

An initial mapping of structural risks facing the EU



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Towards a more resilient Europe post-coronavirus

An initial mapping of structural risks facing the European Union

The current coronavirus crisis emphasises the need for the European Union to devote more effort to anticipatory governance, notably through analysis of medium- and long-term global trends, as well as structured contingency planning and the stress-testing of existing and future policies. In order to contribute to reflection on, and discussion about, the implications of the coronavirus pandemic for EU policy-making, this paper offers an initial 'mapping' of some of the potential structural risks which could confront Europe over the coming decade, with 66 such risks analysed briefly in a series of short notes. The document then goes on to take a closer look at some of the more immediate risks to be considered in the near term and outlines possible EU action to prevent or mitigate them over the remainder of the 2019-24 institutional cycle.

SUMMARY

In April 2020, the participants in the inter-institutional European Strategy and Policy Analysis System (ESPAS), which aims to identify and analyse medium- and long-term global trends facing the European Union, were invited by the Vice-President of the European Commission responsible for foresight to offer ‘food for thought’ on issues arising from the current coronavirus pandemic, with a view to helping refine collective thinking on how to increase the long-term resilience of the Union over the coming decade. In this context, this paper seeks to provide an initial ‘mapping’ of some of the potential structural risks confronting the European Union in the aftermath of the coronavirus crisis. It seeks to identify structural risks that are foreseeable during the coming decade, with 66 such risks analysed briefly in individual notes. The document then goes on to take a closer look at some of the more immediate risks to be considered in the near term, and outlines possible EU action to prevent or mitigate them over the remainder of the 2019-24 institutional cycle.

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Foreword

Members of the European Parliament are decisive players in the entire EU legislative and policy cycles, including agenda-setting, consultation and scrutiny. The Parliament's administration has for almost a decade supported their efforts by developing its expertise in the different fields of foresight, working in cooperation with the other EU institutions through the European Strategy and Policy Analysis System (ESPAS).

The current coronavirus pandemic has further exposed the need for a greater emphasis on foresight, stress-testing and structured contingency planning at EU level. These tools for a more anticipatory form of policy-making all appear more important than ever if we are to ensure the legitimacy and effectiveness of the European integration process itself. The crisis has once again revealed a large 'expectations gap' in a major area of public policy: the public expectation of a large-scale EU response has been much greater than the actual competences granted to the Union in the field of health and civil protection.

Some stress-testing may have been available to EU policy-makers here and there – for the banking sector through the efforts of the ECB, for example, or for strategic energy reserves – but nothing that was systematic enough. As a result, we have seen entire building-blocks of the European *acquis* put on hold or even at risk: for example, free movement of people, mutual recognition of products and services, and competition policy have all suffered important setbacks. The after-shocks may yet be even more challenging than the crisis itself, notably with complex and testing processes of economic adjustment and fiscal consolidation to come.

If one wants to have the necessary instruments available and the capacities to provide an adequate response in difficult times, the first step in the analysis must be to provide policy-makers with a mapping of the risks ahead, based on their potential impact and probability.

If we want to help enable policy-makers to build a more resilient Union over the coming decade, we should seek to identify and analyse structural risks, risks to which we are likely to remain exposed for more than one legislative term. For some risks – particularly those which are both highly probable and with potentially large impact – we may have no instruments immediately available at EU level, in other words, there may be no complementary executive capacity in case the Member States are unable to cope by themselves.

Such risks require urgent attention, whilst other risks – which may be seen as less likely today, but which nonetheless could have very considerable potential impact – should not be left unaddressed. Some risks may simply have been forgotten and others may need to be reassessed and recalibrated.

This paper developed by policy analysts within the Directorate-General for Parliamentary Research Services (DG EPRS), in close cooperation with their colleagues in the Directorates-General for Internal Policies (DG IPOL) and External Policies (DG EXPO), is designed to offer 'food for thought' as EU decision-makers reflect on the implications of the current crisis and work together to build a more resilient Union that can better address the multiple challenges that may arise in the future.

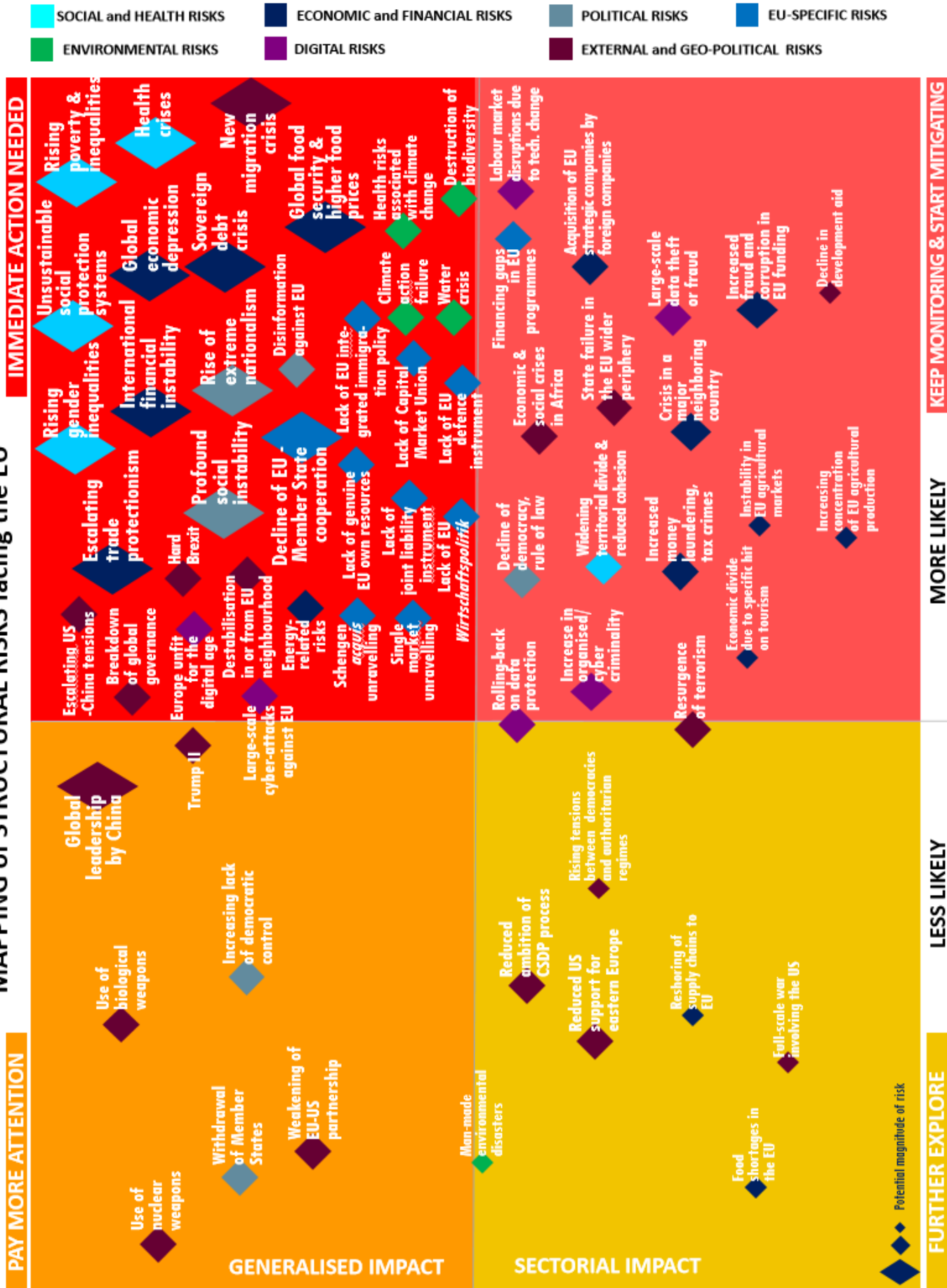
Klaus Welle

Secretary-General of the European Parliament

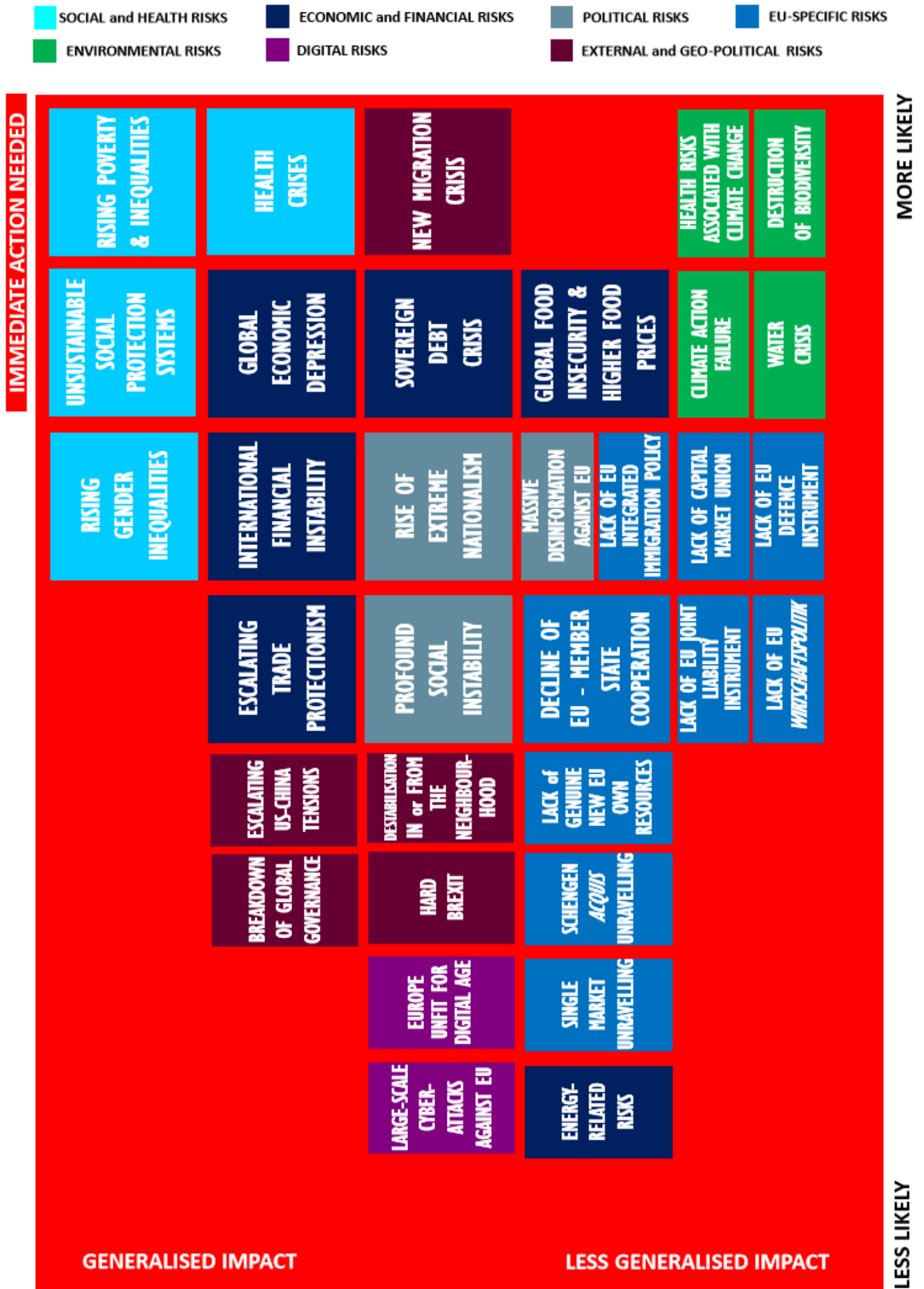
Structural risks for the European Union over the next 15 years:

