil and threats by making it more competitive, secure and prosperous, ensuring a high quality of life, and civil liberties for its citizens, thereby reversing the trend of Europe's marginalisation on the global stage.

The importance of this strategic direction is underscored by the priorities outlined by Poland's Presidency of the Council of the EU (January–June 2025). These priorities emphasise the overarching strategic dimension of broadly understood security, which the Polish Presidency has categorised into seven key areas[1].

PRIORITIES OF POLAND'S PRESIDENCY OF THE EU COUNCIL

1 External (Military) Security
2 Economic Security
3 Energy Security
4 Health Security
5 Food Security
6 Information Security
7 Internal (Civilian) Security

In the face of threats, the prospect of strengthening the security of EU member states should become the long-term cornerstone of the EU reform agenda.

B Main and Specific Objectives

After defining the overarching directions for strengthening the European Union, we propose to establish the **"Framework Reform Program Better Europe" and outline its main and specific objectives.**

We suggest formulating these objectives as follows:

Objective 1: Ensuring Internal and External Security for EU Member States

Specific Objectives:

a) Enhancing defence capabilities.

b) Improving the effectiveness of combating international terrorism.

c) Ensuring the integrity of external borders.

1 Założenia polskiej prezydencji w Radzie UE, KPRM, grudzień 2024.https://www.gov.pl/web/premier/program-polskiej-prezydencji-w-radzie-ue

d) Enhancing effectiveness in foreign policy (enlargement, neighbourhood policy, European global strategy, implementing sanctions and monitoring their compliance).

e) Achieving resilient autonomy in strategic areas (defence, energy, advanced technologies, water management, pharmaceutical production, access to critical raw materials).

f) Improving cybersecurity while advancing digitalisation.

g) Building societal resilience in Member States vulnerable to disinformation and new threats.

Objective 2: Enhancing the Innovativeness of the EU Economy

Specific Objectives:

a) Completion of the single market.

b) Balancing European industrial policy between the necessity of energy and climate transformation and achieving economic growth.

c) Enhancing the competitiveness, innovativeness, and productivity of the EU economy as a whole.

d) Increasing the competitiveness, innovativeness, and self-sufficiency of European agriculture and fisheries.

e) Introducing the "fifth freedom" – freedom of research and scientific development.

Objective 3: Maintaining the Prosperity of Citizens and High Quality of Life in EU Member States

Specific Objectives:

a) Establishing a European Union for Climate.

b) Establishing a European Union for Health.

c) Establishing a European Social Union.

d) Reducing economic and social inequalities among EU citizens.

e) Restructuring the European labour market based on the utilization of AI and robotics.

f) Completing the creation of a common migration policy.

Objective 4: Strengthening Democracy and Civil Liberties in the EU

Specific Objectives:

a) Ensuring compliance with the rule of law by Member States.

b) Promoting participatory democracy and establishing channels for continuous dialogue with EU citizens.

c) Enhancing media literacy, i.e., the ability to critically and consciously navigate technological advancements in the era of new media and AI.

d) Strengthening European identity through education and culture.

The starting point for planning a comprehensive Framework Program for EU Reforms should be a logical matrix that links the proposed reform objectives with methods, actions, indicators, and funding. In Part II of our report, we present selected proposals in this regard, aiming to inspire further discussion.

3 CONCLUSIONS

Existing publicly available reports on the necessary changes to the functioning of the European Union are based on solid analysis and extensive consultations. However, by focusing on selected areas – primarily within the Eurozone – these reports often fail to account for the simultaneous consequences of implementing proposed solutions across other domains and aspects of the EU's functioning. This fragmented approach can lead to proposals that, when implemented concurrently, create tensions and contradictory objectives. This includes the financial implications of simultaneously enacting various recommendations, which far exceed the current and foreseeable capabilities of the EU budget and other available resources.

An illustrative example is the need for a comprehensive perspective on broadly understood security issues. This encompasses not only establishing appropriate frameworks for the actions of Member States within the EU and NATO or ensuring sufficient defence production but also identifying all threats to security – military, terrorist, cyber, energy-related, access to critical raw materials, healthcare, and food security, among others.

To achieve this goal, given the existing divergences in how Member States perceive security issues, we propose leveraging the flexibility provided by the Treaties. The process could begin by forming a "Security Covenant for Europe" among as many European states as possible (not limited to EU members) willing to act jointly.

The primary goal of the "Covenant" should be to unite the efforts of most EU Member States, as well as other willing European countries, to achieve swift progress in the development and operationalisation of initiatives that ensure security. This would include financing, developing, manufacturing, and implementing joint solutions in this area. The EU's decision-making process is too slow for such a critical and urgent need, which is why it is necessary to invoke the provisions of the Treaties on enhanced cooperation (using as a basis Article 20 of the Treaty on European Union and Title III of the Treaty on the Functioning of the European Union).

The "Covenant" should aim to take actions that strengthen resilience against geopolitical shifts, military threats, trade tensions, risks to economic development, natural disasters – including those caused by climate change – and crises stemming from other phenomena such as uncontrolled migration or pandemics.

The functioning of the "Covenant" should meet the criteria outlined in the aforementioned Treaty articles, allowing for enhanced cooperation among EU Member States. In addition to EU Member States, countries associated with the EU through other agreements – such as Switzerland, Norway, Liechtenstein, and Iceland – could participate in the Covenant's activities and initiatives. It would make full sense to involve United Kingdom as we see benefits of a deepening of cooperation after the period of disruption caused by Brexit. Candidate countries for EU membership could also be included. And full meaning of the initiative would make Ukraine's participation.

The broad scope of security necessitates treating it as a European public good, reflected in policy priorities, institutional frameworks, and the scale of public spending allocated to this purpose. Security comes at a cost, and it is unrealistic to expect individual countries or businesses to unilaterally bear the increased costs of ensuring long-term security across the EU without appropriate agreements and approval from national parliaments.

Post-1989 Europe benefited from relative geopolitical stability on a global scale, allowing military threats to be treated as marginal concerns. This stability was underpinned by U.S. engagement in Europe and the belief in the permanence and reliability of transatlantic ties, primarily through NATO. Additionally, economic cooperation and trade were seen as key to mitigating security risks and reducing the likelihood of open conflict.

Recent events have challenged many of these assumptions. The reorientation of U.S. political and strategic priorities, starkly evident during President Trump's first term, undermined confidence in the durability of one of Europe's most critical security pillars. A further challenge has been the increasing industrial and trade protectionism of the United States. The elevated tariffs on European products, introduced under President Trump and maintained by President Biden, have weakened the EU's competitiveness. Compounding this, the U.S. Congress approved vast federal investments in 2022, amounting to approximately \$2.5 trillion. These funds are directed towards modernising infrastructure, promoting a green reindustrialisation of the U.S., and advancing research and development in semiconductor production [2].

These measures have also prompted some European corporations to relocate at least part of their production to the United States, which will negatively impact economic dynamism within the EU. The relaxation of

2 The "Infrastructure Investment and Jobs Act" – USD 1.2 trillion; (2) the "CHIPS and Science Act" – USD 280 billion; and (3) the "Inflation Reduction Act" (IRA) – USD 891 billion. Recent analyses suggest that, supported by these federal measures, commercial investments could cumulatively reach over USD 7 trillion within a few years. See Eugeniusz Smolar, The United States – An Indispensable Nation but Also a Challenge (for Europe). The New U.S. Industrial and Trade Policy, CSM, February 2024. https://csm.org.pl/analiza-csm-stany-zjednoczone-niezastapione-panstwo-ale-i-problem-dla-europy/

state aid rules has enabled major countries, including Germany and France, to introduce subsidies on a scale that destabilises the EU single market. The return of Donald Trump to power is expected to deepen tensions in transatlantic relations. Unlike all his post-war predecessors, during his first term, he regarded the European Union as an entity fundamentally at odds with U.S. interests – axiologically, politically, and economically. He supported Brexit and even publicly encouraged other member states to follow the UK's example. There is no indication that he has changed his stance. Concerns have intensified following his recent presidential campaign, during which he pledged to further increase tariffs on European products.

The EU's response must be carefully considered to counter these external economic pressures without exacerbating tensions. This approach is important not only because of the significant trade implications but also due to the United States' still-indispensable role in ensuring Europe's security.

Russia's aggression against Ukraine – manifested in the use of military force within the EU's immediate neighbourhood – has already necessitated, albeit insufficiently, a shift in Europe's approach to building an effective defence capacity.

The COVID-19 pandemic revealed the vulnerabilities of supply chain disruptions and the inability to rely primarily on external suppliers for critical health products, including antibiotics. Similar dependencies can be observed in the interplay between the urgent need for decarbonisation and the imperative to enhance economic competitiveness. One of the factors contributing to the EU's declining competitiveness is the high cost of energy, which exceeds that in other regions.

It remains unclear whether it is feasible to reconcile decarbonisation with ensuring secure energy supplies without significant advancements in renewable energy storage or the continued operation of nuclear power plants or fossil fuel-based power plants equipped with Carbon Capture and Storage (CCS) systems.[3]. In such circumstances, as highlighted in the Draghi Report, energy prices could significantly hinder the competitiveness of the European economy.

This issue is tied to the EU's need to undertake actions requiring the mobilisation of substantial public funds under the so-called "Just Transition" program. This involves implementing protective measures for the most vulnerable social groups and the economies of regions or even entire member states disproportionately affected by rising energy costs.

While it is generally assumed that these costs are manageable at the EU-wide level, a major challenge arises when public funds (both national and EU) are required to simultaneously cover a range of other priority expenditures – defence, social support, and others.

Similarly, there is considerable difficulty in striking a balance between the objectives of building strategic autonomy – understood as reducing dependency on third countries (particularly those identified as rivals or even adversaries) – and efforts to enhance Europe's global competitiveness.

3 Carbon Capture and Storage facilities.

Strategic autonomy must involve limiting international cooperation, even with cost-competitive suppliers, to maintain and develop domestic production of strategically important goods, even at the expense of higher costs. For instance, supporting the steel and metallurgical industries, which are essential for sustaining a level of independence in manufacturing for military needs, inherently reduces global competitiveness – not only for companies in this sector but also for others relying on steel and metallurgical products as components in their own production processes.

This underscores the necessity of commencing work on EU reform using a comprehensive approach and applying project management methodologies. Such an approach would allow for the identification of challenges and tasks, their placement within a matrix of achievable and measurable objectives, prioritisation according to importance and timelines, and clarification of interdependencies. This structure would also facilitate monitoring progress over time, in line with SMART criteria.

A matrix-based framework would provide decision-makers with a clear understanding of the scale of the undertaking, while serving as a transparent tool for tracking progress in implementing specific project elements and for managing resources more effectively.

When considering reforms, the following elements should be addressed:

1. **Critical review of EU legislation** to remove barriers to entrepreneurship and innovation and to simplify operations at all levels of the Union's functioning. Simplification must go beyond merely reducing the number of legal acts; it should involve restraint in regulating minor details and avoiding ambiguous legal provisions.

2. **Streamlining the decision-making process**, including areas currently requiring unanimity. Particular attention should be given to mechanisms that prevent the deliberate non-application of European law in the single market or the disregard for fundamental treaty principles, such as the rule of law and respect for human rights.

3. **Granting the EU new competencies to address military threats**. Achieving defence capabilities will require significantly increased funding from both individual member states and the EU as a whole[4]. Concurrently, the EU can further stimulate cooperation among member states in other dimensions of security, as outlined in the priorities of Poland's EU Council Presidency.

4. **Developing new common policies in strategic areas**, such as a competitiveness policy alongside the cohesion policy.

5. **Equipping the EU with significantly larger financial resources**, enabling the creation of European strategic projects within the framework of shared policies.

4 "European decision-makers should seize the beginning of the next institutional cycle to define the EU's role in European defence, including an appropriate level of ambition for the EU defence budget," in: Camille Grand, *Defending Europe with Less America*, European Council on Foreign Relations; Policy Brief/545, July 2024.

A portion of the debate surrounding EU reform stems from the concerns of primarily Western European countries over the potential transformation of the nature of integration due to the accession of new members and the rising political and economic significance of Central European states (referred to as the "easternisation of the EU"). This conservative reaction, often aimed at preserving the existing balance of influence, fosters negative attitudes towards the EU, accusations of hegemony, and strengthens populist and sovereignist movements. Instead, the primary reference point for EU reform should be an assessment of the underlying causes of its current weaknesses and the pursuit of long-term measures to enhance its strength and resilience.

> The reform of the European Union should, from the outset, focus on achieving a comprehensive and fundamental improvement in its operational effectiveness, rather than addressing ad hoc issues (e.g., crisis responses or the prospect of enlargement) or selected challenges (e.g., declining competitiveness and innovation).

Adjustments and additions limited to specific areas, especially if implemented without a thorough analysis of their implications for achieving objectives and securing financing, are insufficient to bring about a substantive qualitative transformation in the functioning of the European Union.

PART II

PROGRAM OF REFORMS SELECTED PROPOSALS

1 METHODS

The establishment of objectives should be complemented by defining the forms and methods for their implementation. Proposed reforms must be assessed against the practical scenarios of their execution, making the question of methodology crucial. It is important to consider that member states play a central role in the EU, and the most critical decisions require unanimity.

When designing the EU Reform Program, a mixed approach can be employed, utilising several existing methods simultaneously. To determine the appropriate "methodological mix" necessary for this task, a thorough review of existing regulations should be conducted. **This review should include:**

- Analysis of primary EU law;
- Analysis of secondary EU law to reorient existing common policies;
- Analysis of priorities and tasks within current programs and funds;
- Analysis of the assumptions and outcomes of the EU financial framework for 2021–2027 to identify modifications enabling the implementation of EU reforms in the next financial framework (2028–2034).

Below, we describe the key methods that can be applied when developing a comprehensive EU reform project.

A Treaty Amendments

This method is theoretically the simplest but practically the most challenging, as many member states currently oppose it due to substantial divergences among them and an unfavourable external environment. Some analyses prepared in the context of expanding the EU to include up to 35 countries argue that treaty amendment is a necessary condition for both enlargement and reform[5].

Choosing the appropriate method is a crucial step in achieving established objectives, as it determines what the European Union should become, how it should function, and which aspects require strengthening. However, this approach comes with significant dilemmas. Many institutional solutions have treaty-based foundations, and changes to the way the EU operates in these areas would require adopting a revised treaty. This, in turn, entails complex negotiations, ratification of the outcomes, and, in some member states, approval via a national referendum.

5 Göran von Sydow & Valentin Kreilinger (eds); Fit for 35? Reforming the Politics and Institutions of the EU for an Enlarged Union; Sieps 2023:2op; Stockholm, September 2023;

Such a process is not only time-consuming but also risky. History demonstrates that without strong efforts to secure public approval, even the most critical and necessary changes can be rejected. Referendum results often reflect a plebiscite-like judgment of the government's or parliamentary majority's actions in the member state, rather than an evaluation of the merits of the proposed treaty amendments.

Most discussions on EU reforms focus heavily on treaty changes, as they centre on institutional functioning and the impact of enlargement as the primary reason or trigger for initiating broader reforms. However, member states hold highly divergent views on the content and timing of any potential reform [6].

In Poland, perspectives on the necessity of treaty amendments ahead of enlargement, particularly regarding Ukraine and other candidate countries, have evolved. Neither the current government nor the opposition, albeit for different reasons, supports treaty amendments – even in the context of preparing the EU for the next enlargement, which Poland strongly advocates [7]. Similar positions have been expressed by more than 12 other member states [8].

B Revision Treaty

A revision treaty should not be entirely dismissed as a method for implementing EU reforms. In this context, it is worth considering the formula of a so-called "small revision treaty" or an ad hoc revision treaty, which would be limited in scope to matters agreed upon by all member states (similar to the Spanish and Irish protocols).

Such proposals have previously emerged concerning the reform of the Eurozone. Currently, other specific areas can be identified – particularly within the Common Security and Defence Policy (CSDP) – where it might be feasible to achieve consensus among member states on using this method to implement reforms.

C Flexibility and the "Passerelle" Clause

The discussions surrounding the Constitutional Treaty and the Treaty of Lisbon included assurances that primary law changes would be long-lasting, ensuring that quasi-constitutional arrangements would not require frequent revision. Part of this argument was based on the assessment that the Lisbon Treaty introduced "future-proof" mechanisms – universal, flexible, and capacious enough to negate the need for modifications for an extended period. This applies, for instance, to enlargement, where the Treaty is considered "enlargement-proof," meaning it automatically adjusts EU institutions to an increased number of member states. This encompasses decision-making processes using Qualified Majority Voting (QMV), the allocation of seats in the European Parliament, and adjustments in other institutions, with certain changes reserved for decisions by the European Council.

6 For example, Bulgaria, Croatia, the Czech Republic, Denmark, Estonia, Finland, Latvia, Lithuania, Malta, Poland, Romania, Slovenia, and Sweden reacted negatively to proposals for treaty revision and convening a convention for this purpose. Non-Paper by Bulgaria, Croatia, the Czech Republic, Denmark, Estonia, Finland, Latvia, Lithuania, Malta, Poland, Romania, Slovenia, and Sweden on the outcome of and follow-up to the Conference on the Future of Europe, available at Movimento Europeo. See also Council of the European Union: Conference on the Future of Europe.

7 Piotr M. Kaczyński, Poland's shifting positions on the future of the European Union: deepening and widening? Casimir Pulaski Foundation, Warsaw 2024

8 A third of EU countriesopposechangingbloc'streaties, Euractiv.com with AFP 9.05.2022
https://www.euractiv.com/section/future-eu/news/a-third-of-eu-countries-oppose-changing-blocs-treaties/

This framework allows for the use of flexibility clauses included in the Treaties, particularly passerelle clauses, as well as enhanced cooperation and permanent structured cooperation procedures. It is worth emphasizing that the passerelle clause already makes it possible to introduce Qualified Majority Voting (QMV) in the Council of the EU for areas currently requiring unanimity. However, the application of this voting method requires the consent of all member states.

D The Schengen Method

When considering methods for implementing EU reforms, it is necessary to account for the so-called Schengen Method – whereby international agreements on matters important to the EU are concluded by a group of member states. Notable examples of this approach include the Treaty Establishing the European Stability Mechanism (ESM[9]) and the Treaty on Stability, Coordination, and Governance in the Economic and Monetary Union[10]. While this method can accelerate institutional reform within the EU[11], it carries the risk of fragmenting the integration process. Its applicability and effectiveness, therefore, depend on the specific context and the prioritization of objectives.

Given the significant divergence of positions among member states, including on critical issues such as the threats arising from the war in Ukraine, it is reasonable to assume that the Schengen Method will remain a vital pathway for enhancing the EU's effectiveness for the foreseeable future.

E Full Implementation of Existing Regulations and Policies

When planning EU reforms, the first step should be to build on the existing legal framework and already approved measures that, nevertheless, have not been fully implemented. An example of this can be found in the detailed analyses of the single market presented in the reports by Letta and Draghi. There are several other areas where similar gaps exist.

Moreover, there are provisions concerning EU institutions already included in the Lisbon Treaty that have never been fully enacted. One such instance is the composition of the European Commission. Below, we present proposals for introducing changes, hoping to stimulate further discussion on this subject.

E1 European Commission

Article 17(5) of the Lisbon Treaty states:

"[As of] 1 November 2014, the Commission shall consist of a number of members, including its President and the High Representative of the Union for Foreign Affairs and Security Policy, corresponding to two-thirds of the number of Member States, unless the European Council, acting unanimously,

9 https://www.esm.europa.eu/legal-documents/esm-treaty
10 https://www.consilium.europa.eu/media/20390/st00tscg26-pl-12.pdf
11 In cases where the institutional coherence of the Union is not compromised, that is, where the conditions specified in the CJEU judgment of 27 November 2012 in case C-370/12 *Pringle* are met.

decides to alter this number. The members of the Commission shall be selected from nationals of the Member States on the basis of a system of strictly equal rotation between Member States, reflecting the demographic and geographical diversity of the Member States as a whole. This system shall be established unanimously by the European Council in accordance with Article 244 of the Treaty on the Functioning of the European Union."

The primary reason for including the requirement for a reduced number of Commissioners in the Lisbon Treaty, despite an increasing number of Member States, was to make the Commission less political and more focused on technical expertise. In a smaller group, Commissioners would be less likely to mirror political divisions among Member States and could instead concentrate on fulfilling the tasks assigned to the Commission as a substantial administrative apparatus. An additional motivation was the increasingly narrow allocation of portfolios to individual Commissioners as the Union expanded.

However, the retention of the principle of "one country, one Commissioner," despite the intentions set forth in the Treaty, strengthens the political character of the Commission. It also raises expectations among Member States that their Commissioners will exhibit greater sensitivity to the issues and needs of their respective countries. With further enlargement and an increased number of Member States, this issue requires resolution without necessitating treaty amendments.

It has been proposed to differentiate the status of Commissioners and organise their work into clusters or thematic groups. However, this does not address the fundamental issue of the political nature of selecting the Commission's composition, which continues to influence its operations. Although some EU reform proposals still highlight this matter, there appears to be little faith in achieving substantial changes to the approach taken by Member States. It remains difficult to secure agreement on a situation where certain Member States might not have a Commissioner for a five-year term or where, even if represented, their Commissioner would hold a formally lower-ranking position.

One potential solution could involve expanding the perspective on the appointment process for the most significant positions in the European Union. This would include Commissioners as well as several other comparably important roles. Another option worth considering is a change in the approach to the functioning of the Council of Ministers of the EU. Such measures could create opportunities to accommodate the expectations of Member States while simultaneously focusing on enhancing the efficiency of European institutions.

E2 "Presidency 2.0"

The EU Treaty establishes a rotating presidency system for the Council, but it neither specifies the duration of the rotation period nor the scope of responsibilities for each presidency. This opens the possibility of extending the traditional six-month presidency to a term comparable to the European Commission's mandate. Under such a system, each Council configuration (currently numbering 10) could have a designated permanent Chairperson from a different Member State. This individual would reside in Brussels and step away from the current system where Council presidency is an additional task for national ministers alongside their domestic responsibilities.

A Chairperson appointed for five years (similar to a Commissioner) would have greater capacity to shape coherent and long-term policy in their respective domain. This would alleviate the organisational and logistical burdens on Member States during the intense preparation and execution of the six-month presidency. Moreover, it would ensure more consistent legislative development in cooperation with other EU institutions.

In this model, each Member State would have a high-ranking representative, either as a Commissioner or as a Chairperson of one of the Council configurations. The rotation system would alternate roles such that if a Member State appointed a Commissioner in one term, they would nominate a Chairperson in the next, and vice versa.

A five-year rotation for Council Chairpersons would enhance the professionalism of the Council's operations. Simultaneously, a leaner European Commission, as envisaged by the Treaty, would meet expectations for greater efficiency and impartiality in decision-making and administrative management.

Permanent Council Chairpersons would need their own Cabinets (similar to Commissioners), with team members managing the working groups responsible for preparing the Council configuration's activities. This would necessitate adjustments in the operation and leadership of the Committee of Permanent Representatives (COREPER), potentially holding thematic sessions aligned with the work of specific Council configurations.

Such a system would require coordination among the Chairpersons of the various Council configurations – a role currently fulfilled by the national government holding the rotating presidency. Regular meetings of all Council configuration Chairpersons, possibly led by the President of the European Council, could address this need. This approach would provide an additional opportunity to link high-level political decisions with the process of shaping EU legislation.

E3 Composition of the EU Council

An expansion of the Council of Ministers' structure could also be considered. According to the Treaties, the Council operates as a single institution but convenes in different configurations depending on the specific issues and the ministers representing Member States. Currently, the Council meets in ten configurations: the General Affairs Council (GAC), the Foreign Affairs Council (FAC), the Economic and Financial Affairs Council (ECOFIN), the Justice and Home Affairs Council (JHA), the Employment, Social Policy, Health and Consumer Affairs Council (EPSCO), the Competitiveness Council (COMPET), the Transport, Telecommunications and Energy Council (TTE), the Agriculture and Fisheries Council (AGRI), the Environment Council (ENVI), and the Education, Youth, Culture and Sport Council (EYCS).

Given the emergence of new challenges such as defence, digital security, and innovation, it would be prudent to consider creating additional Council configurations dedicated to these areas. These configurations would comprise ministers from Member States responsible for these domains and would be chaired by permanent Chairpersons. This approach would ensure greater coherence and strategic focus on key reforms requiring cross-sectoral coordination and long-term planning.

To maintain effective political relations, changes to the composition and configurations of the Council at the EU level should be complemented by reforms within Member States. The lack of clear equivalents for these new areas within national government structures complicates decision-making processes at the Union level. For example, the digital economy encompasses elements of telecommunications, technological innovation, taxation, and competition, necessitating a comprehensive approach that transcends traditional policy silos.

Governments should enhance the prominence of emerging policy areas, such as the digital economy and climate transformation, by assigning them dedicated ministerial portfolios and fostering cross-sectoral collaboration. The evolution of the Council of Ministers' configurations should be viewed as a response to shifting political and economic realities. Establishing new configurations, such as a Council for the Digital Economy or a Council for Climate Transformation, would improve policy coordination and facilitate more effective decision-making in areas critical to Europe's future.

E4 The European Council as a Forum for Strategic Management of the European Union

The European Council, composed of the heads of state or government of Member States, plays a pivotal role in defining the strategic directions for the Union's development and addressing its most pressing challenges. Its meetings offer a platform to discuss issues that transcend the competencies of individual EU institutions and require coordinated, high-level approaches. The European Council thus provides a unique forum for building consensus on matters critical to Europe's future.

One proposal worth considering is dedicating specific European Council meetings exclusively to defence matters[12] or, more broadly, to assessing progress in achieving the key objectives of EU reform. Currently, many vital topics are addressed in other forums, and the lack of consolidated debate at the highest governmental level hampers the development of coherent strategic decisions. Regular Europe-

12 See S. Everts, Making EU leaders responsible for protecting Europeans. Fragmented no more, EUISS Caillot Papers/185, September 2024:
"In a dangerous world, EU citizens demand protection. However, the EU today struggles to cope with a world of integrated threats. Responsibilities are divided; everyone focuses on their own segment, and it seems that no one is managing security comprehensively. The time has come for EU leaders to take primary responsibility for protecting Europeans and to establish a European Council Defence Formation."

an Council sessions focused on specific areas could enhance the Union's capacity to respond to threats in an integrated manner by facilitating more consistent decision-making.

At present, discussions within the European Council are conducted solely among heads of state or government. While this exclusivity has its advantages, involving relevant ministers responsible for specific strategic areas in selected debates could significantly improve the Council's efficiency. Ministers could participate in portions of discussions leading to operational conclusions, thereby enriching the analysis and recommendations with specialist knowledge. This approach would provide leaders with direct expert support and strengthen the implementation of EU and national policies, enhancing the effectiveness of European Council decisions.

F Deregulation and Simplification of Legislation

Europe is often characterised by a distinct "culture of over-regulation." Every new phenomenon or activity impacts existing frameworks, often exceeding the boundaries of established legal norms and prompting efforts to introduce new regulations. In a rapidly changing environment of evolving technologies, technical advancements, and organisational innovations, this results in constant modifications to the legislative requirements in force.

This approach provides greater legal certainty for governments, consumers, and producers regarding rights, obligations, requirements, and the overall legal framework. However, it also results in rigid operational conditions, not to mention the prolonged duration of the legislative process itself. Frequently, newly adopted solutions reveal shortcomings requiring immediate corrections shortly after implementation. Furthermore, a disparity often arises between the scope and detail of European regulations and the standards applied in other countries. The reduced regulatory burden and increased flexibility found outside the EU can create unequal conditions for entities operating within Europe and beyond.