An initial mapping

MAPPING of STRUCTURAL RISKS facing the EU



MAPPING of STRUCTURAL RISKS facing the EU



LIST of 66 MEDIUM-TERM RISKS

SOCIAL and HEALTH RISKS

1. **Health crises** with pandemics of new infectious diseases or further disruptions due to the coronavirus pandemic;
2. **Poverty and inequalities** rising to unsustainable levels, including child poverty, housing issues and pension issues;
3. **Gaps in coverage of social protection systems;**
4. **Long-term sustainability of social protection systems;**
5. Failure to achieve gender equality;
6. **Widening territorial divides and reduced cohesion.**

ECONOMIC and FINANCIAL RISKS

1. **Global economic depression;**
2. **International financial instability** leading to a financial crisis;
3. **Sovereign debt crisis** within the euro area and/or EU;
4. **Increased money laundering, tax criminality and other financial crimes;**
5. **Increase in fraud and corruption affecting EU funds;**
6. **Reshoring of supply chains to the EU and its neighbourhood;**
7. **Major acquisitions of strategic European companies** by foreign companies, including state-owned foreign companies;
8. **Energy-related risks**, including price shocks and rivalry among producers;
9. **Economic or financial crises in major neighbouring countries or in major partners;**
10. **Escalating trade protectionism** and further erosion of the rules-based international trading system;
11. **Greater instability in EU agricultural markets** and insufficient level of resilience of European farming to shocks and crises;
12. **Increasing concentration of agricultural production;**
13. **Food shortages** at EU level due to low availability or trade disruption;
14. **Global food security and increasing food prices** in particular for developing and least developed countries;
15. **Deepening economic divide due to specific hit on tourism industry.**

POLITICAL RISKS and RISKS to DEMOCRACY

1. **Decline of democracy, rule of law and certain basic freedoms;**
2. **Rise of extreme nationalism** with anti-EU rhetoric;
3. **Disinformation** by third-country actors and domestic groups against the EU and its Member States;
4. **Withdrawal of a Member State from the EU;**
5. **Profound social instability** and democratic contest with **civil unrest and disorder** in EU Member States;
6. **Excess of executive power and/or Increasing lack of democratic control.**

EU-SPECIFIC RISKS

1. **Declining EU – Member State cooperation**, and declining cooperation among Member States themselves;
2. **Unsustainable lack of resources for the EU;**
3. **Financing gaps in EU programmes;**
4. **Single market unravelling** resulting from obstacles to free movement and unfair tax and state-aid policies;
5. **Unravelling of the Schengen *acquis***, and further deterioration of a borderless Union;
6. **Weakness of economic governance and lack of EU *Wirtschaftspolitik*;**
7. **Fragmentation of capital markets;**
8. **Lack of an integrated EU immigration policy;**
9. **Lack of an EU defence instrument;**
10. **Lack of a joint liability instrument.**

LIST of 66 MEDIUM-TERM RISKS

ENVIRONMENTAL RISKS

1. **Climate action failure and increasing number of weather and climate-related hazards;**
2. **Man-made environmental disasters;**
3. **Water crisis and destruction of agricultural land;**
4. **Destruction of biodiversity, depleting crucial resources;**
5. **Health risks associated with climate change, including an increasing number of extreme air pollution episodes.**

DIGITAL RISKS

1. **Large-scale data fraud or theft from European public institutions, companies or individuals;**
2. **A Europe 'unfit' for the digital age, with EU as a rule-taker rather than rule-maker;**
3. **Rolling-back of data protection measures / privacy rights with mass adoption of personal surveillance technologies;**
4. **Increase in organised crime and cyber-criminality;**
5. **Labour market disruptions with the EU falling behind in technological advances and automation;**
6. **Large-scale cyber-attacks involving state and non-state actors, against critical EU infrastructure, sectors or networks.**

EXTERNAL and GEO-POLITICAL RISKS

1. **New migration crisis, including an influx of climate refugees;**
2. **Resurgence of terrorism in the EU, including greater radicalisation;**
3. **Use of biological weapons by a state or non-state actor, potentially escalating to a biological war;**
4. **Use of nuclear weapons by a state or non-state actor;**
5. **Reduction in the level of ambition of, and/or halt to, the CSDP process;**
6. **Weakening of the transatlantic partnership, including the potential breakup of NATO; and possible changes (swings) in alliances;**
7. **'Trump II' — Growing anti-EU rhetoric and positions of the US Administration;**
8. **Reduced or withdrawn US support for eastern European security/defence;**
9. **Progressive breakdown in global governance, including in the UN and WTO;**
10. **Further destabilisation of the EU's neighbourhood, especially in unstable/weakened states/regions;**
11. **Economic and social crises in Sub-Saharan Africa;**
12. **Increasing tensions between liberal democracies and authoritarian regimes;**
13. **Increasing global leadership or gradual decline of China;**
14. **Escalation of geo-political competition between the US and China;**
15. **Escalation to a full-scale war between the US and a country in breach of the international order;**
16. **Hard Brexit constraining or undermining future relations with the UK;**
17. **Decline in global aid and assistance to the developing world as a result of the coronavirus crisis, recession and protectionism;**
18. **State failure and/or collapse in the wider EU periphery (Sahel, Middle East, Central Asia).**

Structural risks for the European Union over the next 15 years:

Summary analysis

Health crises with pandemics of new infectious diseases or further disruptions due to the coronavirus pandemic

State of play

The coronavirus pandemic shows that new health crises can emerge at any time. Infectious diseases and other health threats do not respect borders. They do, however, require cross-border cooperation and a coordinated response. In the European Union, health care is a Member State prerogative. [Decision No 1082/2013/EU](#) is the framework for EU action on health emergencies. It provides for information exchange, risk assessment and joint procurement, among other mechanisms. The [European Centre for Disease Prevention and Control](#) plays a crucial role in identifying, assessing and communicating threats to health from communicable diseases, especially in the unfolding pandemic. A 2019 [report](#) by the Global Preparedness Monitoring Board, published under the auspices of the World Health Organization, makes a compelling case for [preparedness](#).

Risk factors

- Subsequent waves of the coronavirus or other future serious disease outbreaks could (again) put a heavy **strain on healthcare systems**. As the current crisis has revealed, healthcare systems across Europe are differently equipped to cope with health emergencies. [Hospital capacity](#), for example, varies greatly between EU countries. According to the [European roadmap](#) for lifting coronavirus-containment measures, there is a need to build more resilient infrastructure to deal with unforeseen events, in particular in the health sector.
- In terms of preparedness for any future disruption, the pandemic has highlighted the need to ensure urgent and adequate **provision of medical equipment** throughout the EU, including personal protective equipment, medical devices and testing supplies. It has also brought to the fore the geopolitical dimension of [medicine shortages](#), in the form of the EU's dependency on outside countries for the production of many active pharmaceutical ingredients and medicines, and prompted calls to relocate the production of essential medical goods to Europe.

Implications for Europe

Although the EU has developed a [coordinated response](#) to the coronavirus outbreak, [acting quickly](#) to help limit the spread of the virus, ensure medical equipment is available and boost the search for a vaccine, some think it has [failed the test](#). To be able to better cope with future health emergencies, others see a need for a [comprehensive review of what went wrong](#) – both in the Member States and at EU level – and to 'drastically improve' preparedness. It has also been argued that the EU and its Member States should make a [more fundamental investment in health](#). In an April 2020 [resolution](#) on EU coordinated action against Covid-19, the European Parliament called for 'new and strengthened instruments' so that in future, the EU can coordinate 'without delay' an emergency response, for instance, by 'substantially strengthening' the European Centre for Disease Prevention and Control and the European Medicines Agency. Parliament's call led the Commission to propose a new Health programme, [EU4Health](#), which aims to strengthen Europe's health systems to respond better to future major cross-border health crises. In a May 2020 [opinion piece](#), several MEPs who are also healthcare professionals called on the Parliament to set up a body dedicated to solidarity and major public health challenges. Stakeholders from academia, civil society, the business community and institutions have argued in a [signed appeal](#) that public health should be made a shared competence, and the EU given the ability to act on a federal basis in health emergencies.

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Poverty and inequalities rising to unsustainable levels, including child poverty, and housing and pension issues

State of play

With the spread of the coronavirus and the implementation of lockdowns across the EU, the **most vulnerable** find it even more difficult to cope with the social and financial difficulties caused by the containment measures. The pandemic is putting at risk the jobs of young people and low-paid workers (in particular women), and is likely to drive a further rise in child poverty. The pandemic also poses specific risks to the 'most deprived' (24 million people or 5.6 % of the population) and an unparalleled challenge to the actions supported by the workers and volunteers delivering the aid. More than one-quarter of respondents across the EU [report](#) losing their job either temporarily (23 %) or permanently (5 %), with young men most affected. Almost 40 % of people in Europe report their financial situation as worse than before the pandemic – double the numbers reported in surveys before the crisis. Close to half indicate that their households cannot make ends meet, and over half report they cannot maintain their standard of living for more than three months without an income. The situation is even more dramatic for three-quarters of those unemployed who cannot get by for more than three months, with 82 % reporting that their household has difficulty making ends meet.