The EU Treaties guarantee fundamental freedoms in economic transactions – freedom of movement for goods, services, capital, and people. However, secondary EU legislation often introduces and legitimises obstacles to these freedoms. In economic matters, EU legislation has become overly detailed, focusing on macroeconomic issues, with the costs of compliance often posing a disproportionately high burden, particularly on micro, small, and medium-sized enterprises. We propose therefore to adopt European Paperwork Reduction Act serving as a tool to verify scale of burdens of compliance[13].

To promote reform, particularly in the area of economic competitiveness, efforts should focus on eliminating barriers to the single market and ensuring a level playing field for small, medium, and large companies, regardless of their country of origin. This includes measures such as guaranteeing equal access to state aid and harmonising corporate tax levels across member states to create a fair and balanced competitive environment.

13 Luis Garicano, The Compliance Doom Loop, Why the rules keep growing, November 13, 2024 https://www.siliconcontinent.com/p/the-compliance-doom-loop

Simplifying European legislation has been highlighted as a task for the new European Commission. This objective has been raised repeatedly and addressed in the Commission's work since the 1990s. However, most initiatives and programs aimed at simplifying legislation have failed to produce significant results, as successive layers of new legal acts have rapidly increased the complexity of European legislation.[14]

Thus, it is no longer sufficient to merely call on the European Commission to take steps in this direction; concrete actions must be outlined. In our view, the following measures should be undertaken:

- Review the justification for maintaining regulatory solutions adopted in previous legislative cycles to assess whether they remain relevant and effective.
- Examine existing regulations to identify opportunities for reducing the number of EU legal acts by merging overlapping legislative solutions, eliminating redundant provisions, and repealing overly burdensome rules that hinder economic activities.
- Verify the compatibility of older regulations with modern implementation tools, such as electronic systems for enforcement and reporting, to ensure that regulations remain practical and up-to-date.
- Conduct systematic assessments of the balance between objectives and implementation costs, particularly focusing on the burdens faced by small and medium-sized enterprises (SMEs) and startups.
- Reduce documentation requirements, particularly those involving external certification, verification, and auditing firms, whose costs place an excessive burden on business operations.
- Conduct regulatory impact assessments not only at the beginning of the legislative process (during the drafting stage by the European Commission) but also immediately before the adoption of the final act, taking into account amendments approved by the Council and the European Parliament.

Address the challenge of implementing overlapping EU and national legal requirements. To achieve this, we propose regular reviews of how EU laws are applied in each member state. These reviews should aim to simplify the requirements faced by stakeholders and prevent additional complexities introduced by national authorities, commonly referred to as the "goldplating" of EU law.

Simplification of European law requires the active involvement of its users. A platform for exchanging opinions on all economic, environmental, and consumer regulations should be established, coupled with regular evaluations of the regulations' impact (impact assessments) based on experiences gained from their practical application. Crucially, assessments should consider the cumulative effects of implementing all regulations within a given area, focusing on the relationship between achieving the intended objectives and the costs of implementation – not only for the public sector but also for all entities obligated to comply with these regulations. Adopting the perspective of regulation users is necessary to address the question of how complex the practical application of these laws is in specific domains.

14 Scott Markus, How to Achieve better EU Laws, CEPS 2024, https://cdn.ceps.eu/wp-content/uploads/2024/10/2030-06-GRID-4-Scott-1.pdf

Poland's transition period provides a valuable example. It began with the radical elimination of the regulatory constraints inherited from the centrally planned economy. This dramatic simplification of the regulatory framework unleashed vast reserves of individual entrepreneurship, significantly influencing the pace of economic growth, the diversification of economic activities, and the overall success of the economic transformation.

Although the old regulations were soon replaced by new ones as systemic reforms were implemented – and later by EU laws upon Poland's accession – this initial release of creativity, combined with free-market mechanisms, laid a robust foundation for the rapid development of Poland's economy.

The potential to stimulate individual entrepreneurship and diversified economic activity across Europe must not be overlooked. Encouraging entrepreneurial spirit and risk-taking is one of the keys to reinvigorating the overly bureaucratized economies of Europe.

G Balancing the "asymmetry of influence" among stakeholders

The influence on the legislative process and the shaping of policy directions across various areas depends not only on formal decision-making mechanisms but also on the numerous interest groups and entities impacting public policy[15]. This complementary aspect of formal policymaking includes stakeholders affected by EU law, decisions, or policies. Their feedback is invaluable as it can reveal overlooked consequences, often stemming from the practical application of proposed solutions.

In the European Union, this process is partially formalized through bodies such as the European Economic and Social Committee (EESC), which includes representatives of employers' organizations, workers, and various other interest groups. Similarly, the Committee of the Regions (CoR) represents local and regional authorities. These committees' opinions must be considered during the EU legislative process, although there is no obligation to implement changes based on their recommendations.

However, the complexity of coordinating their positions poses challenges to incorporating their feedback effectively, diminishing their influence. In practice, the contributions of these bodies currently have limited impact on the legislative process.

As a result, interested businesses or sectoral organizations often resort to lobbying through direct interactions with European institutions. This occurs not only during formal consultations in open public processes but also through frequent and intensive engagement with European officials, parliamentarians, and policymakers. In Brussels, hundreds of smaller and larger firms operate to represent the interests of companies, sectors, or social groups in the ongoing decision-making process.

15 Lobbying in the European Union : multi-venue and multi-actor strategies in the European Union, D. Coen, A.Katsaitis, M. Vanno; w: Handbook on lobbying and public policy, D. Coen, A.Katsaitis (Editor)Elgar Publishing, 2024

Such a system suffers from significant asymmetries and exposes the law-making process (including the development of policies and standards) to strong influences from specific stakeholders. Large corporations, powerful associations representing entire sectors, or well-resourced lobbyists can exert significantly greater influence on the legislative process and effectively advocate for their preferred regulatory approaches.

This often comes at the expense of small and medium-sized enterprises (SMEs), which lack comparable resources. Large firms pursue different development strategies and face distinct challenges, which may not align with the needs and realities of smaller market players.

Smaller and even medium-sized companies, particularly those from less affluent countries, including those in Central Europe, face significantly limited opportunities to voice their concerns during the European legislative process[16]. With fewer resources, these companies often cannot allocate even a single employee to monitor and provide feedback on legislative proposals or dedicate sufficient attention to legislative initiatives that seem distant from their immediate business activities. As a result, by the time they recognize the necessity of suggesting potential changes, the legislative process is often already concluded or too far advanced for additional proposals to carry meaningful weight.

A similar asymmetry is evident among experts, speakers, and other participants in discussions about legislative reforms. Numerous think tanks operate in Brussels, and many conferences focus on competent and targeted debates on both general and specific issues. Naturally, stronger analytical and research institutions, especially those located closer to Brussels, have a distinct advantage. Their frequent and visible participation further cements their position and amplifies their ability to shape public discourse on matters within their expertise.

The reputation of such organizations also enhances their ability to access available funding sources. This privileged position deepens the asymmetry in the participation of various stakeholders in European debates and their capacity to influence the trajectory of discussions and policymaking.

There is no easy method to reduce the asymmetry in stakeholder influence over the legislative process, as such influence often reflects the political and economic strength of the member state from which the stakeholders originate. The only viable approach to counteract this imbalance is to strengthen the rules and mechanisms of the formal consultation process, ensuring stakeholder voices are heard within institutions specifically designed for this purpose. These mechanisms should, at least formally, guarantee equal representation of stakeholders regardless of their country of origin, company size, or the sectoral organizations they represent.

One possible solution could involve entrusting the European Economic and Social Committee (EESC), rather than the European Commission, with the task of organizing extensive consultations with stakeholders under a "EESC plus" framework. It should become major channel of transmitting diverging views of stakeholders to European Commission drafting legislation and to the Council and European Parliament as co-legislators.

16 Timothy M. LaPira, Herschel F. Thomas; Revolving door lobbying: public service, private influence, and the unequal representation of interests; University Press of Kansas, 2017.

The European Economic and Social Committee and the Committee of the Regions should play a more significant role in the legislative process to deepen the democratic legitimacy of the European Union as a whole. Beyond assuming a more prominent role in stakeholder consultations in Brussels, members of these institutions should actively bring discussions on European legislative measures to broader audiences across all member states. This would help bridge the gap between European lawmaking processes and public opinion within the EU, thereby reducing the distance between EU institutions and national or local actions.

2 ACTIONS

Actions for Objective 1: Ensuring Internal and External Security for EU Member States

In the face of increasing destabilization in its immediate neighborhood, the European Union must aim to strengthen its political and security influence using available tools, predominantly of a civilian nature. At the political level, it is essential to achieve a consensus on the nature of threats ("threat perception consensus"). Currently, this process is hindered by differing perceptions of threats (e.g., Eastern EU flank versus the South or the West) and divergent attitudes toward threats posed by Russia in countries such as Hungary, Austria, and Slovakia.

A vital component of building this consensus is ensuring that all EU members accept that threats impact the Union as a whole. Consequently, security must be addressed collectively, incorporating actions at the EU level. The underlying principle is the recognition that threats are shared, even if their intensity varies across different regions of the EU.

Specific Objective: Enhancing the EU's Defense Capabilities

According to Article 4(2) of the Treaty on European Union (TEU), national security remains the exclusive responsibility of each member state[17]. However, this does not preclude deeper collaboration among EU member states in the area of defense. The EU cannot and is not intended to replace NATO, but it should develop the capability to act cohesively and consistently in this domain to strengthen joint operational capacity with NATO, particularly within Europe and its immediate neighborhood[18].

At the military level, it is necessary to continue the process of reforming and modernizing the armed forces of EU member states and to accelerate production capacities, particularly in the areas of drones, ammunition, air defense, and missile defense systems. In the context of security sector reforms under conditions of heightened threats, the EU must be prepared to expand its operational activities in both military and civilian spheres.

17 See: Security of Supply: A National or European Competence?, Cambridge University Press: 16 October 2023; https://www.cambridge.org/core/journals/cambridge-yearbook-of-european-legal-studies/article/security-of-supply-a-national-or-european-competence/89F9D88BB6865C670F327D9DEE053503

18 Although the Niinistö Report does not provide specific calculations regarding the size of the EU budget, it highlights the need to identify concrete opportunities for increasing funding at the EU level. See Safer Together, op. cit., p. 25.

It is essential to establish a European Defense Union and continue the process of reforming and modernizing the armed forces of EU member states. According to the Niinistö Report, it will be necessary to develop joint production capabilities, particularly in the areas of ammunition, air and missile defense, drones, and other advanced defense systems [19].

The EU must be prepared to expand its operational activities in both military and civilian domains. The provisions introduced under the Lisbon Treaty regarding the Common Foreign and Security Policy (CFSP), including the Common Security and Defense Policy (CSDP), provide a solid foundation for cohesive action by the Union and its member states in the international arena. However, these provisions have not yet been fully implemented due to differing opinions among member states.

When it comes to the CSDP, if the European Council is unable to make a decision on establishing a common defense (Defense Union), we propose utilizing the so-called Schengen Method, that is, concluding a separate agreement on this matter among a group of member states. The same approach could be applied to strengthening the cooperation of defense industries.

A priority issue will be the implementation of the newly adopted EU strategy for the defense industry (EDIS) regarding the European Defence Technological and Industrial Base (EDTIB). This primarily involves continuing initiatives that have already been launched, sometimes simplifying them (e.g., EDIRPA procedures20). Strong incentives and support for the defense industry (through government and EU guarantees, joint ventures, etc.) are also crucial, as is expanding the group of experts working for the EU on countering threats from the so-called active measures toolkit (especially disinformation).

In the context of the war in Ukraine, it is critical to consistently maintain and implement successive sanctions against the Russian Federation and Belarus (particularly in the military sector), as well as to increase political pressure on all countries supporting Russia in waging war (Iran, North Korea, and, to some extent, China and India). It is also vital to engage in dialogue with countries that may, sometimes unintentionally, supply Russia with technological and financial resources. Additionally, it is imperative to tighten sanction enforcement measures against companies violating these sanctions, regardless of their country of origin.

It is necessary to continue supporting Ukraine in the military sphere (EPF, EUMAM Ukraine) and in civilian matters, as well as to back its EU accession process, provide assistance to the Belarusian democratic opposition (e.g., through training programs for personnel), maintain close coordination with NATO on military-related projects (accelerating the implementation of the Military Mobility project), and enhance cooperation with allies outside the EU (such as the United States, Japan, South Korea, Australia, and the Philippines).

19 Andrius Kubilius, the designated Commissioner and former Prime Minister of Lithuania, during his hearing in the European Parliament, expressed a commitment to spending more, better, jointly, and in a European manner, fully utilizing existing instruments and resources, as well as considering securing additional resources that are still lacking to achieve our vital goals.

20 Commission implementing decision of 15.3.2024 on the financing of the instrument for the reinforcement of the European defense industry through common procurement (EDIRPA) established by Regulation (EU) 2023/2418 of the European Parliament and of the Council and the adoption of the work program for 2024-2025; Brussels, 15.3.2024 C(2024) 1700 final;

In the context of relations with the United States, as Europe's primary security guarantor, the EU must analyze the opportunities opened by the adoption of the first U.S. defense industry strategy in December 2023. Simultaneously, it is necessary to increase EU spending on research and development to reduce technological dependence, including in the military sector, on the United States (so-called technological sovereignty, particularly in the area of Key Enabling Technologies, KET).

This is particularly relevant given the trillion-dollar federal investments and subsidies enacted by President Biden's administration with Republican support, which put European industry in a challenging competitive position. The issue becomes even more pressing in light of President Trump's announcements of new tariffs on European products. In addition, his transactional approach to international relations raises concerns about Washington exerting pressure on the European Union and individual member states – especially those feeling threatened by Russia on the eastern flank – to align their actions with U.S. policy on China and temper the EU's response to potential new U.S. tariffs.

In the context of relations with countries of the so-called Global South, which – faced with Russia's declining market position and growing concerns about China's dominance – may, in the longer term, be more inclined to cooperate with the West, the EU should focus on closer collaboration not only in economic or cultural terms but also in the military sphere.

Key partners in this regard are non-European G20 members that are democratic states with significant demographic potential, growing economies, and developing military capabilities. Particular emphasis should be placed on building closer ties with India, as well as with other Southeast Asian nations that perceive potential threats from China.

Specific Objective: Enhancing the Effectiveness of the EU in Foreign Policy

Difficulties in reaching consensus on foreign policy issues – particularly evident during discussions on sanctions against Russia as well as relations with China and the United States – prompt reflection on the EU's capacity to act effectively on the international stage. The need to streamline the decision-making process in complex and contentious matters has led to considerations of mechanisms that could bypass the veto of a small minority while maintaining caution in matters of vital importance to individual Member States. Relying on unanimity remains a fundamental guarantee that no state or its opinions are excluded from the decision-making process.

An alternative is majority voting, in which a qualified majority requires the support of at least 55% of Council members representing participating Member States whose combined population constitutes at least 65% of the population of these states. Simultaneously, in other matters – where the Council does not act upon a proposal from the Commission or the High Representative of the Union for Foreign

Affairs and Security Policy – a qualified majority requires at least 72% of Council members representing participating Member States whose combined population constitutes at least 65% of the population of these states [21].

Between consensus and qualified majority voting, there is a significant difference in the required level of support. It is possible to test decision-making with a minimal deviation from consensus, in the form of a "super-qualified majority." **We wish to draw attention to the following proposals:**

- ### Unanimity minus one

The introduction of this principle would entail agreement on a given solution expressed by all Member States except one [22]. This principle could be further extended to "unanimity minus two or three." [23] The decision to transition to qualified majority voting would be taken after the conclusion of a transitional period. This would bring the EU closer to the goal of more efficient action and would prevent situations in which a Member State blocks a decision in one area of EU policy to obtain concessions in another.

- ### Consensus minus X

This is a decision-making method used in ASEAN [24]. It allows for the adoption of a given solution even if one country (or more, as outlined in X) raises objections. Under this approach, it is assumed that the dissenting country will, in the long term, align itself with the adopted solution. Such an approach is also envisioned in discussions regarding the potential removal of states that significantly violate the rules or fail to adhere to the ASEAN Charter [25].

- ### The Passerelle Clause

The current treaty framework allows EU Member States to unanimously decide in the Council of the EU to change the decision-making process in foreign affairs, for instance, by shifting to qualified majority voting.

- ### Abstention

This procedure enables one or even several Member States to constructively abstain from voting. It is worth noting that such abstention does not obstruct the work of the Council of the EU. This method was employed in 2023 by the European Council to circumvent a potential veto from Hungary. Prime Minister Orbán was persuaded to leave the meeting room during the decision-making process of EU leaders.

Specific Objective: Achieving EU Autonomy in Strategic Areas

Enhancing the security of the EU requires striving for strategic autonomy in areas critical to its functioning. This necessitates a significant expansion of the EU's competencies and financial capabilities in areas such as energy markets and energy, health, and technological security.

21 Article 238 – (Qualified Majority) – Treaty on the Functioning of the European Union (TFEU)
22 JANA PUGLIERIN, REINHARD BÜTIKOFER, NICOLE KOENIG,SERGEY LAGODINSKY SARA NANNI, Strengtheningthe EU's Global Capacity to ActImpetus for the EU reform debate, Heinrich Böll Foundation, October 2023.
23 Tomasz Zając, Reforma instytucjonalna, w „UE 2029: wyzwania i rekomendacje dla nowej Komisji Europejskiej"; red. Melchior Szczepanik, Jolanta Szymańska, Raport PISM 2024 str. 11
24 Power and Practice in Africa and Southeast Asia,Part III - The Association of Southeast Asian Nations rozdział 8 Extending the 'ASEAN Minus X' Formulastr. 224 – 252 Cambridge University Press2021 DOI:
25 Article 20, Paragraph 4 of the ASEAN Charter

Simultaneously, the EU must strengthen initiatives aimed at limiting the ability of enterprises from third countries, especially China, Russia, or other states hostile to the West, to acquire critical infrastructure within the EU and to access sensitive data.

Achieving independence in critical areas requires the EU's ability to organise joint procurement of strategic goods (e.g., antibiotics, selected medical equipment, semiconductors) and to plan development projects in these sectors using public-private partnership models.

This also involves ensuring supply security at the EU level, which in practice is challenging due to existing treaty and legislative arrangements. For instance, beyond the specific area of energy security 26, the European Union lacks a centralised supply security policy. Furthermore, this issue is not mentioned in EU treaties either as an objective or as a competence of the European Union.27

Specific Objective: Enhancing the EU's Cybersecurity While Advancing Digitalisation

The COVID-19 pandemic accelerated the digitalisation of EU member states but also exposed deficiencies in the interoperability of public systems, digital infrastructure, and intra-EU coordination. The absence of integrated systems for monitoring health data complicated the management of medical resources and system workloads, underscoring the need for the development of digital infrastructure to ensure continuity of operations and access to public services. In light of the war in Ukraine, the European Union has faced increasing threats from cyberattacks, highlighting the necessity to develop advanced tools to combat these threats and strengthen cooperation among EU members in the area of cybersecurity.

To address these challenges effectively, the EU must not only regulate technologies but also actively foster their development and enhance its adaptive capacity. Integrating the actions of member states and aligning regulations with dynamic changes, such as the rise of Industry 4.0, are crucial.

Key areas of EU reform identified to date include:

- Development and safeguarding of critical IT infrastructure across all sectors.
- Increased investment in solutions leveraging AI technologies.
- Harmonisation of regulations across member states.
- Enhancement of digital competencies for both institutional and individual users.

26 Competences under Article 194 of the Treaty on the Functioning of the European Union (TFEU)

27 See: Tomi TuominenKirsi-Maria HalonenSecurity of Supply: A National or European Competence?, Cambridge University Press: 16 October 2023; https://www.cambridge.org/core/journals/cambridge-yearbook-of-european-legal-studies/article/security-of-supply-a-national-or-european-competence/89F9D88BB6865C670F327D9DEE053503

Our report highlights additional areas of focus:

- Leveraging solutions from countries on the EU's eastern flank
- Establishing a European Risk Fund.
- Creating a European Digital Union.
- Fostering strategic synergies between the EU and the United States in the digital sphere.

a) Leveraging Solutions from EU's Eastern Flank

In both EU member states and its institutions, one of the obstacles to financing and implementing innovative technologies is a culturally ingrained aversion to risk and the conservatism of public institutions. Additionally, as social attitude studies confirm, the aspirations of individuals entering the job market often align with securing employment in public institutions or large corporations offering stable positions. A lack of entrepreneurial experience is one of the factors contributing to the underestimation of the bureaucratic complexity inherent in the operations of public institutions, business law, and European regulations. In this context, the countries of Central and Eastern Europe stand out, demonstrating a readiness to leapfrog intermediate stages of development and directly adopt cutting-edge technologies.

Estonia has become a leader in the use of digital technologies thanks to its youth and newly established firms eagerly embracing technological innovations, as well as the successive governments that prioritised digital solutions in public administration, making digitalisation a hallmark of the country. Poland leveraged its developmental lag during the Eastern Bloc era by skipping several stages of financial market development and rapidly advancing into digital banking, exemplified by innovative electronic payment applications like BLIK.

The experiences of countries that joined the EU over the past two decades highlight the importance of fostering entrepreneurship, defined as the willingness to take investment risks, establish and manage businesses, and embrace new solutions and technologies. Initiatives to promote entrepreneurial attitudes should be integrated into public education systems from an early stage.

b) European Risk Fund

The European technology market is highly diverse, with member states adopting different approaches to the digitalisation of their economies, which complicates the creation of a cohesive digital single market. Additionally, the low level of private technological investment in the EU (compared to the US and China) places it at a disadvantage both against the US and emerging Asian economies.

Technology companies in EU countries face difficulties accessing capital for high-risk ventures (venture capital), limiting their growth potential and contributing to the brain drain from Europe. The absence of European technological leaders leaves the EU dangerously dependent on external suppliers.

Supporting the digital transformation in Europe requires increased public funding. For this reason, we propose establishing a European Risk Fund. The European Union should foster the growth of domestic technology firms, attract investment, and secure digital sovereignty. Technologies such as AI, blockchain, IoT, and cloud computing must be widely accessible and implemented in compliance with ethical principles.

It is necessary to increase investment in new technologies for small and medium-sized enterprises (SMEs), which often face challenges in securing funds for research and development. Funding programs like Horizon Europe and Digital Europe can improve access to R&D financing for European startups. This support should include public-private partnerships that promote technological development, particularly in less developed regions of the EU.

c) European Digital Union

It is critical to establish digital infrastructure that enables interoperability between member states' systems. Investment should focus on expanding broadband networks, data centres, and cloud computing technologies. The European Investment Bank should play a greater role in providing preferential loans for large-scale projects, such as the development of 5G/6G networks and a European cloud computing ecosystem.

The development of artificial intelligence involves high energy consumption, posing challenges for the EU's energy transition. The Union should consider supporting nuclear energy and research into energy-efficient AI technologies. Promoting smart grids will enhance energy management, better aligning supply with demand, especially for data centres.

Reforming the EU in this area should include improved coordination among member states and faster adaptation of regulations to new technological developments. The EU must harmonise standards within the digital market to facilitate business operations and increase system interoperability. Unified regulations would be particularly beneficial in areas such as telemedicine, online education, and public administration.

The reform in this sector should aim to create uniform standards for the digital market, reducing barriers for companies seeking to enter markets in other EU countries. Such standardisation would enhance interoperability and support economic growth. To achieve technological sovereignty, the EU must develop digital infrastructure, including 5G and 6G networks, and support initiatives like Gaia-X as a European alternative for cloud services. Developing IoT standards and securing data through measures like the *Cyber Resilience Act* will aid the safe implementation of innovations across various economic sectors.

EU regulations in this field, such as the *Digital Services Act*[28], *Digital Market Act*[29], and *Artificial Intelligence Act*[30], should be reviewed for coherence. The EU could also establish permanent advisory teams to address market needs and assess regulatory framework adjustments. Strengthening the influence of

28 https://eur-lex.europa.eu/legal-content/PL/TXT/PDF/?uri=CELEX:32022R2065
29 https://eur-lex.europa.eu/legal-content/PL/TXT/PDF/?uri=CELEX:32022R1925
30 https://eur-lex.europa.eu/legal-content/PL/TXT/PDF/?uri=OJ:L_202401689

European regulations on the international stage will require collaboration with non-EU countries, particularly with the US, including through platforms like the EU–US Trade and Technology Council.

d) Strategic EU–US Synergy

Technological cooperation between the European Union and the United States represents one of the key challenges in transatlantic relations. Questions arise about the foundation of such a relationship, especially when one partner is noticeably weaker. American policymakers often appear to undervalue the European market and its potential. This is compounded by a lack of appreciation for the scale of US investments in Europe and European investments in the US, which significantly surpass those in China.

The US maintains clear dominance in areas such as artificial intelligence, cloud computing, and the space industry. On the other hand, the EU possesses a vast market and significant technological potential that could complement US capabilities. While recognising the risks associated with dependency on American technologies, the EU can emphasise its "soft power" in the regulatory domain. This is especially relevant as the rapid development of AI algorithms gives rise to unprecedented risks, including intellectual property violations, privacy threats, disinformation, cybersecurity challenges, and ethical concerns.

Strategic synergy is founded on the premise that while Europe and the US may have divergent interests in many economic sectors, the EU's notable lag in areas like artificial intelligence encourages the pursuit of transatlantic collaboration. Bridging this technological gap will require substantial financial and organisational efforts. Given the current landscape of global threats and instability, technological cooperation with the US becomes vital. This necessity is underscored by the limited achievements of the EU–US Trade and Technology Council thus far.

We assume a transatlantic perspective: Despite differences in interests and regulations, the United States remains Europe's natural and most important economic partner, particularly in advanced technologies. For smaller EU economies and small and medium-sized enterprises (SMEs), the high cost or lack of access to cutting-edge technologies developed across the Atlantic could result in marginalisation and loss of competitiveness. In this context, strategic synergy provides an alternative to the risks associated with the concept of strategic autonomy, which in its absolute form could weaken Europe's position in the global technological race.

Importantly, the EU highlights the less visible civilisational and societal consequences of unchecked technological progress – issues often overlooked across the Atlantic. These include data protection, ethical dimensions of artificial intelligence, and the impact of technology on labour markets. In these areas, Europe has assumed a leadership role, as evidenced by regulations such as the General Data Protection Regulation (GDPR) and ongoing work on EU standards for artificial intelligence. However, excessive regulation within the EU risks stifling innovation and undermining competitiveness.

In transatlantic relations, emphasis should be placed on interdependence and the development of intercontinental projects. For this cooperation to be effective, it must be grounded in strategic synergy rather than the dominance of one side. There are significant interdependencies that could foster trust-based relationships, such as joint research efforts in medical technology and the development of digital security standards.

The future of transatlantic cooperation requires initiation of strategic technological projects capable of setting the tone for this collaboration. Such projects, grounded in shared values and priorities, could encompass the development of energy technologies, global standards for artificial intelligence, and space technologies. These initiatives would address the challenges of global competition and enable the EU and the US to maintain a pivotal role in shaping the global technological landscape. It is in the mutual interest of both parties to prevent individual European countries from seeking cheaper technologies in states with hostile intentions towards the West, such as China, as evidenced in the case of 5G technology.

A key task will be to establish a model of cooperation that accommodates differences in regulatory approaches and addresses concerns about dominance by one party. Europe focuses on developing its research base, supporting start-ups, and improving knowledge and innovation transfer to industry to better harness its potential. Cooperation with the United States can facilitate this process. Furthermore, strengthening strategic synergy should help mitigate the risks of technological dependence on other states, particularly China.

Both America and Europe share a common distrust of China and other authoritarian countries. While rejecting the American approach of decoupling from Beijing, the EU has adopted a principle of risk reduction (derisking), primarily fearing economic and technological dependency.