Risk factors

- Major [inequalities](#) already exist between EU Member States, and **income disparities** have risen within some Member States in recent decades, due to factors such as globalisation, technological change, taxation policy and the effects of the 2008 economic and financial crisis.
- All forms of **inequalities** – including generational ones – will most probably increase in the coming years. Gender inequalities may worsen as men and women occupy different roles among the jobs affected by cuts and lay-offs. For those in sectors that do not fully recover, the risk of long-term unemployment and poverty is high, especially in the absence of retraining, income support and other active labour-market policies.
- Given that **children** are already the population with the highest [at-risk-of-poverty](#) rate, there is a need for a rapid scaling-up in support for children whose families' income is insecure, and to provide the social protection they need to avoid lasting damage to the **children's future**.
- Whereas the **elderly** risk a higher rate of death and [pension-funding challenges](#), young workers and students are at risk of becoming the [next lost generation](#) (after 2008).
- With the pandemic keeping people at home, persistent [housing difficulties](#) for the most vulnerable populations are highlighted anew.

Implications for Europe

To face the major labour-market crisis engendered by the pandemic and its social consequences, the EU has taken recent [initiatives](#) to address immediate needs and mitigate negative impacts on employment and social policy. In many EU economies, increased budget deficits as a result of countries spending to secure their social protection systems – in particular on health care and unemployment benefits – coupled with weak growth in the medium term could mean less funding for housing, education and other key social programmes. When the health crisis comes under control, the question will become how to restart the economy and generate jobs, while dealing with the challenge of increased living, income, social, educational and regional [discrepancies](#) in the EU.

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Gaps in coverage of social protection systems

State of play

Social protection systems were set up for traditional forms of employment (full-time workers with open-ended contracts) and insufficiently cover [non-standard forms of work](#) (such as platform workers, part-time workers and workers with fixed-term contracts). Nevertheless, as [statistics](#) show, non-standard work forms are steadily expanding. This not only creates [inequitable treatment](#) of workers based on their employment status, but also erodes the financial sustainability of social protection provisions.

The EU population is ageing strongly, as life expectancy increases and fertility rates fall below past levels. According to [estimates](#), by 2030, 25.5 % of Europe's population will be over 65. This will have serious implications across a range of areas, including health care and pensions. The implementation of an [EU-wide unemployment scheme](#) has been on the EU agenda since 2017. A longer-term [European Unemployment Reinsurance Scheme](#) (EURS) is hoped to be finalised in 2020. The Covid-19 outbreak has amplified these already preoccupying trends related to inequalities in social protection, demographic developments and unemployment.

Risk factors

- If current **demographic trends** continue, Europe's workforce will be reduced by 2 % by 2030 – even if employment rates will increase slightly. [Old-age dependency](#) (those 65 and over compared to those 15-64) is steadily increasing; consequently workers will have to stay longer on the labour market. At the same time, EU spending on age-related issues will increase by 2 %. Most of this will not be spent on pensions, but on health care and long-term care.
- In the long run, **health effects** from the virus and lockdowns will put [additional stress](#) on healthcare systems. Workers close to retirement, facing challenges of job insecurity, reduced pensions, and less consumption power are particularly affected.
- Accessing **social protection** is especially difficult for workers in [less secure forms of employment](#). Independent workers and workers in short-duration or part-time employment are 40-50 % less likely to receive income support when they are out of work than standard employees. Pension coverage also tends to be less complete for them, exposing them to greater risks of low income and poverty in old age.

Implications for Europe

As an answer to the coronavirus crisis, the EU has created comprehensive and tailored employment-support [packages](#). However, they can be difficult to access for those in alternative work arrangements. The growing number of '[part-time unemployed](#)' (jobseekers with intermittent or part-time employment) has also to be included. A shift of resources might be necessary from work experience programmes or direct job creation towards job-search assistance, tailored training and career counselling. [Posted workers](#) are also particularly vulnerable to the negative impacts of the crisis, in terms of health as well as of socio-economic consequences. Measures such as short-time work schemes, adjusted unemployment benefits and measures to facilitate teleworking do not necessarily apply to posted workers or do not sufficiently address their needs or their particular situation. Concerning the ageing workforce, a new problem arises: older workers often have insufficient [digital skills](#), consequently their upskilling and reskilling has to be addressed at both European and Member State level.

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Long-term sustainability of social protection systems

State of play

Social protection systems exist to facilitate the respect of fundamental rights, such as the right to live in dignity and the right to an adequate standard of living. They aim to reduce social and economic vulnerability, and to alleviate poverty and deprivation, and evidence suggests that social protection helps towards these ends. It also [makes good economic sense](#). There is increasing recognition that social expenditure is an investment; it cannot be regarded as a dead cost.

The [long-term sustainability](#) of such systems is a matter of continuing debate. Countries typically draw on [different sources of funding](#) for social protection. There are sound reasons to maintain a diversified funding base. For example, over-reliance on social contributions means greater vulnerability to cyclical downturns; higher unemployment means reduced receipts and increased expenditures. A degree of funding through general taxation remains essential.

In recent years, several trends have combined to create new strains on social protection systems. These include ageing populations, growth in vulnerable forms of employment, and increasing wealth and income inequality. There is also greater polarisation of wages between higher and lower paid workers. While the [labour share](#) of income has declined over the past four decades, the tax burden has not been readjusted accordingly between capital and labour. Indeed large corporations routinely avail of opportunities to [limit their tax obligations](#). In the gig economy, the avoidance of corporate social contributions is often part of the business model. The sustainability of social protection systems is therefore threatened both from the expenditure and the income side. Covid-19 has dramatically increased pressure on social expenditure, in addition to revealing the dangers of [inadequate social protection systems](#).

Risk factors

- The **economic impact of the pandemic** is expected to greatly increase public borrowing. In the longer term, the need to restore public finances and to tackle debt overhang may risk a replay of the austerity policies following the 2008 financial crisis.
- The health impact of coronavirus places additional **stress on healthcare systems**, both in the short and the long term.
- A sustainability crisis, intensified by the pandemic, is likely to have a greater impact on the **more vulnerable Member States**. This could become a driver towards greater divergence, running counter to the objective of promoting greater cohesion among Member States.

Implications for Europe

Both social contributions and general taxation need to remain part of the funding base for social protection. Tax fairness is an important part of long-term sustainability. On the costs side, the pandemic has exposed shortcomings of the efficiency savings approach. Countries with supposedly excess healthcare capacity have coped better than others. Effectiveness however remains a core concern. Services which do not work are a waste of resources. There is potential for an enhanced EU role here, to identify best practices, drawing on data gathered for the Social Scorecard, and to encourage and assist the dissemination of effective approaches.

The EU has the potential to add to the governance capacity of Member States, by playing a role in securing additional resources in the event of a social protection funding crisis. To avoid moral hazard, it seems likely that most EU assistance to the most vulnerable economies during and after the pandemic will take the form of loans rather than grants. Finally, the pandemic shows the need for investment in preparations for unwanted shocks – and for an upgrade of social foresight capacity both at Member State and at EU level.

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Failure to achieve gender equality

State of play

[EU monitoring](#) shows that the coronavirus pandemic has emerged against a background of slow and uneven progress towards gender equality, with considerable [variations](#) between EU Member States. Persistent inequalities and gender gaps in poverty, employment, pay, representation in decision-making, and exposure to gender-based violence remain, whilst new challenges stemming from digitalisation, climate change, migration and a growing backlash against gender equality require assessment and action.

Risk factors

- Failure to achieve gender equality would have significant consequences for the **well-being of individuals** ([women](#) and [men](#)), and societies as a whole, while closing gender gaps would have quantifiable [positive impacts](#).
- Evidence is already emerging that the pandemic is having [differing impacts on women and men](#). One of the lessons from past crises is that during such emergencies, there is a temptation to see gender analysis and gender equality goals as secondary, whereas policies that fail to consider and address potentially different impacts on women and men can inadvertently deepen existing inequalities and prove to be less effective overall. In the case of the 2008 economic crisis, systematic gender assessment was lacking and the [evidence](#) now shows that recovery measures, notably gender-blind budget cuts to welfare and public services, had a **disproportionate impact on women** and further endangered their enjoyment of social and economic rights.
- In the context of coronavirus, there is therefore a strong argument for [gender impact assessment](#) to be an integral part of the measures taken in the immediate term and the policy choices being made for the longer term. Conversely, there is also a very real risk that policy responses could once again be 'gender blind' and that **equality gains could be lost**.

Implications for Europe

The EU and its Member States have [recognised](#) equality between women and men as a fundamental right, core value and necessary condition for social and economic development. They have committed to ensuring that [all policies and spending programmes](#) contribute towards this objective and to the [UN goal](#) of achieving gender equality by 2030. At the same time, public opinion surveys [show](#) that the majority of Europeans consider gender equality to be important for themselves, society and the economy, and would like the EU to intervene more in this area. The pandemic has hit at a pivotal moment, when the Union has committed to [refocus on combating gender inequalities](#), and when consistent application of gender mainstreaming tools including gender impact assessments and [gender budgeting](#) could make a real difference, for instance in the context of the post-2020 multiannual financial framework and the economic policy response to the pandemic. On the other hand, a mismatch between the high-level commitment to gender equality and concrete expressions in internal and external policy would risk undermining a core EU value, and could undermine citizens' trust in the Union's intention and capacity to support them and make a positive difference to their lives.

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Widening territorial divides and reduced cohesion

State of play

From the affluent metropolitan areas of northern Europe to the rural heartlands of southern and eastern Europe, the EU is characterised by stark regional differences in terms of its development. While these disparities have been [narrowing](#), with productivity in less-developed regions catching up, regional differences remain not only between but also within countries, with a recent World Bank [report](#) showing that the EU's poorest regions continue to have a GDP per capita seven times lower than that of the richest areas. Long-term inequalities in terms of productivity, wealth and opportunity contribute to higher levels of poverty and unemployment in less-developed regions, which can lead to a feeling of being left behind, which is being exploited by populist parties, creating a [geography of EU discontent](#). Regional inequalities can also drive people to move in search of opportunities elsewhere, leading to demographic decline in their home regions. The coronavirus crisis risks exacerbating these differences, by widening already existing divisions, further reducing the EU's economic, social and territorial cohesion.