China is not only advancing its technological capabilities at an accelerating pace but is also striving to set global standards, which could marginalise European and American achievements in this domain. Additionally, Beijing leverages new technologies for societal control and surveillance, practices that are fundamentally at odds with Western values. Uncertainty about China's intentions and its inseparability of politics from economics encourage Americans and Europeans to collaborate and capitalise on their existing interdependencies.

Transatlantic synergy should not be limited to a one-sided approach – American companies could also benefit from the development of European technological potential. For instance, collaboration in developing technological infrastructure, such as data centres, semiconductors, and cloud technologies, could yield mutual advantages, boosting the innovation capacity of European SMEs and granting them greater access to new technologies.

Implementing the concept of strategic synergy requires the definition of concrete steps and mechanisms for collaboration.

The critical actions include:

- **Joint Research and Development Programs:** The EU and the US should initiate projects jointly funded by both sides, particularly in areas such as artificial intelligence, green technologies, and cybersecurity.
- **Expansion of Technological Infrastructure:** Europe, in collaboration with American technological leaders, should advance the development of data centres, 5G/6G networks, and supercomputers.
- **Regulatory Harmonisation:** The EU and the US should work towards common standards in key areas such as data protection, to prevent barriers to technological exchange.
- **Support for SMEs:** Grant and mentoring programs should enable smaller firms to access cutting-edge technologies and expertise.
- **Promotion of Public Awareness:** Informing the public about the benefits of synergy at social and political levels will help build broad support for this initiative. Accompanying this, training in the use of the most advanced digital technologies will enhance the skills of businesses and workers, fostering greater innovation and competitiveness.

The implementation of strategic synergy can yield significant benefits at both the macroeconomic level and in ways tangible to citizens and businesses.

Key advantages include:

- **Development of Small and Medium Enterprises (SMEs):** Access to advanced technologies through partnerships with the US will enable SMEs to enhance innovation and participate in global value chains.
- **Improved Quality of Life for Citizens:** New technologies can deliver benefits in areas such as healthcare, education, and the digitisation of public services.
- **Enhanced Cybersecurity:** Transatlantic collaboration can reduce the risk of cyberattacks and increase the resilience of Europe's digital infrastructure.

At the same time, it is crucial to emphasise that synergy built on interdependence, rather than unilateral dependence, will help mitigate the risks associated with losing control over key technological sectors in Europe.

Specific Objective: Strengthening the Resilience of EU Societies Against Disinformation and Other Threats

The resilience crisis in Europe stems from multiple factors, primarily the rapid development of new technologies combined with external threats and increasing crises, including those driven by climate change. Former Finnish Prime Minister Sauli Niinistö[31] has provided an analysis of this issue. His report, referenced in letters to candidates for EU Commissioners, emphasises the necessity of a unified EU approach to integrating state security with civil resilience. The aim is to enhance the capacity for rapid response to natural disasters and other emergencies, based on cooperation between governments and citizens, with a central role played by the European Union.

This strategy of "comprehensive resilience" acknowledges the interconnected nature of security in an era marked by threats from Russia, acts of sabotage targeting critical infrastructure, geopolitical instability, and societal exposure to disinformation campaigns by hostile states, as well as climatic and health-related disasters. This necessitates greater information sharing and collaboration among Member States in the most sensitive areas, such as the operations of intelligence and security services. The lack of such cooperation, coupled with limited trust between states, hinders effective counteraction against hybrid threats like disinformation, cyberattacks, and sabotage.

a) Combating Disinformation and Hybrid Threats

Disinformation and hybrid attacks pose significant risks to the cohesion and security of the EU. A major issue in this area remains the underestimation of the scale of societal penetration by hostile external forces and the vulnerabilities of information systems, which make the Union susceptible to data theft, manipulation, and disinformation.

The EU should enhance its tools for monitoring cyber threats, especially in the context of the ongoing war in Ukraine and documented attempts to influence elections. Strengthening the European Cybersecurity Competence Centre will enable more effective coordination and support for research into technologies that protect against cyberattacks.

The priority should not only be to expand the capacity to respond to such threats but also to raise awareness among Member State administrations, businesses, and societies about the scale of these challenges and to develop collective methods for countering them. We propose the creation of a separate institution dedicated to combating disinformation, independent of the European External Action Service (EEAS), with its own budget. Additionally, the operational capacity of the East StratCom Task Force, which currently focuses primarily on identifying and analysing disinformation, should be significantly enhanced to include active countermeasures in collaboration with similar institutions in Member States.

31 Safer Together. Strengthening Europe's Civilian and Military Preparedness and Readiness"; report by Sauli Niinistö, former President of the Republic of Finland, In his capacity as Special Adviser to the President of the European Commission; October 2024;

Similarly, the *European Endowment for Democracy (EED)* should expand its initiatives beyond supporting neighbouring countries to include efforts within the EU itself.

The EU must not only improve the monitoring of threats but also extend educational strategies about disinformation. In collaboration with Member State governments, regular educational campaigns targeting the general public, businesses, and public institutions should be conducted throughout the EU. The *Code of Practice on Disinformation* and the *Digital Services Act* can support these efforts by improving the management of online content.

b) Collaboration in Natural Disaster Response

The consequences of natural disasters go beyond immense infrastructural damage, bringing tragic social and economic impacts that often exceed the response capacities of individual countries. In this context, it is critical to enhance the EU's ability to prevent and mitigate the effects of such events.

Individual Member States frequently lack sufficient resources and capabilities to effectively manage large-scale natural disasters. Maintaining adequate equipment, rescue personnel, and technical resources requires substantial financial investment, often surpassing the budgetary capacities of many countries. Additionally, natural disasters do not respect borders and often affect multiple nations simultaneously, making effective management reliant on international coordination. Examples such as the 2014 Balkan floods, the 2021 wildfires in Greece, and earthquakes in Italy illustrate the challenges of rapid and effective crisis response without external support. In such cases, affected countries often appeal for assistance from other Member States or directly from the European Union, highlighting the need for a stronger, more coordinated response mechanism at the EU level.

The European Union, as a community of states, could utilize its resources and potential more effectively than individual Member States acting alone. This concept is extensively addressed in the report prepared by Niinistö. Enhancing the EU's capacity to mitigate the effects of natural disasters exemplifies the application of European Added Value, based on resource sharing and joint responses to shared challenges.

Building a collective European capacity for disaster prevention and response could include the development of shared technical resources, such as an aerial firefighting fleet, specialized equipment for mitigating the effects of floods or earthquakes, and other necessary tools. This effort should be supported by increased funding for prevention and adaptation, including investments in disaster-resilient infrastructure, the development of early warning systems, and research into the impacts of climate change. The entire system should operate on the principles of shared risk management and co-financing to maintain Europe's operational capacity to respond to natural disasters effectively.

A stronger EU-level capacity should not replace the efforts undertaken primarily by Member States in enhancing prevention measures. Such measures are crucial for reducing the scale and cost of disaster recovery. Rather than operating reactively, Member States should focus on building resilience to future threats, with immediate and substantial support available at the EU level in the event of a disaster.

A model for this cooperation can be found in the EU's actions in other areas, such as the Common Security Policy or the development of European rapid response forces. Similarly, a shared capacity for addressing natural disasters would enable more effective action and better protection for EU citizens while also fostering greater public appreciation of European integration.

c) Countering Eurosceptic Demagoguery

Populist and eurosceptic parties and movements seek to gain popularity by offering simplistic solutions to complex problems, which often appeals to disenchanted voters. These politicians frequently rely on sovereignist and anti-EU rhetoric, blaming EU institutions for their inability to implement desired changes.

Populist political forces fail to recognise the collaborative EU framework as serving the common interests of Member States and their societies. Instead, they portray it as an obstacle limiting their ability to pursue domestic policies. This often leads to escalating tensions between EU institutions and governments where populist parties hold sway, resulting in conflicts over the rule of law. Examples include instances in several Member States where governments sought to undermine judicial independence or violate democratic standards. Relationships between some national governments and EU institutions have even been marked by publicly declared and intentional non-compliance with European law or disregard for European Court of Justice rulings.

One of the most significant challenges posed by populist and eurosceptic governments is their impact on EU decision-making processes. Every Member State wields influence over key decisions, and changes to EU treaties require unanimity. Thus, even a single eurosceptic government can effectively block reforms aimed at deepening integration. Furthermore, in countries where treaty changes must be approved via referendum, the rise of populism and euroscepticism increases the risk of societal rejection. Brexit exemplifies how anti-European sentiments, fuelled by populist rhetoric, can have a profoundly negative effect on EU unity.

Despite, or perhaps precisely because of the negative impact of, rising populism should serve as an impetus for EU reforms. Current challenges such as the climate crisis, geopolitical conflicts, and the need to ensure energy security also affect countries governed by populist parties. For this reason, even eurosceptic governments may be compelled to accept greater cooperation at the EU level if it proves essential to addressing common problems.

In this way, the challenges facing Europe could act as a catalyst, mobilising member states towards more decisive and united action. By demonstrating the indispensability of collective efforts in tackling transnational issues, the EU has the opportunity to showcase its added value, even to the most sceptical of its members.

Actions for Objective 2: Enhancing the EU Economy's Innovation Capacity

Specific Objective: Increasing Competitiveness, Innovation, and Productivity

The Draghi Report, which has become a reference point and foundation for programming European policies under the new European Commission, offers a comprehensive diagnosis of the causes behind Europe's sluggish productivity growth, significantly affecting the ability of EU economies to compete in global markets[32]. It convincingly outlines the challenges in this area and provides recommendations on how the European Union should respond. However, the report has certain analytical weaknesses that warrant attention, particularly regarding omitted issues and the need to supplement some recommendations.

a) Overlooking Central and Eastern Europe

The document focuses primarily on the largest Eurozone economies, overlooking the more diverse needs of smaller EU member states. This emphasis on the major players limits the universal applicability of the recommendations. Draghi does not address the significant variation in economic growth and productivity rates within the European Union, nor does he draw inspiration from the experiences of those EU countries that have undergone periods of high and uninterrupted growth [33]. Even if such growth was partially driven by a convergence effect towards the European average, its positive impact on the growth rates of other EU economies has been considerable. For instance, intra-EU trade between Germany and Poland has reached levels comparable to Germany's trade with China.

Acknowledging the potential for enhancing competitiveness through increased intra-EU trade with fast-growing economies outside the Eurozone is critical. The experiences of Poland and other countries in the region are rooted in comprehensive openness to international cooperation. Exposure to competition from established and wealthier firms from other EU countries required deep, often challenging adjustments, yet this fostered accelerated economic growth. This expansion and trade liberalization benefited Poland's economy, other "new" member states, and the European Union as a whole.

Ultimately, the strength and effectiveness of the European Union rely on the efficiency of its constituent economies. Hence, the importance of completing and reinforcing the single market, unlocking untapped entrepreneurial potential, fostering growth, and ensuring the openness of the EU's economy and its ability to compete on a global scale. This will also facilitate the adoption and development of new technologies that are critical to the future of the European economy.

32 The future of European competitiveness Part A | A competitiveness strategy for Europe; September 2024, https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdfThe future of European competitiveness Part B. In-depth analysis and recommendations, September 2024https://commission.europa.eu/document/download/ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en?filename=The%20future%20of%20European%20competitiveness_%20In-depth%20analysis%20and%20recommendations_0.pdf

33 M. Bernatt,, K. Cseres, A New Vision of EU Competition Policy Is Incomplete Without Central-Eastern Europe; PROMARKET, Stigler Center for the Study of the Economy and of the State, Chicago December 18, 2024

b) Underestimating the Role of SMEs

One notable characteristic of the report is its excessive focus on large enterprises and large-scale projects that could achieve results comparable to companies in the United States or China. It is crucial to recognize the significant role of small and medium-sized enterprises (SMEs), whose condition and growth potential are critical for the competitiveness of Europe as a whole. The example of Poland demonstrates that unlocking the entrepreneurial potential of citizens can accelerate economic growth and contribute to the diversification of the economy.

There is also a noticeable contradiction between the proposals to strengthen the global position of large European firms, the so-called "champions," without adequately considering their competitive position within the EU single market in relation to other large, medium, and small enterprises. The consolidation of large companies to enable them to compete with Chinese and American giants could lead to the abuse of their market position within the EU vis-à-vis numerous suppliers or buyers of their products.

While acknowledging the necessity of creating European entities capable of competing with major global corporations, it is also important to note that the most innovative American companies in the digital economy (e.g., Google, Amazon, Facebook, Microsoft, Apple, and OpenAI) did not emerge through the consolidation of already large firms. The example of fragmented telecommunications firms as a weakness of Europe is not entirely appropriate, as companies in this sector were not the drivers of innovation in information technology. Similarly, the revolution in the electrification and automation of road transport was not initiated by large automotive companies.

The competitiveness of economies stems from the ability of enterprises to compete. It is businesses that buy and sell in domestic and foreign markets, calculate costs, and generate profits. It is companies that engage in trade interactions where they must demonstrate their ability to withstand global competition. Moreover, enterprises supplying components for final production also contribute to the competitive capacity of European exporters.

Maintaining the health of all businesses, not only exporters, is fundamental to improving the competitiveness of the entire European economy. This idea is reflected in the recommendations concerning the Single Market in Enrico Letta's Report. However, the proposals outlined therein are largely aspirational and do not necessarily provide concrete solutions in all areas to facilitate the operations of all European businesses.

c) Subordination of Trade to Industrial Interests

The report also proposes aligning trade policy with industrial policy, which could further weaken the WTO system and violate free trade principles, particularly regarding subsidies and state aid. This applies equally to the numerous bilateral agreements concluded by the EU, which have provided increased access to foreign markets but at the cost of slowing the momentum for reducing trade barriers within the WTO framework. It is also important to acknowledge the benefits that European economies have derived from the existing system of an open economy, adherence to globally established rules, and the promotion of fair international competition standards.