Risk factors

- With economic recovery [expected](#) to be uneven, **less-developed regions are likely to be disproportionately affected** by the impact of the coronavirus crisis. Many of the regions dependent on the hard-hit tourism sector, for instance, are located in low-growth regions of southern Europe, compounding the challenges they already face and depriving them of vital budgetary resources for their recovery effort. In addition, while the EU has relaxed its rules on State aid, it is the EU's most-developed regions that are best placed to invest public money into saving key sectors, further widening the gulf between EU regions.
- **Greater migration from less-developed regions** could emerge as a result of an uneven economic recovery, increasing the risk of depopulation and stifling growth even further in such regions. Conversely, capital and metro regions, as the main drivers of regional competitiveness, are expected to recover more quickly, making them attractive destinations for people in search of work. A large influx of new arrivals in these regions could however create additional pressure on local services, heightening local tensions and reducing social cohesion.
- **The growth of populist parties** may well be visible in less-developed regions that are heavily impacted by the crisis and where economic recovery is slow. In the case of regions with separatist movements, meanwhile, such citizen discontent could lead to the emergence of greater demands for more autonomy or even secession, fuelled by frustration with national government, particularly in regions that are the driving force of their national economies.

Implications for Europe

Promoting social, economic and territorial cohesion is an EU Treaty objective. Regional stakeholders are [warning](#) that without coordinated and timely EU action, the gap between more and less-developed regions is likely to increase further. With cohesion policy the main item in the EU toolbox for reducing regional disparities, the Commission has introduced a number of [measures](#) to make it easier for Member States to use structural funds to kick-start the recovery process. Noting that every region must have the financial firepower to do this, Commissioner for Cohesion and Reforms, Elisa Ferreira, recently [highlighted](#) the need for a swift agreement on the MFF, with a strong cohesion policy.

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Global economic depression

State of play

The momentum of global [growth](#) had already slowed in 2019 and the balance of risks to the outlook for growth has now been tilted dramatically downwards by the coronavirus pandemic, while the threats from protectionism and geopolitical tensions increase. In April this year, the [IMF](#) expected global growth to contract by 3 % (compared to a forecast of 3.3 % growth made in January 2020). The [World Bank](#) report published in June expects a 5.2 % contraction in global GDP in 2020, 'the deepest global recession in eight decades, despite unprecedented policy support'. The coronavirus pandemic has generated an unprecedented shift in the very nature of the global economic cycle, combining shocks on both the supply and demand sides. The pandemic-induced [economic slowdown](#) will be much more severe than that in a normal business cycle; euro-area [recovery](#) could take three years. Economists [note](#) that the scope and speed of the downturn could unleash a [crisis](#) similar to the Great Depression of the 1930s, characterised by loss of personal income, loss of tax revenues, a drop in international trade, high unemployment and social unrest. The situation creates additional pressure on global as well as EU institutions. The latter face structural limitations, and will have to manage expectations about what they can and cannot do in order to maintain trust in public policies.

Risk factors

- There is **uncertainty about the depth and the duration of the economic downturn**, that is compounded by [weak demography](#), protectionism and slowing trade, creating risks for both employment and price stability.
- Global **growth deceleration will put pressure on public finances in advanced economies, as well as in [emerging market economies](#) (EMEs)**. The steep decline in commodity prices is exacerbating financial pressures for some EMEs, which are facing strains arising from capital outflows, sharp currency depreciations and a reduction in trade activity.
- The **unconventional measures of central banks are blurring the natural price discovery function of markets by suppressing volatility**, with a risk that the suppressed volatility will spike up violently when the total amount of leverage becomes unsustainable.
- Normative challenges arise globally as central banks became the last resort providers of liquidity, risking over-stretching their mandate and creating unwanted effects, such as **hyperinflation, moral hazard and inequality**.

Implications for Europe

The public debt of the EU (86 % of GDP) will [increase](#) and test the limits of fiscal and monetary policies, as deleveraging took place slowly at the high end of the economic cycle. Indebted private and public actors, as well as households, could come under greater [stress](#), particularly if adverse scenarios for the spread of the pandemic and economic activity were realised. Risks to banks and some other financial institutions will be exacerbated by a high level of indebtedness among [non-financial corporations](#), which prevailed before the pandemic, increasing the risks of insolvency of these firms. A sharp decline in economic activity and unemployment will also increase social tensions and inequality. Without G7 and G20 [coordination](#), unilaterally conducted recovery plans could tarnish the global role of the EU and fatally wound multilateralism.

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International financial instability, leading to a major financial crisis

State of play

To tackle the 2008 global financial crisis, the [G20 summit](#) that year agreed on a common roadmap for financial regulatory reform, including the formation of international coordination mechanisms such as the Financial Stability Board ([FSB](#)). The coronavirus pandemic represents the biggest test of the post-crisis financial system to date. Following the coronavirus outbreak, the prices of risk assets collapsed and market volatility spiked, while expectations of widespread defaults swelled borrowing costs. To ensure access to capital and liquidity for market participants, and businesses and households facing temporary difficulties from the crisis, decisive monetary, financial, and fiscal policy actions were taken worldwide, with markets recovering some of their losses.

Risk factors

- **Further tightening of financing conditions:** lessening credit supply, especially in the non-bank sector, could significantly add to funding shortfalls faced by non-financial firms as cash flow from operations diminish because of the coronavirus spread. Distress may rise among leveraged firms and households and extend to lenders.
- **Re-pricing and re-positioning in global financial markets:** Asset managers may face outflows and be forced to sell assets into falling markets. Liquidity risks for investment funds are likely to increase. [Flight-to-quality](#) could negatively affect some sovereign bond markets.
- **Volatile portfolio flows:** the dramatic reversal of [emerging market portfolio flows](#) following the global spread of Covid-19 highlights the risks associated with volatile portfolio flows. Sudden capital outflows require the use of reserves to reduce excessive volatility and deployment of measures to manage capital flow. Refinancing risks and frequency of debt restructurings would increase.
- **Low profitability of the banking sector:** while monetary stimulus has helped sustain economic growth and has provided some support for bank profits, very low interest rates due to structural factors have compressed banks' net interest margins. Looking beyond the immediate challenges faced by banks because of the Covid-19 outbreak, a persistent period of tight margins may put further pressure on bank profitability over the medium term.
- **Financial instability in China:** massive interruptive effects in global supply chains and slower growth could cause over-indebted Chinese companies to fail, and [threaten the solvency of lenders](#). A fall in house prices and mortgage lending could lead to property bubbles bursting. Neighbouring areas would be affected, but also some EU countries (i.e. those hosting [subsidiaries](#) of major Asian intermediaries).
- **Evolving counterparty risks managed by central counterparties (CCPs):** coronavirus-related developments have resulted in a surge in volumes cleared in CCPs, along with increased margin calls. Pro-cyclical changes to margin requirements and collateral haircuts could increase liquidity pressures on clearing members and their clients.

Implications for Europe

The EU financial system is currently more resilient than in 2008, thanks to the post-global financial crisis reforms. However, the lack of a common [safe asset](#) and a [European deposit insurance scheme](#) could make the effects of a symmetric exogenous shock asymmetrical in the euro area. EU [coordinated fiscal and financial responses](#) are required. Full use should be made of flexibility allowed by existing international financial standards, while [coordination at global level](#) should be sought, both in monitoring evolving risks and for the future unwinding of the temporary measures taken.

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New sovereign debt crisis within the euro area and/or the EU

State of play

According to the July 2020 European Commission forecast, the recent coronavirus pandemic is [projected](#) to cause real GDP in the EU to contract by 8.3 % in 2020 (the projection for the euro area is even bleaker, at -8.7 %), an impact much [stronger](#) than that of the global financial crisis (-4.3 % for the EU and -4.4 % for the euro area). In addition, to cope with the pandemic, many Member States are expected to register significant deficits for 2020 (at least 6.5 % of GDP on average). Last but not least, eleven Member States have a debt higher than 60 % of GDP, and six of those, higher than 90 %.

Risk factors

- **The EMU architecture is still incomplete**, therefore Member States are less protected in the event of a symmetric or asymmetric shock. Despite various proposals, many potentially important elements of EMU – such as a European deposit insurance scheme, an unemployment (re-)insurance scheme, common bonds and a central fiscal capacity – are still missing.
- **The European Central Bank has deployed significant measures**, but their impact may be reduced by the [recent judgment](#) of Germany's Federal Constitutional Court.
- **The doom-loop between banks and sovereigns has not been severed**, sovereign debt [still](#) being treated as risk-free by prudential regulation. Moreover an EU safe asset, such as [sovereign bond-backed securities](#), which could contribute to breaking it, has not yet been agreed.
- **Many Member States did not use the positive economic conditions in the past decade to undertake important structural reforms**, so as to improve their fiscal sustainability, strengthen growth and be able to use counter-cyclical fiscal policies in the event of a downturn, despite this having been [pointed out](#) on several occasions by EU institutions.
- **Old fault lines in perceptions have not yet disappeared**. The previous crisis revealed strong disagreement between the 'frugal core' and the 'profligate periphery' of the euro area on how to best manage it. Ten years later, while important steps – with significant social costs – have been realised by Member States under economic programmes, the debate remains the same. So there are fears that bold initiatives, such as the [recovery fund](#) proposed by France and Germany, will not be adopted, or be significantly watered down.

Implications for Europe

There seems to be a [consensus](#) that the euro-area sovereign debt crisis started because of the deterioration of Member States' economies due to an external event – the global financial crisis, high deficits that some of them registered, and macroeconomic imbalances that built up between the core and periphery. As the EU financial system is predominantly bank-based, the shock was amplified by the absence of a lender of last resort, the low capitalisation of euro-area banks, their high investment in debt of their own Member State and the delayed and hesitant policy response. Despite the important efforts made by Member States over the last decade, some of the above weaknesses remain. These weaknesses, associated to the risk factors identified above and the varying debt and deficit situations of each Member State, may lead to markets questioning the sustainability of public finances in some of them, and cause a new sovereign debt crisis.