Although Draghi advocates a more "realistic" economic policy, the lack of a precise analysis of the concept of "naivety" in trade strategy leaves his recommendations open to broad interpretation, offering little clarity about their implications for macro- and microeconomic policy choices at the levels of the EU, national governments, and individual enterprises. The proposal for an industrial policy supporting the development of modern industries is based on the premise that all other major partners follow similar practices. However, the European Union, with its complex decision-making processes resulting in highly intricate compromises due to political pressures and sectoral interests, is not ideally suited to implement an extensive, well-conceived, and effective industrial policy. There is also a question regarding the feasibility of coherent action given the incomplete set of tools, the fragmentation of responsibilities across different institutions, and the limited legal basis.[34]

It is not merely a matter of determining desired development directions but also of deciding which specific companies and projects will receive public financial support. It should also be noted that while actions involving financial support for industries are relatively well-defined, little attention has been paid to the policy and instruments for phasing out undesirable sectors. This includes the socially and economically significant issue of closing down business operations, corporate bankruptcies, and so-called stranded costs.

The effectiveness of such a policy requires much stronger ties, or even a kind of integration, between business interests and state institutions conducting economic policy. While this may be easier to achieve at the level of individual member states, it is significantly more challenging across the entire European Union. Moreover, although the peak of enthusiasm for the successes of such relationships and the efficiency of China's managed economy is behind us, there has been little evaluation of the long-term consequences of this policy, as evidenced by experiences in countries like Japan.

d) Imitation Instead of Creativity

Draghi also highlights the need to intensify technological development, but his approach lacks clarity regarding the strategy for selecting fields where Europe has a genuine chance to achieve a competitive edge. His perspective suggests an ambition to emulate the United States and other technological powerhouses, without sufficient consideration of whether such an approach is feasible or advantageous for the EU. For instance, in semiconductor production, duplicating U.S. investments may not yield comparable results in Europe. At the same time, achieving valuable technological independence from non-EU suppliers remains a crucial goal. As competitors invest in semiconductor manufacturing, the EU and individual governments are also committing subsidies to firms willing to establish production. However, beyond investment funds, a broader effort is necessary to create an ecosystem conducive to fostering advanced technology manufacturing.

Instead of directly adopting external models, the EU should develop a well-grounded strategy that addresses its specific needs, potential, and capabilities. This includes prioritising technological independence and security, such as the imperative to advance indigenous digital technologies.

34 Paul Dermine Maria Patrin,Legal Foundations for a New EU Industrial Policyhttps://leap.luiss.it/wp-content/uploads/2024/10/WP3.24-Legal-Foundations-for-a-New-EU-Industrial-Policy.pdf

e) Underestimation of the Role of Cohesion Policy

In our view, cohesion policy plays a crucial role in strengthening the economies of all EU member states. Poland's experience demonstrates that cohesion policy significantly contributes to increasing the competitiveness of businesses when funds are effectively directed towards investments in infrastructure, innovation, and regional development. Enterprises benefiting from improved infrastructure, access to modern technologies, or programs supporting research and development can operate more effectively in both local and global markets.

Lower transport costs due to improved roads and railways, the development of digital infrastructure, and access to skilled workers supported by EU-funded educational and training programs enable businesses from less-developed regions to compete on more equal terms with firms from more advanced EU economies. This fosters healthy competition, enhancing a growing, more balanced, and dynamic internal market.

Reducing developmental and infrastructural disparities through cohesion policy not only increases the prosperity of residents in supported regions but also brings benefits to all member states. A more efficient transport and energy network, the development of local markets, and a reduction in internal migration due to improved living conditions in less affluent regions support the development, stability, and cohesion of the entire European Union.

Maintaining and advancing cohesion policy is therefore essential to address the challenges faced by the European economy. In the face of global competition and crises, this policy is an effective tool for enhancing the competitiveness of the entire European economy by unlocking the potential of all EU regions. In particular, it facilitates the shortening and retention of supply and value chains within the EU, fostering greater economic resilience to external shocks and reinforcing the EU's open strategic autonomy.

Specific Objective: Balancing European Industrial Policy

The implementation of the Paris Agreement and rapid technological advancements have sparked new competition among global economies to achieve competitive advantages through zero- and low-emission technologies. Examples of this trend include the U.S. Inflation Reduction Act (IRA), China's 14th Five-Year Plan, and Japan's Green Transformation Plan, all of which aim to support the development of green technology industries.

To meet the goals of the Paris Agreement, the European Union adopted the ambitious European Green Deal, relying on businesses to adapt to the new regulations. However, the scale of the required changes, unequal levels of support across regions, and competitive pressure from countries with less stringent climate policies have weakened the European economy.

The European industrial sector, burdened by the costs of transformation, is becoming less competitive in global markets. In countries outside the EU, such as the United States and China, the financial burden of the green transition is less pronounced. The report prepared by Mario Draghi highlights a significant gap between the situation in Europe and its global partners. This disparity has led to an outflow of investments and increased challenges for European companies like ThyssenKrupp, Volkswagen, and other automotive sector enterprises, which face rising production costs and regulatory pressure on one hand, and competition from heavily subsidised Chinese production and exports on the other.

The EU must strike a balance between ambitious climate goals and the need to ensure economic competitiveness and social prosperity. Reforms within the European Union should facilitate this balance. As Ursula von der Leyen has announced, European industrial policy will become a political priority, with plans to establish a European Competitiveness Fund.

a) European Competitiveness Fund

We support the consideration of focusing European industrial policy on levelling competitiveness with the United States and launching the European Competitiveness Fund at a scale comparable to the funding allocated under the U.S. *Inflation Reduction Act* (IRA). Given Europe's developmental lag, particularly in the commercial adoption of green technologies, it is recommended that the fund become operational as early as possible, ideally by 2027, following the conclusion of the *Next Generation EU* program.

We propose financing the fund through the issuance of joint EU debt, which would alleviate the significant existing pressure on the EU budget and avoid competition between industrial policy priorities and traditionally funded areas, such as agricultural or cohesion policies. The allocation of the European Competitiveness Fund among member states should take into account employment levels in key industrial sectors, while also supporting those countries that have more to catch up on in their transition towards climate neutrality.

The issuance of joint debt should serve as an opportunity to initiate discussions on expanding the EU's catalogue of own resources, particularly through the taxation of technological giants operating in the European market. This would create robust frameworks for sustainably generating revenues to ensure future debt repayment. To facilitate this, the repayment of loans taken for the European Competitiveness Fund could begin later, for example in 2034, and be extended, as with the *Next Generation EU* program, over the subsequent 30 years.

The European Competitiveness Fund should support the industrial transformation of the EU towards climate neutrality, tied to proven efficiency and innovation. This fund should adopt a business-oriented approach to the greatest extent possible to prevent situations where companies undergoing transformation become excessively dependent on received support.

Even with such an approach, it will be impossible to completely avoid the risk of unsuccessful or unprofitable investments, as evidenced by the recent bankruptcies of companies like Northvolt [35] and Lilium [36].

35 Northvolt's struggles: a cautionary tale for the EU Clean Industrial Deal. In designing a new industrial policy, the European Commission should reflect on the troubles of the Swedish battery maker, Simone Tagliapietra, Cecilia Trasi, Bruegel, 11 december 2024, https://www.bruegel.org/analysis/northvolts-struggles-cautionary-tale-eu-clean-industrial-deal

36 https://www.linkedin.com/posts/annmettler_northvolt-rescue-on-verge-of-unraveling-as-activity-7264004287108628484-CJQo/

The goal should be to maintain the competitiveness of European firms, particularly those capable of employing highly qualified, innovative workers and offering jobs in Europe's clean-tech industries. This is a necessary condition for linking developmental objectives with the preservation of the European social model and its values.

The answer to whether it is possible to create an EU energy policy that ensures secure energy supply at reduced costs and operates in the spirit of solidarity is affirmative. However, achieving such a state requires difficult reforms to overcome existing barriers and national particularisms. A key step will be establishing a fully functional common energy market and ensuring effective competition within it. Market mechanisms, supported by independent energy regulators, can guarantee the Union a high level of supply security and lower energy prices for all member states. Actions in this area should include transparency, solidarity, and a non-discriminatory national policy consistent with the principles of the EU's common energy market.

The common energy market, resulting from the liberalisation process and based on the free flow of goods and services among member states, can help minimise risks associated with the dominance of national interests. The construction and modernisation of energy infrastructure in the EU – such as interconnectors, energy storage facilities, LNG terminals, underground gas storage, and pipelines – combined with a liberalised common energy market, will enable member states to achieve comparable energy balances and import dependencies. As a result, EU countries will have more aligned interests and expectations regarding a common energy policy, fostering energy security and solidarity.

Although Article 192(2), in conjunction with Article 194(2) of the Treaty on the Functioning of the European Union (TFEU), grants member states some discretion in selecting energy sources and supply structures, Article 114 TFEU could serve as a legal basis for harmonising and aligning national regulations. The European Parliament and the Council, following the ordinary legislative procedure, can initiate measures to facilitate the functioning of the internal market in this area, enabling more effective integration of national energy policies.

Further diversification of energy sources within the common market and the development of a coherent external policy in this domain are also necessary. Establishing a unified EU stance towards external energy suppliers could prevent the use of energy as a political tool, thereby minimising the risk of fragmenting member states' unity on energy security.

The EU's energy policy in the area of security and solidarity requires overcoming numerous barriers rooted in diverse national interests. Despite periodic stagnation and conflicts, integrative processes within the EU over the past decades have resulted in significant legislative changes at both the EU and national levels, moving member states closer to establishing a common energy policy.

While there are already legal foundations for integration, such as Article 194 TFEU and secondary legislation, achieving full energy solidarity primarily requires political will. Divergences in individual member states' approaches to gas supply security and external relations remain obstacles to the creation of a unified and cohesive EU energy policy. Building a common energy market that enables free trade between countries could help align energy and import balances, lower prices, and strengthen energy security and solidarity across the Union, while also mitigating internal tensions.

b) What's next for the Green Deal?

The green transition is an extremely ambitious project. The increasingly evident effects of climate change constitute a critical rationale for responsible European Union policies[37]. Maintaining the status quo may prove far more costly in the long term. Public opinion also supports the necessity of immediate action to counteract climate change. Though delayed, specific measures adopted to implement the Green Deal are now being widely and fully applied [38]. Despite broad support for such policies, it is important to ensure that rising living costs and economic uncertainty do not lead the public to perceive progress in this transition as the source of the European economy's challenges.

The implementation of the Green Deal is often linked to increasing energy costs, which, however, are driven by rising commodity prices, supply shocks, geopolitical circumstances, and the carbon emissions trading system (ETS). Moreover, under certain conditions, decarbonising energy production can enhance competitiveness and foster the development of the European economy.[39].

In particular, the implementation of the next phase of emissions trading, known as ETS 2, will be noticeable as it largely impacts consumers directly. Higher energy costs are felt by consumers as a direct burden on their purchasing power. The adopted pace of the Green Deal raises concerns about overly rapid changes that exceed the adaptive capacities of member states' economies. Not all countries are equally prepared for such an intense transformation, leading to inequalities among member states. Regions heavily reliant on fossil fuels, such as Poland or the Czech Republic, bear higher economic and social costs. Efforts to offset these costs through public subsidies, which only some countries can afford, exacerbate disparities within the EU.

Public opinion surveys highlight that key concerns for citizens are security, the cost of living, energy expenses, and economic prospects, overshadowing the urgency of climate action. The lack of public support for reforms may result in reluctance to take further steps, threatening the achievement of the EU's climate goals.

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37 Dimitar Lilkow A Better Deal for Climate and European Competitiveness: Policy Proposals for the European Centre–Right, Wilfried Martens Centre for European Studies, Oectober 2024, https://www.martenscentre.eu/wp-content/uploads/2024/10/A-Better-Deal-for-Climate-and-European-Competitiveness.pdf

38 Irina Kustowa, Between a Rock and Hard Place: Energy and Carbon in the new Political Cycle, CEPS October 2024 , https://cdn.ceps.eu/wp-content/uploads/2024/10/2030-08_ERCC-1-1.pdf

39 Conall Heussaff Decarbonising for competitiveness: four ways to reduce European energy prices, Policy Brief Issue n°31/24 | December 2024

EU reform must consider these social and economic costs of the green transition. The Green Deal, while ambitious and necessary in the context of climate change, requires the pace of change to align with the adaptive capabilities of economies and societies. To secure public acceptance for further actions, supportive measures are critical, such as investments in new technologies, compensatory funds for the states and regions most affected by the transition, or relief for the most vulnerable social groups. This necessitates increased financial resources, which neither the budgets of most member states nor the current EU budget can adequately provide.

Specific Objective: Establishing the European Capital Markets Union

Even the largest European stock exchanges are relatively small on a global scale. Considerable effort is required to transform the Capital Markets Union (CMU) from an ambitious project into a genuine mechanism for the functioning of a unified capital market within the European Union. The diagnosis of issues is extensively covered in the reports by Letta and Draghi, but concrete progress remains to be achieved. Existing proposals do not address the profound structural challenges hindering capital market integration.

The engagement of EU members with the largest domestic capital markets is essential. The lack of a unified approach between France and Germany raises concerns that the fragmentation of the capital market cannot be overcome. Such fragmentation negatively impacts innovation and economic growth. For Polish firms, the absence of integrated capital markets increases the cost of borrowing and limits access to venture capital, hindering the growth of innovative sectors. Without the ability to raise capital in European markets, these firms often turn to the United States, sometimes even relocating their activities there. The solution lies in addressing at least the most burdensome regulatory disparities between member states, particularly in the areas of tax policies and insolvency rules.

Moreover, the functioning of the capital market is influenced by numerous, even seemingly minor, differences in regulations, interpretations, and the approaches of national regulators. An integrated European capital market can play a crucial role in building a strong and competitive economy. Its importance can be seen in several key areas:

- **Financing innovation and start-ups:** An integrated market provides better access to capital for young, innovative enterprises and unlisted companies, ensuring they have the resources to grow. This is particularly vital for the technology sector and the continuation of the green transition.
- **Facilitating public listings:** An integrated capital market can significantly ease the process for companies entering stock exchanges and raising public capital by reducing barriers and costs associated with complying with regulations in each individual member state and navigating differences among national markets.