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Increased money laundering, tax criminality and other financial crimes

State of play

Tax fraud and tax evasion represent [a huge problem](#) and affects each EU Member State and every citizen. Due to tax evasion and avoidance, enormous amounts have been lost, depriving governments of revenue necessary for sustainable development; estimates indicate €1 trillion. Due to the complexity of the financial system, [there are new risks](#) of money laundering which require improvements in supervision and an all-encompassing policy to prevent loopholes. Money laundering is a difficult crime to detect. It is complex and widespread and its impact on the EU's economy and on its financial system is severe. A massive increase in money laundering could damage the stability and reputation of the financial sector and harm the single market.

Risk factors

- An active and consistent international approach is necessary, although this is complex and challenging. Action needs to be global, because **tax fraud is global**. It is essential to monitor and update measures on the basis of regulatory and technological evolution. However, in the context of tax fraud, this is quickly noticed and taken advantage of. It is also necessary to keep pace with emerging crypto-assets.
- The **recent increase in criminal activity** in the context of the coronavirus pandemic [reminds](#) us that criminals will use all possible means to pursue their illicit activities. It is thus necessary to ensure more harmonised implementation of the rules across the EU. A [number](#) of measures that could reduce the weaknesses in the EU's current anti-money-laundering rules have been highlighted. To fight against tax fraud and money laundering more effectively, there is a need to improve measures and ensure effective implementation, and to strengthen provisions against money laundering.
- During an economic downturn, governments' deficits and debts increase, and revenues collected drop. Such circumstances may complicate the allocation of increasing resources and efforts to reduce tax criminality and money laundering. Tax agencies may encounter **growing tax compliance risks** and greater demands for [taxpayer support](#). A drop in compliance may have some additional negative impacts on the economy. Tolerating non-compliance is not an appropriate response because it is distortionary, inequitable and hinders the rebuilding of tax bases over the medium-term.

Implications for Europe

The last global financial crisis started more than a decade ago, leaving the EU economy debilitated. Now it has to cope with the economic effects of a [profound new crisis](#) caused by the coronavirus pandemic. The EU economy is [forecast](#) to contract by about 8.3 % in 2020. Public deficits and debts are increasing and revenues collected are dropping. In this context, the fight against tax fraud has gained particular exposure over the past five years, and significant achievements were made during the previous parliamentary term. All these provisions need to be implemented, enforced, monitored, and updated if necessary, in order to match the pace of global digitalisation and the versatility of tax criminality and money laundering. Strengthening of efforts should continue, because tax crimes and money laundering translate into a loss of resources which are vital for the EU, especially at present, depriving governments of much-needed revenue.

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Increased fraud and corruption affecting EU funds

State of play

In order to fight the coronavirus crisis, the European Commission has brought forward emergency measures based on Article 122 TFEU, notably the [SURE Regulation](#). Despite the fact that there are substantial implications for the EU budget, the European Parliament is largely excluded from decisions on the mobilisation, implementation and scrutiny of budgetary resources using this legal basis. Furthermore, there is also an increased risk of fraud and corruption affecting EU funds when substantial amounts of money are made available under lighter conditions due to the need for fast emergency spending under the crisis. This has raised [concerns](#) in the international community. The European Chief Prosecutor, head of the new European Public Prosecutor's Office, has [warned](#) of coronavirus-related fraud and corruption such as 'awarding of procurement contracts without open bids, or the use of fake documents to buy medical equipment or drugs at artificially inflated prices'. The package of measures adopted by the EU institutions involves a considerable degree of flexibility, such as the [Regulation](#) on specific measures to provide exceptional flexibility for the use of the European structural and investment funds in response to the coronavirus outbreak. This legal act provides for exceptional measures for the use of ESI funds in response to the outbreak, derogating from existing legislation to allow for, among other things, a co-financing rate of 100 %, transfers between categories of regions in response to the outbreak, elimination of the requirements on thematic concentration, and exemption of the need for review or update of ex ante assessments.

Risk factors

- The use of a legal basis that excludes the European Parliament could lead to **a lack of transparency and democratic scrutiny** in the legislative process.
- The following developments would **increase the risk of fraud and corruption**: the availability of substantial public funding, combined with changes in the regulatory environment, derogation or relaxation of public procurement rules, money disbursed quickly into a number of markets, and a large number of donations and gifts, as well as emergency efforts to address shortages of some goods or other urgent needs.

Implications for Europe

Although substantial and rapid action is clearly needed, the European Parliament has [insisted](#) on safeguarding its role to ensure democratic scrutiny and accountability and to safeguard citizens' interests. The right balance between rapidity and flexibility on the one hand and scrutiny and control on the other hand must be ensured. Appropriate co-decided legal acts can be rapidly adopted using simplified and accelerated procedures. Also, all research funding associated with the fight against coronavirus must mandate full transparency of any results. There is a need to work at international and EU level to bear down on risk of fraud, corruption and overpriced medicine.

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Reshoring of supply chains to the EU and its neighbourhood

State of play

Locations affected by coronavirus such as China, the EU and the US form the very core of the global [production network](#). The crisis has caused unprecedented disruptions in global and European supply chains. The purchasing managers' index (PMI) survey has reported the biggest [delays](#) for 20 years. Supply chains have remained under pressure despite a collapse in consumer demand. Delivery times have lengthened and reports from the firms surveyed indicate transport issues, customs restrictions and supply shortages at distributors as key problems. In particular, restrictions on people's freedom of movement have a knock-on [effect](#) on the transit of goods, since they are moved across the EU by service-providers. Also, as the EU economy is highly [integrated](#) within the bloc and globally, problems at many levels of manufacturing have materialised, such as non-availability of intermediate inputs, and decoupling of normally efficient elements of supply chain.

Risk factors

- **Short-term risk** of restoring value chains before they permanently collapse: at present it is uncertain how the return of unhindered free movement of people and services will be achieved.
- **Risk of permanent disintegration** of many supply chains: if the drop in consumer demand persists, manufacturing may enter a downward spiral causing permanent damage to cross-border chains.
- **Technological challenges:** reshoring and tightening of supply chains may require using new [technologies](#) such as robotics and automation to make production cost-effective. Technological [solutions](#) need to be in place to make it work. It is unclear to what degree and at what cost this is possible.
- **Risk of insufficient diversification:** bringing supply chains closer to the EU may not fundamentally diversify them, and still leave them vulnerable to specific [domestic shocks](#), such as local disease outbreaks.
- **Risks of efficiency loss:** pre-virus supply chains were established as a result of a global quest for increased efficiency. Reconfiguration may make products pricier, or less sophisticated.
- **Risks of WTO compatibility of post-Covid-19 public funding measures and the future of WTO subsidies reform:** massive [incentivising](#) of companies using public funding may be challenged under the WTO [subsidies rules](#). At the same time, WTO reform, in particular the progress of the [EU-US-Japan](#) trilateral subsidies reform proposal, risks being curtailed.
- **Risks of excessive costs:** reshoring may be impossible if too expensive. If incentives lead to new barriers to trade and investment, it is likely to raise costs. The same holds true for other risk-mitigating measures such as dual-sourcing critical parts, or increasing inventory buffers.

Implications for Europe

EU supply chains are highly integrated and need a functioning single market to operate. Current uncoordinated restrictions have brought some to a halt. Restoring them may be impossible if firms go bankrupt. If economic fall-out continues to be catastrophic, the functioning of the single market, as we know it, may be threatened. Furthermore, profound reconfiguring of supply chains is costly and time-consuming. While resilience is desirable, in times of collapse of investment and economic growth in the EU it will be very difficult to achieve on a meaningful scale. Strengthening sovereignty in strategic value chains like cars, aerospace and medicines requires both EU-level and national strategic shifts.

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Major acquisitions of strategic European companies by foreign companies, including state-owned companies

State of play

The economic shock and subsequent recession caused by the coronavirus pandemic are likely to weaken many European companies, notably in strategic sectors, rendering them vulnerable to the risk of [takeover](#) by foreign competitors. While investors from **Australia, Canada, Japan, Norway, Switzerland**, and the **US** account for [80 % of foreign acquisitions](#) in the EU, the share of foreign assets held by state-owned companies, although small in comparison, has tripled over the period 2007-2017 (**China, Russia, United Arab Emirates**). In addition, acquisitions by investment funds and private equity firms have also risen (**Cayman Islands, Switzerland, US**). As to the latter, their [governance and source of founding](#) remain largely [opaque](#). [Regulation \(EU\) 2019/452](#) establishes a framework to screen foreign direct investment (FDI) at EU level. However, the final decision on banning or allowing an investment remains at national level. Since its [adoption](#), and following the recent Commission [guidelines](#) (March 2020), a number of Member States [have already expanded the scope of their investment screening](#) to cover critical infrastructure (e.g. energy, transport, water, health, aerospace, defence) and critical technologies (AI, cybersecurity, robotics, biotechnology, semiconductors, quantum, data processing), and also food security, and news and media.

Risk factors

- **Acquisitions of [healthcare capacity](#)** (e.g. production of medical or protective equipment) or related industries such as research establishments (e.g. [developing vaccines](#)) could be attempted via FDI.
- **High risk of leakage of technology and 'know-how'**, especially in emerging technologies, many of which may have [dual uses](#) (e.g. facial recognition software used for large-scale surveillance); [R&D partnerships](#) can, however, also lead to leakage of sensitive information and technology.
- **Only 14 Member States have screening mechanisms** in place. They [vary](#) in terms of sectors subject to control, thresholds for planned investments, ex-ante vs ex-post control, investigation procedures, distinction between EU investors and third-country investors, and level of scrutiny.
- **Lack of a [clear definition of FDI](#)** across the EU Member States leads to different interpretations: what may be FDI in one Member State could be a portfolio investment in another;
- **Differing perceptions of national security threats** among Member States and, implicitly, differences in identification of critical sectors, infrastructure and technology may lead to approval of potentially risky investments in one Member State with cross-border spill-over effects.

Implications for Europe

A [stronger](#) investment-screening mechanism would be needed at EU level (e.g. [CFIUS](#)), with which harmonisation of national criteria could be ensured. The development of [industrial ecosystems](#) as envisaged in the [industrial strategy](#) (March 2020) would allow for [earlier detection of threats](#) which FDI projects might pose to value chains in the single market. The degree of [government control](#) (direct and indirect), including through subsidisation, of foreign investors should be taken into account; the Commission's white paper on an instrument [addressing the distortive effect of foreign subsidies](#) in the single market, adopted on [17 June 2020](#), will be a step in this direction.