- **Long-term investments:** A cohesive market can facilitate funding for infrastructure projects and sustainable investments, supporting the EU's climate goals and building a more resilient economy.
- **Retail investments:** Capital market integration across the EU can create greater opportunities for retail investors, offering them a broader range of investment products and more competitive conditions.
- **Strengthening banking potential:** Through integration, banks may gain better access to capital, increasing their capacity to support the real economy, particularly small and medium-sized enterprises.
- **Cross-border investments:** A harmonized capital market, by eliminating barriers to the flow of capital between member states, can promote greater diversification and efficiency of investments across Europe.

Efforts toward an integrated capital market will lay a solid foundation for economic growth and innovation within the European Union.

Actions for Objective 3: Maintaining citizens' prosperity and a high quality of life in EU countries

Specific Objective: Establishing a European Social Union

While EU member states have deepened political, economic, and partially monetary integration, insufficient steps have been taken to create a common social policy. Social policy remains primarily the domain of individual states, largely due to differences in wealth and development levels. The EU's actions in this field are mostly limited to coordinating national social welfare systems and implementing "soft law."

At the same time, Europe faces numerous social challenges, including an aging population, low birth rates among Europeans, increased immigration, changes in the labor market, and growing mental health issues. These challenges necessitate systemic solutions that can encompass the entire Union.

The lack of common funding and coordination of public policies, coupled with the focus on spending for security, competitiveness, cohesion policy, infrastructure, energy, or decarbonization, risks limiting resources for key social objectives. There is a need to overcome the belief that social policy is exclusively a national competence.

The European Union should strive to harmonize regulations in health, education, labor, and social services to ensure equal access to these services for all citizens, regardless of their place of residence. Reforms must include increasing funding for social programs, extending structural funds to cover new social areas, and improving the targeting of EU-funded projects.

For the Social Union to become a reality, a common model of social policy and a new social strategy are required – one that addresses future challenges, including a balanced migration policy, support for dependent individuals, and the construction of social housing, particularly crucial for young families. The adoption of the European Pillar of Social Rights and the modest investments in social policy to date have shown promising results, but they require further continuation and expansion.

Investment in Social Policy

Individual welfare states, through their public institutions alone, cannot address the social challenges of the future – collaboration within the EU and the creation of supranational policies (principle of supremacy) are critical. Moreover, there is a need to develop a multi-sectoral social policy involving NGOs, social enterprises, the informal sector, and the private sector (*welfare pluralism/welfare mix*). Localized actions (principle of subsidiarity) are crucial for developing social services, promoting deinstitutionalization, and expanding the social economy.

EU social policy should prioritize further integration and harmonization of regulations rather than merely coordinating social security systems or employing open coordination methods through so-called *soft law*. It is necessary to establish new social programs, including those engaging young people who require stronger identification with the EU.

There is a need to balance the EU's regulatory and redistributive functions in social policy – setting norms and standards currently dominates over expenditure on social objectives.

As part of its communal social policy, the EU should design joint programs and projects for migrants, youth, and dependent individuals (including long-term care through deinstitutionalization), as well as family and household support programs, particularly in the context of raising children and educating them for a multicultural reality.

Change could be achieved through the implementation of a social strategy of "progressive convergence," which would aim to elevate countries with lower social standards to higher levels of service quality as part of the EU's neosolidarity efforts in social policy.

European social policy should be managed through a framework of multilevel governance and coordination. It is important to expand project opportunities in the social sphere while also strengthening oversight of the allocation and utilization of EU funds in individual member states.

Many EU-funded projects are poorly targeted or even wasted. Some member states, including Poland, rarely integrate the outcomes and deliverables of projects into mainstream policies (mainstreaming). This applies to both systemic and competitive projects.

There is a need for initiatives aimed at fostering social innovations, as well as more universal and inclusive projects that reach broader social groups. These initiatives should offer quick access to personalized and integrated social services available within local environments of citizens.

Actions for Objective 4: Strengthening Democracy and Civil Liberties in the EU

Specific Objective: Ensuring Compliance with the Rule of Law by Member States

The effectiveness of EU reform largely hinges on a shared understanding of threats to democracy among all member states and on achieving the broadest possible consensus in their responses to external changes affecting the EU. More than ever, the success of European integration depends on the quality of governance within its member states. Consequently, the outcomes of reforms are closely tied to adherence to treaty rules, including ensuring compliance with fundamental principles of the rule of law.

The challenges to the rule of law observed in some member states over the past decade have become a significant driver for reforming the European Union. This is because the effectiveness of these reforms greatly depends on a shared perception of threats and the alignment of member states' positions. For Poland, now seen as a successful example of overcoming a period of legal violations through a democratic change in government following the 2023 elections, strengthening EU mechanisms to safeguard the rule of law is of vital interest.

Key Actions for Poland in Strengthening the Rule of Law within the EU:

- **Providing Firm Support for the European Parliament Resolution of 22 November 2023:** Actively backing the proposals contained in the resolution to reinforce the Article 7 TEU procedure, with a particular focus on strengthening the role of the Court of Justice of the European Union (CJEU). Ultimately, this will require the adoption of a revision treaty.

- **Enhancing the Conditionality Mechanism:** Advocating for a stronger mechanism that links the disbursement of EU funds to compliance with the rule of law.

- **Promoting Qualified Majority Voting (QMV) or Simple Majority Decision-Making:** Seeking changes that would allow decisions under these procedures to be made by the Council of the EU or the European Council through QMV or even by a simple majority.

- **Exploring the Inclusion of a Treaty Article Enabling Member State Expulsion:** Strengthening discussions on introducing a treaty provision that establishes a procedure for the removal of a member state. While the current Article 7 TEU allows for the suspension of a state's participation in various EU sectors, including decision-making processes, there should be a transparent mechanism for expelling a state if it transforms into an authoritarian regime with no prospect of reform (see also point 10.7).

In this context, the EU enlargement process must also be addressed. Enlargement is vital to the Union's interests, but the fulfilment of the first Copenhagen criterion – permanent guarantees of democracy in the acceding state – must undergo particularly rigorous monitoring during accession negotiations [40].

Moreover, citizens of all EU member states should be encouraged to actively exercise their rights in cases of rule-of-law violations. This includes utilizing their rights as EU citizens, such as the right to petition the European Parliament under Article 227 of the Treaty on the Functioning of the European Union.

3 FINANCING

An essential component of any project is its financing. The EU reform project requires an increase in the Union's financial resources and a decoupling of their scale from unproductive disputes over the level of national contributions and net positions. This necessity stems from the fact that it is impossible to implement comprehensive reform and enable the EU to address all its challenges with the current budget, which stands at 1% of the gross national income (GNI) of all member states.

a) A Comprehensive Approach to the EU Budget

Most studies, analyses, and reports provide little insight into the financing required to implement the proposals they outline. The Draghi Report includes estimates of necessary funding, but these focus primarily on needs related to competitiveness, while the scope of required reforms is significantly broader. Moreover, the proposed €800 billion does not address the question of where to source funds for financing new policies beyond those already included in the EU budget (e.g., agricultural policy, cohesion policy, or research).

These funds are also urgently needed in other areas where reforms are vital, such as:

1. Defence policy: Enhancing the EU's capacity to address collective security concerns and foster operational cooperation between member states.

2. Resilience policy: As outlined in Niinistö's report, building the EU's capacity to respond effectively to crises and threats.

3. Economic competitiveness policy: Expanding on the visions presented in the Draghi and Letta reports to ensure European industries remain competitive globally.

4. Digital policy: Advancing the digitalisation of public and private sectors while simultaneously developing robust safeguards against cyberattacks and addressing the societal impacts of rapid changes driven by the proliferation of AI and Industry 4.0.

40 Michał Matlak, Monika Sus; Security and Eastern Enlargement: Bridging the Gap for Wartime EU Accession; European Policy Center, Policy Brief, 23 October 2024 https://www.epc.eu/content/Security_PB_v5.pdf

5. Climate policy: Adhering to the principles of just transition within Europe and meeting the expectations of Global South countries for support in their climate efforts, as agreed during the recent COP29 conference in Baku.

6. Energy policy: Achieving energy independence through the development of Europe's critical energy infrastructure.

7. Harnessing the potential of hydrogen production as the fuel of the future 41.

8. Enlargement policy and related expenditures for rebuilding Ukraine.

9. Agricultural policy and increasing the contribution of European agriculture to reducing or removing emissions from the atmosphere.

10. Preparations for potential pandemics or other health crises, as well as countering and responding to natural disasters.

The number of challenges facing the European Union is greater than ever, with rising expectations for its involvement. However, the EU's ability to respond effectively remains constrained by political realities in member states, legal and regulatory frameworks, and the financial resources available at the European level[42].

b) Funding joint initiatives from national budgets

The financing of EU-level solutions, particularly those stemming from adopted regulations, largely falls on the budgets of member states or entities subject to those regulations, primarily businesses. The scope of regulatory actions requiring significant funding within member states has grown substantially. EU law, either directly or indirectly, necessitates allocating national budget resources to prescribed actions. Given that much of domestic legislation is derived from EU regulations, a significant portion of public finances in each member state is undoubtedly tied to the requirements of EU law.

At the same time, there is a notable disparity in the financial capacities of public budgets across member states. This is exemplified by varying levels of public support for economic development and the green transition. Such disparities risk weakening the single market, creating divisions among member states, and leading to inequalities in the implementation of EU law.

Currently, the resources within the EU budget represent only a fraction of the total funds directed towards tasks that arise directly from initiatives and decisions made at the EU level. The adoption of EU legal regulations entails financial consequences, primarily borne at the member-state level during their implementation.

41 EWI (2024). The financing gap in the hydrogen market ramp-up: Analysis of demend and the price scenarios. https://www.ewi.uni-koeln.de/cms/wp-content/uploads/2024/10/The-financing-gap-in-the-hydrogen-market-ramp-up-Analysis-of-demand-and-price-scenarios-1.pdf

42 Jean Pisani-Ferry, Simone Tagliapietra, An investment strategy to keep the European Green Deal on track, Policy Brief Issue n°31/24 | December 2024

If we accept that EU legislation accounts for 60–70% of the regulations adopted by national parliaments and that these require expenditures impacting member states' public finances, then logical conclusions must follow.

The implementation of European law often entails significant costs, particularly given its complexity and the bureaucratic procedures it generates. Simplifying European legislation not only facilitates operations for businesses and other entities but can also yield positive outcomes for the public finances of member states. However, a core issue lies in the rigidity of many expenditures associated with implementing European law. These expenses must be treated as priorities, as failure to implement such legislation may result in financial penalties.

In cases where legal provisions involve particularly high implementation costs – such as those linked to decarbonisation and the transition away from fossil fuels – ways to cover a portion of these expenses from EU funds are often sought. However, such funding must be directly tied to the thematic and regulatory scope of the provisions and only represents a fraction of the total resources required for implementation. For instance, the Just Transition Fund was introduced to support states and regions facing the greatest challenges in achieving climate neutrality by 2050, such as phasing out coal and restructuring local economies and employment.

Occasionally, to ease the financial burden of implementing EU regulations, the European Commission relaxes state aid rules. However, this approach favours those member states with the capacity to provide increased financial assistance. Regardless, public spending in member states far exceeds the EU budget. Keeping the EU budget limited to just 1% of Gross National Income (GNI) obscures the true scale of expenditures already incurred in connection with joint European policies and legislative measures.

Furthermore, in many cases, the question arises as to when increasing expenditures on jointly agreed objectives – such as in the area of security – is more efficient: when each member state makes these expenditures individually, or when they are made collectively? This does not necessarily require involvement of the EU budget, as evidenced by the joint procurement of vaccines during the pandemic or the collective purchasing of gas during a market crisis. However, these examples undeniably confirm the enhanced efficiency of joint purchases.

EU reform cannot overlook the issue of financing Union initiatives, regardless of whether they fall under the delineated budget, are mobilised in the form of "Team Europe," or are financed independently by member states. Additionally, the focus on improving operational efficiency should not be neglected. Such improvements would enhance the EU's presence in the lives of member states and contribute to increasing citizens' and voters' recognition of the Union's significance.

c) The Necessity of Increasing the Common Budget

The issue of financial resources has become one of the fundamental barriers to the EU's more effective operation and reform efforts. Discussions on how to repay the €723 billion joint debt incurred by the EU under the Recovery and Resilience Facility (RRF) have made the need to identify new sources of funding more urgent.

Given the EU's new competences and responsibilities, we recognise the necessity of increasing the EU budget and/or establishing dedicated funds to finance necessary expenditures on defence and security, just transition, entrepreneurship, or strategic autonomy. To this end, the EU must secure a sustainable ability to generate own resources, including new avenues for raising necessary funds on international financial markets. This implies the need for a long-term strategy for EU debt management and instruments enabling its implementation.

A discussion on new sources of revenue for the EU budget is critical. Financing the necessary and ambitious initiatives at the European level requires generating adequate resources. In many cases, as with competitiveness, proposals include EU-issued joint debt, as was the case with NextGenerationEU. If we accept that the European Union can regularly incur debt, it is imperative to at least outline a strategy for repaying current and future debts.

One potential solution is to use future EU budget revenues as a repayment source. However, this would mean that resources would come from member state contributions, requiring either an increase in these contributions or future cuts to EU spending to create room for debt repayment. This approach does not fully resolve the issue.

Member States manage public debt through mechanisms such as the continuous issuance of bonds and other treasury securities, as well as the indefinite rolling over of liabilities within their respective national debt management strategies. This approach could likely be applied at the EU level, considering the premium that safe, European-issued debt could command. However, this is only feasible under conditions of sustained economic growth that outpaces the rise in real interest rates [43]. Such a strategy requires a consistent and well-executed plan to reduce debt management costs and maintain economic stability [44]. Leaving this issue unresolved is not a viable option.