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Energy-related risks, including price shocks and rivalry between producers

State of play

Energy insecurity is a significant potential risk to the EU. As net importers of energy, particularly fossil fuels, the EU and its Member States are heavily reliant on energy trade with third countries. Inherent supply risks can be exacerbated by geo-political tensions with producer countries such as Russia, or civil strife in countries such as Libya. Although the EU has made significant progress in developing an internal energy market, with increased resilience to external shocks, there is only limited interconnection between the energy systems of some Member States, while certain regions of the EU are heavily reliant on a single supply country or supply route.

The global crisis linked to coronavirus is seriously impacting energy markets. It has led to a collapse in the oil price and falls in the price of other fossil fuels (gas and coal), as well as lower electricity prices and energy consumption because of worldwide shutdowns in economic activity. Many planned energy investments are likely to be scrapped and some energy businesses will fail. The shutdowns have also caused disruptions to supply chains and stalled some investments in renewable energy.

Risk factors

- **Extreme price volatility:** A consequence of sudden changes in energy supply and demand because of the shutdowns in economic activity, price volatility has been exacerbated by rivalry between producing countries and great difficulty in predicting the future path of energy demand because of the economic crisis. This may discourage investment in the energy sector.
- **Global political instability:** Low oil prices have a damaging impact on countries that rely on high prices to finance their public expenditure and drive their private economies. The current market situation is exacerbating economic and political crises in producer countries such as Nigeria, Venezuela, Iraq and Iran. It is also leading to greater competition and battle for market share between more powerful producer countries such as Russia, Saudi Arabia and the USA.
- **Risks to the clean energy transition:** Low prices for fossil fuels pose an obvious disincentive to investing in renewable energy sources. The economic crisis is having a very serious impact on public and private finances across the world, and this may reduce the willingness of governments and citizens to spend more on promoting renewable energy sources, introducing energy efficiency measures, and investing sufficiently in research on clean energy technologies.

Implications for Europe

The collapse in energy prices may have a temporary benefit for many EU countries and consumers by reducing the cost of energy imports as well as household bills. Yet low prices also threaten the viability of energy businesses across the EU, including gas and electricity suppliers, operators of oil refineries, and companies involved in the extraction of oil, gas and coal. Political instability linked to volatile energy markets will require the EU to expend more efforts on global energy diplomacy, as a way to manage and mediate these potential risks. When developing its tools for recovering from the impacts of the coronavirus, including the proposed EU Recovery Fund, it is vital that the EU places considerable emphasis on the clean energy transition. The European Green Deal has to be supported by sufficient funding to ensure that, despite constrained public and private finances, investments in clean energy are scaled up across the EU, and Member States meet their agreed goals.

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Economic or financial crises in neighbouring countries or major partners

State of play

A number of major countries in the EU's neighbourhood have displayed vulnerabilities to external and domestic shocks in their economies over a long period. These challenges may prove to be increasingly significant due to fall-out from the coronavirus pandemic. In the face of a bleak short-term economic outlook, potential currency, balance of payments, and banking crises and sovereign debt crises cannot be ruled out in the near to medium term in the EU's neighbourhood. Significantly, the Turkish lira has recently hit all-time lows amid growing concerns about Turkey's increasing foreign exchange liabilities. The Russian rouble has also substantially depreciated, mainly due to the oil price shock, with hydrocarbons generating over 50% of Russia's exports and nearly 40% of federal budget revenue. Other neighbouring countries like Algeria have also been struggling with diversifying their economy heavily dependent on revenue from natural resources. In addition, public (domestic and foreign) debt has also been piling up in several countries. This trend is set to worsen. As a result, the cost of servicing these much higher levels of debt could be of concern in the future. For instance, Egypt has just experienced a balance of payments shock and was forced to request IMF support, while Lebanon has recently defaulted on its debt. Overall, economic and financial stability in several countries is increasingly in jeopardy.

Risk factors

- A **global economic recession** (possibly a depression) will put pressure on the most vulnerable economies of the EU's neighbourhood. These economies will no longer be able to rely on revenue from tourism (e.g. Turkey, Egypt) and exports in the near term, while the recent oil price shock has severely hit countries heavily dependent on hydrocarbon exports (e.g. Algeria, Russia). In the longer term, these economies could be adversely impacted by the EU's pledge to decarbonise by 2050, should they remain undiversified.
- **Unaddressed financial vulnerabilities** could fuel further instability and trigger a financial crisis. A country's ability to stabilise its currency, to attract foreign capital or to service its foreign currency debt could come into question with diminishing central bank reserves and a volatile exchange rate. Investors' confidence could therefore wane. The contagion effect in relation to emerging-market economies should also not be under-estimated.
- Should these economic/financial risks materialise, they could fuel **political and social instability** and, in turn, further exacerbate the situation.

Implications for Europe

In the event of a financial crisis in major economies and trading partners, such as Turkey or Russia, EU banks with significant exposure and insufficient hedging against exchange rate or liquidity risks, could be adversely impacted, with negative effects for the wider economy. Economic and financial upheaval in a large economy could feed risk aversion to other emerging markets, and to the weaker EU economies.

A crisis in neighbouring countries with important trade relations could have knock-on effects. Russia and Turkey were respectively the EU's fifth and sixth largest trading partners in 2019, while other smaller economies (e.g. Ukraine, Algeria, Egypt) are also important preferential trading partners. Turkey is a transit point for economic migrants and refugees. If it succumbs to a major economic or financial crisis and secures no support from Western countries, there can be no guarantees that the migration crisis of 2015 might not be repeated. Also, with relations with the US and the EU already strained, Turkey may turn to others for financial support, including China. Similarly, such a scenario could undermine NATO, of which Turkey is an important member.

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Escalating trade protectionism and further erosion of the rules-based international trading system

State of play

Escalating trade protectionism, grounded in the belief that a country can achieve aggregate gains by restricting imports or exports, has been a key concern of policy-makers in recent years, in stark contrast to the preceding two decades. Since 1995, which saw the creation of the World Trade Organization (WTO), the average level of tariffs in the world has mostly followed a downward trend. Technological developments in transport and communications led to faster trade integration. Since the breakdown of multilateral trade talks in the Doha Round, countries have increasingly resorted to bi- and plurilateral trade agreements that go beyond tariff liberalisation and offer market access in areas such as services, investment and intellectual property rights. However, since the global financial crisis, the number of trade restrictions has been rising faster than measures that liberalise trade. The Commission's annual Trade Barriers Report for 2020 shows that trade barriers are on the rise, in particular in China, Russia, southern Mediterranean and Middle Eastern countries. A major driver of escalating protectionism has been the Trump Administration, which has pursued a strategy of US-China trade tension, imposed steel and aluminium tariffs on the EU and other partners, and blocked nominations of WTO Appellate Body members. As a result, the highest instance for international trade disputes is now defunct, forcing the EU and other members to set up a temporary ad-hoc arbitration arrangement. In April 2020, the Council approved the multi-party interim appeal arbitration arrangement (MPIA) to solve trade disputes.

Risk factors

- In the wake of the **economic crisis fuelled by the coronavirus pandemic**, the propensity of countries to protect their struggling economies with trade-restrictive measures, as opposed to safeguarding free trade, will be a key factor in determining whether trade protectionism is here to stay.
- The **outcome of the US Presidential elections** will determine whether the trade conflict between the US and China, with its important knock-on effects on European companies through global value chains, will continue.
- The capacity of governments to **reform the WTO** and update domestic trade policies will be critical in catering to public opinion and demonstrating whether trade can better tackle growing inequality and deliver on sustainability objectives, including public health and climate change.

Implications for Europe

In purely economic terms, escalating protectionism will cause considerable **economic damage** for the highly trade-dependent EU, as world merchandise trade is set to fall by 13-32 % in 2020, as a result of coronavirus. At the same time, among the major trading powers of the world, the EU is best positioned to **advocate openness**, the multilateral rules-based trading system, and a more sustainable model of globalisation. This means that the EU will have to focus its trade liberalisation efforts on areas where the aggregate gains from trade to society are the largest. Meanwhile, the principle of **strategic autonomy** will increasingly guide EU policy decisions, together with a debate on how to achieve resilient, sustainable and diversified **supply chains**. At the level of the WTO, the EU will have to increasingly resort to **plurilateral** trade negotiations, and coalitions of the willing, to reform the trade rules in digital trade and pharmaceuticals.

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Greater instability in EU agricultural markets and insufficient resilience of European farming to shocks and crises

State of play

The outbreak of the coronavirus pandemic has presented the EU's agri-food sector with a multitude of challenges. These relate to the impact of market disruptions, the capacity of the sector to transfer and process commodities, the shortage of seasonal workers, the availability of inputs to farmers, and disruptions to the food supply chain, including the impact of border checks and the closure of hotels and restaurants. The impact of lockdowns on consumers in terms of income and affordability has led to changes in patterns of consumer demand, such as decreased consumption of high-quality meats and a higher demand for staple foods. Beyond the immediate impact of the pandemic, it is recognised that the agricultural sector is subject to higher levels of price volatility than other economic sectors. Price volatility introduces instability in agricultural markets. This reflects a variety of risk factors which agriculture has to face.

Risk factors

- **Changing market conditions:** Even small changes in agricultural supply or demand can cause large variations in prices, causing permanent market instability. Changes in exchange rates and oil prices will also have a substantial influence on food prices.
- **Climate and weather extremes** will heavily impact crop yields, water availability, livestock production systems and potentially food insecurity. Similarly, any increase in pest infestations would impact on crop yields.
- **Policy decisions:** Agricultural sectors have become more open to global markets and international food prices. Trade restrictions imposed by governments (such as the Russian ban on certain EU agri-food products) or any disruption to international trade would lead to price fluctuations. Agriculture and trade policies continue to contribute to price volatility.
- **Investment in agricultural research and innovation** becomes essential if EU Member States are to cope with challenges such as food security and climate change. Failure to support such continuous investment over the long term would undermine efforts to improve yields, enhance ecological efficiency and support resilience in the farming sector.

Implications for Europe

[Data](#) provided by the United Nations Food and Agriculture Organization indicates that global price volatility has been on the increase since 2005. It is likely to remain a major concern for farmers in the coming decades. The EU has introduced a number of [measures](#) to alleviate the impact of the pandemic. Lessons will need to be identified from this experience. Issues have already arisen over the measures taken under the common agricultural policy, including a failure to trigger its crisis reserve. The current CAP (2014-2020) is the most market-oriented ever. It is likely that the CAP will continue to focus its policies on measures to reduce the negative consequences of price volatility through stabilising the incomes of farmers using direct payments or risk-management tools. This raises questions over the role of direct payments (which are fully financed by the EU) and whether, in the longer term, they will continue in their present form when the budget for such payments will come under increasing scrutiny from public policy-makers.

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Increasing concentration in agricultural production

State of play

Consolidation of the European agricultural sector has been going on for decades and continues, resulting in a striking [loss of farms](#): 4.2 million of them – mostly small family farms – disappeared across the EU between 2005 and 2016, along with [millions of jobs](#). As the amount of agricultural land remains the same, this translates into rising numbers of very large, mainly specialised farms. On average, in the EU, the only type of farms increasing in number are those [above 100 hectares](#). In 2013, only 3.1 % of farms controlled more than half of European farmland. In tandem with the process of land concentration is the phenomenon of land-grabbing, which is described as [limited but creeping](#) in the EU, especially in the eastern European Member States. At the same time, the farming sector is facing a demographic challenge with a diminishing and ageing farming population – only 5 % of all farmers are under the age of 35. Along the food supply chain, concentration is even [higher](#) in the food processing and retail sectors, with food supply increasingly managed by huge international companies.

Risk factors

- **Land and farm concentration** aimed at increasing productivity and profitability through economies of scale poses a threat to the European model of farming with its fabric of small and medium-sized farms and multifunctional agriculture. Yet this model is essential to the vitality of rural areas. The disappearance of farmers, who generate local employment, maintain landscapes, culture and traditions and provide many ecosystem services, would lead to land abandonment, further depopulation of rural areas and territorial imbalances.
- **Industrialisation of farming** is a [threat to the environment](#), as monoculture and intensive animal farming lead to over-exploitation of natural resources, loss of biodiversity and genetic diversity, soil degradation, deforestation and pollution through the release of greenhouse gases and nutrients. Other issues linked to intensive rearing are poor animal welfare and antimicrobial resistance, the latter already jeopardising human health.
- **The current coronavirus pandemic** has exposed vulnerabilities in the European agri-food system, such as the disruption of the meat supply chain due to the contamination of staff in some large slaughterhouses. Decades of consolidation in this sector have left the EU with fewer and larger meat-processing companies – which is also an animal welfare issue as cattle and other livestock are transported over much longer distances. Another weakness is the reliance of the intensive livestock sector on imported protein feed grown on deforested land.

Implications for Europe

The on-going process of land concentration into the hands of large agro-businesses in some Member States runs contrary to the sustainable model of agriculture the EU needs. Within the common agricultural policy (CAP), measures are set out to facilitate access to land for farmers but more efforts should be made to allow for a fairer distribution of land. Local farming and short supply chains are needed in rural areas across the EU to ensure the varied supply of safe and healthy food at all times. Intensive farming in particular will have to adapt to reduce its environmental impact and become sustainable. The current proposals for the [new CAP](#) and [Farm to Fork strategy](#) aim to orient the EU in this direction.

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Food shortages at EU level due to low availability or trade disruption

State of play

In recent decades, due to improving conditions of food production, the EU has reached [self-sufficiency](#) for most agricultural supplies. Sectors in the EU food chain are increasingly interconnected both in the internal and global markets. Thus, the risk of food shortages relate to governance issues in the food systems rather than to lack of resources. However, [unsustainable agriculture](#) may put natural resources, [biodiversity](#) and, ultimately, food production capacity at risk in the medium term.

Farming activities have [continued](#) during the current health crisis, but measures taken to contain the virus have [disrupted](#) the EU food chain, revealing its weaknesses. The large majority of EU consumers have experienced only very limited food scarcity, often caused by panic buying and stockpiling that emptied grocery shops, and not by a lack of [food stocks](#). Yet, the most vulnerable people who rely on social services for food (including school meals) have fallen into [food insecurity](#).

Risk factors

- **Disruptions in the functioning of the EU internal market** during the current crisis have shown the impact on the food chain of lockdown measures, such as blocking routes for goods transport and for trans-border seasonal farm workers. Food products are among the [most traded](#) goods within the EU, not forgetting agricultural inputs and any goods that contribute to food supply. Thus, in case of a disrupted internal market, self-sufficiency is [not achievable](#) at local level and [cannot work](#) everywhere, despite some appeals for consumption of [national](#) food. As for farm work, EU production in some agri-food sectors and regions increasingly [depends](#) on seasonal and migrant workers, who are an essential part of [keyworkers](#) in times of crisis.
- **Unsustainable food production** affects the environment and climate change, which is a [driver](#) of increasing food insecurity. While [unsustainable](#) agricultural intensification (from overgrazing to overuse of chemicals) creates food security in the short term, afterwards it reduces the capacity of soil to produce food and favours climate change. Thus, crop yields [are expected](#) to decline because of increased temperatures and reduced precipitation in vast areas of Europe.
- **Disappointment of policy reform expectations** could hamper the EU's capacity to enhance its food system. The recent unveiling of the [EU Farm to Fork](#) strategy promises a food system that is a global standard for sustainability. Besides ambitious environmental targets for food production and a host of other initiatives on the food chain, the strategy envisages a contingency plan for ensuring food supply and food security in times of crisis. In case of absence of [policy pathways](#) to motivate and engage society and all stakeholders, it could lead to less ambitious results.

Implications for Europe

Providing citizens with adequate food supply is one of the EU Treaties' objectives. EU institutions have coordinated with Member States on coronavirus crisis [response](#), but a long period of economic crisis could lead to an overall [worsening](#) of the accessibility of affordable and healthy food. The EU will have to tackle the vulnerability of its food chain, rethink the role of local and global production, and shape more sustainable ways to produce and supply food. This will happen at a time when EU farm policy is already undergoing a major [reform in the wider context](#) of the European Green Deal.

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Global food security and increasing food prices, in particular for developing and least developed countries

State of play

During the coronavirus pandemic, the supply of foodstuffs has been [satisfactory](#) and supply disruptions have not been significant until now. Global cereal reserves, for instance, are adequate and prospects for key staple crops for 2020 are favourable. Moreover, [export restrictions](#) introduced in the early stages of the pandemic have so far had only a limited adverse effect on global food prices.

However, containment measures have already led to a reduction in [trade](#) and economic activity worldwide, with the potential to create a deep recession that would have significant repercussions on food systems. For 2020, the [WTO](#) predicts a decrease in global merchandise trade of between 13 % and 32 %, and the [IMF](#) projects per capita income to decline in 170 countries.

Risk factors

- The [2020 Global Food Crisis Report](#) states that the **135 million people in 55 countries and territories** who were in acute food insecurity in 2019 are the **most exposed** to the pandemic's effects. Countries that are dependent on, for instance, food imports or on exports of first-degree substances, and [developing countries](#), where the pandemic may endanger income and labour-intensive forms of production, are also at risk. The **number of acute food-insecure people could rise to 265 million** by the end of 2020 due to coronavirus-related economic downturns.
- Although currently it is largely unknown to what extent the pandemic will affect agricultural markets, [FAO's analyses](#) **generally expect a decrease, on both the supply and demand sides**, with the latter due to slowing economic activity and rising unemployment. Breakdowns in supply chains, for instance logistics problems, which may lead to higher prices, as well as falling revenues due to depressed economic activities, would have a significant impact on the access to food of vulnerable populations already experiencing hunger and [other crises](#), in particular in the [least developed countries](#). In East Africa, the Middle East and South Asia, the situation is further aggravated by the [desert locust invasion](#).
- In the context of food crises, the pandemic could also have an impact on countries' [social and political stability](#), resulting in, for instance, social tensions and conflicts, with consequent effects such as an increase in the number of internally displaced people and refugees. Resources for humanitarian operations may also be [diverted](#) to prioritise Covid-19 efforts.

Implications for Europe

Against the backdrop of its commitment to a rules-based global trading system, the EU is [committed](#) to keeping trade flowing and supply chains functioning. While a turn towards national protectionist measures would [prolong the crisis](#), [reinforced international cooperation](#) on trade, advocated also by the EU, is essential for an [economic rebound](#) in the world. Concerted efforts would also assist emerging markets and developing countries to face challenges such as [capital flow reversals](#) and to safeguard agri-food systems. In the longer term, the EU can further promote food security through addressing issues such as the resilience and sustainability of food supply chains, the effects of climate change on the global food situation, or [research and innovation](#) increasing food availability.

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Deepening economic divide due to specific hit on tourism industry

State of play

The tourism sector is proving to be one of the worst affected by the coronavirus crisis. Depending on the duration of the health risks and on the pace of recovery, tourism will decline by 60-80 % in 2020 and recovery to pre-crisis levels may take two years or more according to the [OECD](#). Travel and tourism services contribute about 10 % directly and indirectly to EU gross domestic product (GDP). Tourism directly contributes, on average, 4.4 % of GDP, 6.9 % of employment and 21.5 % of services exports in OECD countries.

Risk factors

- The share of tourism in GDP is **asymmetric**, much [higher](#) in some EU countries, including popular summer holiday destinations such as Spain, Portugal, Italy and Greece, than in others. The crisis will lead to greater shrinking of economies in these countries as the restrictions overlap with the holiday season.
- A number of the countries predicted to suffer most economically do not have the same **fiscal firepower** as those less affected, which could slow the recovery in these countries. These countries are also likely to emerge with larger deficits and public debt levels, already high for some of them.
- Limited **EU competence** in tourism prevents a robust sectoral approach at EU level to support recovery.
- Health concerns and exploration of domestic tourism options may lead to a **prolonged downturn** in international and intra-EU travel on which the worst affected countries rely, while less affected countries, where [domestic tourism](#) also accounts for a greater share of the tourism economy, may see shorter effects as domestic tourism is expected to pick up faster.
- Slow recovery of demand in **air transport** due to low passenger confidence and the economic impact of travel restrictions may lead to cancellations of routes and closure of airports, leaving some tourist destinations without convenient air transport connections.
- Some **restaurants, hotels and museums** may stay closed permanently, as reopening operations would not be economically viable at suboptimal occupancy and visitor numbers. This may lead to some destinations falling below the level of services needed to attract tourists.