All proposals to increase the EU budget are highly contentious, particularly among net contributors like Germany, France, and the Netherlands. Germany, as the largest net contributor, is especially resistant due to concerns about its fiscal health and the perception of an unfavourable net position in the EU budget. France, the second-largest net contributor, faces its own budgetary pressures and is similarly reluctant to entertain the idea of increasing contributions. This dynamic leaves little room for a significant expansion of the EU's financial capacity through traditional means.

43 Mario Draghi ,Europe: Back to domestic growth,CEPR, Paris, December 2024
44 Guidlines for Public Debt Management, IMF, 2001 https://www.imf.org/external/np/mae/pdebt/2000/eng/index.htm

Proposals to increase the budget immediately provoke opposition from countries wary of additional burdens without clear relief for their own finances. Even joint debt issuance faces strong resistance, as vaguely defined repayment sources lead each country to calculate its potential share of the burden. The confrontation of net financial positions remains a primary obstacle to advancing changes in the level of resources that could be mobilised for EU objectives and initiatives.

As a result, the EU faces a paradox: while its ambitions and responsibilities continue to expand, its financial resources remain tightly constrained. This creates a risk of underfunding existing policies, such as cohesion and agriculture, which remain vital for many Member States. Cohesion policy, for instance, is necessary for addressing regional disparities and promoting sustainable development across the Union. Similarly, the Common Agricultural Policy (CAP) plays a crucial role in supporting the European agricultural sector and ensuring food security. These traditional policies cannot be neglected, even as new priorities emerge.

Given the political and economic barriers to expanding the EU budget, alternative approaches to financing must be considered. **Expenditure to support the implementation of EU initiatives should be based on four pillars:**

- **Firstly,** the existing EU budget structured according to current rules and focused on policies that ensure support for solidarity and cohesion within the Union, guaranteeing that weaker regions and sectors continue to receive assistance. This approach would allow the EU to maintain its redistributive functions while exploring other mechanisms to address emerging challenges.

- **Secondly,** the "Team Europe" approach, which combines resources from willing Member States to finance targeted initiatives. This model has been effectively used to support development aid. By expanding this approach, the EU could mobilise additional resources through voluntary contributions from willing Member States to achieve objectives they prioritise. Although this does not directly fund EU initiatives, extending this mechanism could enhance the collective impact of EU countries in international relations. Not all joint actions need to be funded through the EU's general budget. In cases where not all Member States wish to participate in a specific initiative, an ad hoc financing mechanism, already familiar in the EU, can be applied. This involves creating a separate budget funded by voluntary contributions from interested states to achieve a specific goal. This model avoids delays caused by the need for unanimous agreement across the entire EU while enabling actions that benefit participating Member States and, indirectly, the rest of the Union.

- **Thirdly,** focusing on separate approaches to funding Projects of Common Interests and Projects of Mutual Interests or similar actions,where the criterion for selecting such projects could involve applying a European value-added test to demonstrate the savings achieved through collective implementation. Examples include, large infrastructure projects, important joint actions, joint gas and vaccine procurement. Coordinated investments in research, development, and military production could similarly enhance Europe's strategic autonomy while lowering costs for participating countries through economies of scale. They could rely on dedicated funds, financed by a mix of national sources and funds within a prudent European public debt strategy. Furthermore, contributions could be sourced not directly from central Member State budgets but from the budgets of interested ministries or public institutions that see the potential to achieve their objectives more efficiently by participating in larger, collective orders.

To avoid the politically sensitive and practically disruptive question of net contributors and beneficiaries, for each fund the distribution key should be established including, where justified the "geo-return" principle of proportional returns. All project participants would reap benefits proportional to their needs and contributions. The collective nature and scale of such initiatives would result in cost savings compared to the dispersed expenditures borne individually by Member States.

This is why the concept of European value-added and the consistent application of its test are so critical, as they reveal the scale of potential benefits. The approach based on the European value-added test could also be extended to large-scale projects in various fields requiring substantial investment beyond the reach of individual Member States, such as building quantum computers, conducting artificial intelligence research, or space exploration.

One area where joint financing could generate significant savings is defense spending. Procurement for national armies by individual Member States is often carried out through tenders limited to the specific needs of national armed forces, and these efforts are frequently duplicated across other countries. This leads to increased costs and inefficiencies. Introducing a mechanism for joint procurement would allow for better resource utilization, greater standardization of equipment, reduced maintenance costs, significant economies of scale, and the creation of a more integrated European defense system. Even if not all Member States opted to participate in such a mechanism, the countries involved could realize substantial budgetary savings and improved operational efficiency.

For such solutions to be effectively implemented, beyond the political will that has often been lacking in the past, clear organizational and procedural frameworks must be established to enable a systematic approach to decisions on joint financing of procurement. A mechanism for evaluating the benefits of joint financing is needed, based on objective criteria such as cost savings, operational efficiency, and the potential to enhance the security and competitiveness of the EU as a whole.

- **Fourthly,** public funds generated and spent within individual Member States to implement EU solutions represent another critical pillar. For instance, revenues from the sale of CO2 emissions allowances under the European Emissions Trading System (ETS) should, for the most part, be allocated by Member States themselves to facilitate their transition toward a zero-emissions economy. Other EU measures, while not tied to such significant revenue streams, also require funding that Member State budgets must address.

The EU faces a critical challenge: a growing disparity between its ambitions, emerging threats, and the available shared resources. Member States and their budgets are constrained by the Maastricht criteria, which creates resistance to any additional expenditures. This has fuelled calls for innovative approaches, including financing the EU through the issuance of European-level debt. However, fears that the burden of repayment will ultimately fall on the net contributors to the EU budget have paralyzed progress. So far, a clear framework outlining the full functioning of a debt issuance mechanism – especially regarding repayment sources – has not been developed.

The approach described above, based on four financial pillars, does not predetermine the extent of collective debt issuance. Instead, it suggests that the traditional EU budget should continue to focus on areas crucial for cohesion, solidarity, and administrative functions. At the same time, it creates room for additional and complementary mechanisms, such as voluntary contributions for strategically significant initiatives, modelled on the current "Team Europe" framework. Similarly, initiatives that provide clear European added value and cost savings for participating Member States can be supported through these mechanisms.

The debate on the EU's own resources has persisted for years, but for the first time, it is taking place within the context of the urgent need for significantly increased spending and the prospect of repaying European debt. Among the important potential new revenue streams are a tax on large cross-border digital platforms and revenues from the Carbon Border Adjustment Mechanism (CBAM). However, these measures are unlikely to be either easy to implement or substantial sources of income in the short term.

Proposals have also been made to use revenue generated by the European Emissions Trading System (ETS) for this purpose[45]. Yet, redirecting these funds would mean taking away resources currently used for decarbonization in countries with significant CO2 emissions. This would also necessitate finding new sources of revenue to fill the gaps in funding needed for the climate transition.

Another issue is the unequal burden among Member States. Countries with high emission levels accumulate significant funds through ETS but also face substantial costs for transformation. On the other hand, less emission-intensive economies incur lower transformation costs and do not generate considerable ETS revenue. This imbalance complicates efforts to create a fair system of revenue redistribution across the EU.

The focus should therefore be on finding revenue streams that cannot easily be attributed to specific Member States, such as customs duties or CBAM revenues, which are inherently transnational. A promising option would be a tax on large digital platforms, whose revenues are generated across the EU but whose profits are typically taxed only in their home countries. It may also be worth exploring whether corporate taxes from multi-country investors could be allocated directly to the EU budget rather than the individual Member States where these companies operate.

45 Jean Pisani-Ferry, Clemens Fuest, Financing the European Union: new context, new responses, Bruegel 2020, https://www.bruegel.org/sites/default/files/wp-content/uploads/2020/09/PC-16-2020-110920.pdf

An intriguing suggestion by Enrico Letta is the creation of a "28th legal order," separate from the 27 existing national frameworks, specifically for corporations seeking to operate as inherently European entities. Under such a framework, these companies could benefit from harmonized EU-wide regulations, and it's worth considering if their taxation could directly fund the EU budget.

d) Expansion of the Economic and Monetary Union

The introduction of the euro represents a strategic success for the European Union, not only internally but also on a global scale. It has become the second most significant reserve currency after the US dollar, playing a similar role in international transactions. Although Poland remains outside the Eurozone, monetary policy and the coordination of other economic policies within the framework of the Economic and Monetary Union (EMU) are of critical importance to non-euro member states.

In Poland, a well-informed debate on joining the Eurozone is necessary. This stems from the fact that, within the framework of the general EU budget and extra-budgetary instruments such as the European Stability Mechanism (ESM), there are opportunities to access additional funds dedicated exclusively to supporting monetary and economic integration within the Eurozone. This includes, in particular, providing financial assistance to states experiencing macroeconomic imbalances, implementing structural reforms, and financing activities within the Banking Union.

In this area, a significant challenge is achieving greater coordination of fiscal policies (i.e., revenue and public expenditure policies) across member states. One proposed solution could be the establishment of a European Fiscal Council – a specialised EU decision-making body for fiscal policy. This council would be elected and structured in a manner similar to the European Commission and, like the Commission, would be supported in its activities by the ECOFIN Council. The European Fiscal Council should possess the competencies necessary to ensure the EU's long-term financial identity and to coordinate activities within the framework of a European Monetary Fund – a potential new instrument designed to operate for the benefit of EU member states in a manner analogous to the International Monetary Fund.

e) European Added Value Test

The EU budget has its limitations, yet it is widely recognised that collective spending within the Union can be more effective than individual funding of the same initiatives by member states. The benefits primarily stem from economies of scale, which reduce unit costs, improve coordination, and focus on the implementation of strategically significant tasks. However, the current approach to the constrained EU budget does not fully exploit this potential.

A key challenge remains the absence of a systematic mechanism to evaluate which areas of joint expenditure could yield better returns and be more efficient than funding actions at the national level. The budget, capped at 1% of the EU's GDP, is allocated to predefined policies and programs, while all other expenditures burden national budgets. This situation could be addressed by introducing a European Added Value (EAV) Test as an operational criterion for joint financing.

The implementation of a systematic EAV test would facilitate decision-making regarding the funding of collective initiatives. Such a test should begin with simulations to determine whether financing an action at the EU level would result in savings or other measurable benefits compared to national funding. The next step would involve deciding whether the initiative covers all member states and should therefore be financed through the EU budget, or whether it could be carried out voluntarily by interested countries. To maximise benefits and efficiency, the system of incentives for joint funding of projects delivering clear advantages to all should be strengthened.

European Added Value is a criterion reflecting the benefits that could arise from undertaking an action at the EU level compared to actions at the national, regional, or local levels. While the EU operates under the principle of subsidiarity, which states that actions should not be carried out at the EU level if they can be effectively implemented locally or nationally, there is no equivalent mechanism for evaluating joint expenditures.

The application of the principle of subsidiarity relies on well-defined rules for assessing whether actions at the European level are justified. National parliaments play a vital role in this process, holding the authority to decide whether there is a need for action at the European level or whether such actions are unnecessary. This serves as an important safeguard against the premature transfer of competences and responsibilities to the European level.

In recent years, several notable examples have demonstrated the particular effectiveness of shared EU expenditures. One such instance was the joint procurement of COVID-19 vaccines. Through this mechanism, EU countries were able to secure access to vaccines for their citizens more quickly and cost-effectively, avoiding harmful competition among themselves on global markets. Another example is the potential for joint gas purchases in response to sharp increases in energy prices. Coordination at the EU level has enabled better security of energy supplies and cost reductions, particularly in the face of the energy crisis triggered by Russia's aggression against Ukraine.

In addition, it is crucial to establish legal frameworks that ensure flexibility in financing. These frameworks should enable funding from both the EU budget and voluntary contributions by member states. Equally important is the development of monitoring and evaluation mechanisms for projects to ensure that collective expenditures deliver the intended outcomes and align with the principle of European Added Value (EAV).

Summary

The report is built on the premise that a broad scope of reforms is required to transform the European Union into a more effective, efficient, and resilient organisation capable of addressing contemporary challenges. Key proposals include institutional changes and modifications to the principles governing the EU's functioning.

In terms of institutional operations, the report advocates for a modification of the European Commission's composition, increased professionalisation of the Council of the EU's work, and simplification of the legislative process through greater use of qualified majority voting. Additional proposals include a rotational system of extended presidencies in the Council and a reduction in the number of Commissioners in the European Commission, aimed at improving these bodies' operational efficiency.

The report highlights the necessity of strengthening mechanisms for monitoring the rule of law in member states. In this context, it proposes more effective utilisation of EU financial resources as leverage against countries that violate democratic principles and the rule of law.

Strategic issues, including energy, health, technology, and defence security, are identified as critical areas for reform. The report suggests establishing a European Defence Union and advancing a common security and defence policy to enable the EU to better address modern threats. It also emphasises the need to enhance societal resilience to disinformation, cyberattacks, and other hybrid threats.

The report further addresses the need to simplify EU law, which is currently perceived as overly complex and a hindrance to business activity. It calls for a review of existing regulations to eliminate unnecessary barriers and boost the competitiveness of the EU economy.

The report underscores the importance of a harmonious combination of debt and traditional sources of EU budget financing. One of its central proposals is leveraging debt as a funding mechanism for ambitious EU policies, such as the green transition, digital infrastructure development, and enhanced security. It highlights the necessity of defining parallel principles for debt management and repayment to ensure the Union's financial stability and credibility.

An equally significant conclusion is the need to continue the debate on the shape of future reforms. The report stresses the importance of collaboration with diverse research centres, institutions, and civil society organisations at both national and European levels. Only through open dialogue and the inclusion of various perspectives can solutions be devised that make the EU more comprehensible and citizen-friendly.

Reforms must be transparent, understandable, and capable of fostering a sense of community and responsibility among citizens – key factors in combating populism and disinformation. Simultaneously, efforts must focus on bolstering security to enable the EU to respond effectively to threats in an increasingly turbulent geopolitical environment.

In summary, the report not only outlines directions for reform but also encourages ongoing dialogue and collective action to shape a better European Union. This Union must effectively address the needs of its citizens and maintain its position on the international stage.

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