Implications for Europe

EU countries will see their economies shrink, with those more heavily dependent on tourism likely to suffer most. Different capabilities to implement fiscal recovery packages, and without a robust recovery instrument allowing assistance to those most affected as proposed in the [European recovery plan](#), means recovery could come at different speeds in Europe. Without greater competence in the field of tourism and a specific budget, as [called for](#) by the European Parliament, the EU will not be able to use its full force to assist the beleaguered sector, thereby unable to alleviate the widening economic divide. The impact could continue far beyond the immediate impact suffered due to confinement. The macroeconomic impact will differ, with greater deficits and increased debt levels for regions heavily dependent on tourism. Some regions may not see the same levels of visitors as before due to fewer transport connections, changes in travellers' preferences and loss of attractiveness due to closures of leisure services.

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Decline of democracy, rule of law and certain basic freedoms

State of play

[Article 2 TEU](#) clearly states that 'The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities'. Prior to the coronavirus crisis, the European Union had already identified cases of a decline in democracy and the rule of law in some Member States. Based on the World Bank's [Worldwide Governance Indicators](#), [observers](#) have highlighted the deterioration of the rule of law in 17 EU Member States from 2009 to 2018. In some cases, this has led to an Article 7 procedure, initiated by the European Commission against Poland (December 2017), and by the European Parliament against Hungary (September 2018).

Risk factors

The coronavirus outbreak, whilst affecting the well-being of EU citizens and the EU economy, is also accompanied by [threats to democracy](#) and the rule of law. Risk factors include:

- The use of **extraordinary measures**: Over recent months, a number of [Member States](#) have introduced [extraordinary measures](#) to address the pandemic, not all of which were [undisputed](#). Such measures might negatively affect the oversight role of national parliaments, the independence of the judiciary, the right to free speech, press freedom or the equal treatment of citizens.
- An increase in **authoritarian rule**: Observers have [warned](#) of possible scenarios over the medium term, including 'much more nationalism' and 'more resort to authoritarian rule', if solidarity were not to materialise at EU-level.

Implications for Europe

If measures introduced by any one EU Member State to handle the coronavirus crisis negatively affect democracy and the rule of law, other Member States might question that country's legal system and its correct implementation of EU law. Moreover, EU citizens might start to lose faith in the EU as a political order. EU leaders have stressed on numerous occasions that measures to fight the pandemic crisis need to respect EU values. In a [joint statement of 26 March 2020](#), the members of the European Council stressed that they 'will do everything that is necessary to protect our citizens and overcome the crisis, while preserving our European values and way of life'. On 31 March, European Commission President Ursula von der Leyen stressed that, 'it is of utmost importance that emergency measures are not at the expense of our fundamental principles and values as set out in the Treaties'. The Commission is continuously [monitoring](#) the application of emergency measures in all Member States. It is preparing a European Democracy Action Plan and the first annual EU [rule of law report](#) for the end of this year. Furthermore, new initiatives for the protection of democracy and the rule of law could be an important component of the upcoming Conference on the Future of Europe.

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Rise of extreme nationalism

State of play

There is a risk of rising nationalism and populism, based in part on anti-EU rhetoric, as a consequence of the coronavirus pandemic and its aftermath. [Studies](#) have shown that 'a populist appeal to the will of "the people" and a rejection of (liberal) elites, has been a steadily growing phenomenon in Europe over the last two decades'. This has been reflected in gains by nationalist and populist parties in national and European elections over time. While there is no agreed definition of populism, different academic [projects](#) provide comprehensive [overviews](#) of populist parties in Europe across the political spectrum. Most observers [explain](#) that success as a reaction to unwanted side effects of globalisation. These parties or movements tap into people's fears about a loss of identity, further increased by a perceived loss of control over the level of immigration, and a general feeling of being 'left behind' economically, as a result of rising unemployment and a decrease in social cohesion. Past experience, following the financial and migration crises, has shown that nationalist and populist discourse finds fertile ground in those parts of the population or in regions most strongly affected by a crisis.

Risk factors

Risk factors for a rise of nationalism and populism in the wake of the coronavirus crisis are:

- **Lack of solidarity:** If during or following the crisis, EU citizens have the impression that there is a lack of solidarity between EU Member States in such dire moments, they might turn away from the EU integration process.
- **Reduced social cohesion:** If the consequences of the crisis are not managed adequately by national political leaders, economic divergences and disparities between segments of the population and between Member States might further widen, strengthening feelings of being left behind.

Conversely, the coronavirus crisis might provide an opportunity to expose the shortcomings of nationalism and populism, leading to a [decline](#) in public support for political parties using anti-EU rhetoric. The initial evidence of party support in some EU Member States suggests this might indeed be happening.

Implications for Europe

A significant further rise in nationalist and/or populist political parties, and their participation in government in some EU Member States, could have substantial implications for the EU, as it could increase difficulties in decision-making at EU level. Agreement on common policies would become harder, not least for EU institutions such as the European Council which seek to work on consensus. Moreover, if a larger share of the EU population were no longer to identify with the European project, this could constrain further deepening of European integration, and possibly trigger [alternative scenarios](#) of 'much more nationalism, more beggar-my-neighbour policies, [and] more resort to authoritarian rule', as well as to additional withdrawals, following the UK example.

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Disinformation by third-country actors and domestic groups against the EU and its Member States

State of play

An '[infodemic](#)' – that is an over-abundance of both accurate and false information – has accompanied the coronavirus pandemic, and added to already mounting concern about increasing digital disruption of our 'infosphere', including online disinformation. In 2019, there was [evidence](#) of seven states – China, India, Iran, Pakistan, Russia, Saudi Arabia and Venezuela – engaging in information operations to influence foreign audiences. However, 10 times as many countries use such techniques to influence domestic audiences. In 2019, there was evidence of organised social media manipulation in 70 countries, compared to 48 countries in 2018, and 28 countries in 2017. Moreover, 26 countries used computational propaganda domestically to control information, suppress fundamental human rights, discredit political opponents and overpower dissent. In the United States, domestically generated disinformation currently [exceeds](#) disinformation from external sources.

Risk factors

- Further **decline in traditional news media** will make people even more dependent on online platforms as sources of news, increasing the exposure to disinformation.
- Faster, cheaper, more widely available **deceptive techniques** to distort the debate, including manipulated videos, voice imitations, astroturfing, AI-enabled automated text and voice production, will further dilute facts, increase confusion and erode trust.
- **Oblivious Europeans** – frustrated by the consequences of the post-pandemic economic crisis – could be manipulated into participating in protests and demonstrations.
- **Authoritarian actors** from third countries under pressure to defend their model will – perhaps in direct cooperation with actors within the EU – further exploit divisions in Europe to undermine the liberal democratic model.
- An increasing number of (third-country) **state actors and non-state actors** (including from the EU) may join the global disinformation battle.

Implications for Europe

As the pressure on Europe's 'infosphere' keeps growing – whilst the halo of the United States as the world's leading liberal democracy is waning – internal and external pressure on the EU to curb disinformation, strengthen its strategic communication efforts, and ensure that people have access to accurate information, whilst protecting its key values such as freedom of expression and media freedom, will continue to grow. The 'Brussels effect' of the EU's efforts (including through the [Action Plan on Human Rights and Democracy](#) as well as the [Digital Services Act](#)) to make online platforms take more responsibility for their role in the digital sphere will significantly impact the EU's position as a global ethical standard-setter. Alliances with like-minded democracies are to be promoted, to coordinate counter-disinformation measures and ensure that the digital sphere is compatible with democratic values. At the same time, efforts to strengthen collective cognitive resilience (media literacy as well as ensuring access to quality news and verified general-interest knowledge for all) will have an important part to play. The EU could explore [opportunities](#) to create its own non-commercial online platform(s).

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Withdrawal of a Member State from the EU

State of play

Introduced by the Lisbon Treaty, Article 50 TEU explicitly offers EU Member States the possibility to withdraw from the Union, based on a [negotiated](#) process. The United Kingdom became the first country to exercise that option, thereby posing a significant [challenge](#) to the Union, and finally left the EU on 1 February 2020. The risk of other EU Member States following suit was one of the immediate fears in the aftermath of the 2016 Brexit referendum.

This risk of contagion predicted by some did not [materialise](#) in the short term. First, unlike the UK – outside the eurozone and the Schengen area – for most other EU Member States, exit from the EU would be much more difficult. Then, EU citizens [voting](#) in the 2019 European Parliament elections refuted expectations of a victory for eurosceptic forces across the EU. Moreover, so far the 27 EU Member States have managed to stay united throughout the negotiations, first on a withdrawal agreement with the UK, and then in the ongoing talks on the future EU-UK partnership. However, in the long term, the risk of other Member States opting to leave the EU cannot be [discounted](#). Therefore, it is essential to reflect on the impact of Brexit on the EU and on the integration process.

Risk factors

- The [IMF](#) has recently reported that the current coronavirus crisis is a 'crisis like no other', and that the world will experience the worst recession ever. It estimated that the global will contract by 4.9% in 2020. The **economic context** will continue to weigh on public opinion, and without bold EU action to stimulate sustained economic growth across the Union, there is a risk that some Member States are seen to be left behind as others recover more strongly and rapidly.
- The crisis changes the economic baseline for both the UK and the EU, making the economic impact of Brexit harder to isolate, and thus affording greater opportunity for its supporters in the UK and elsewhere to claim success (or at least a lack of failure) and encourage other Member States to follow.
- In the past, economic downturns have already fed hostility towards the EU and supported the **rise of populism and nationalism**. In the view of [some](#), the EU has become a popular 'punch bag', and fierce criticism of the EU is the most common vehicle used by populists in various Member States to strengthen their influence and power at national level.
- When populist movements gain support, voter turnout usually declines, citizens become increasingly **distrustful of public institutions** and their capacity to serve and protect their interests. Thus the importance of finding solutions to cross-border threats at EU level, and ensuring that temporary measures, such as those reintroducing internal border controls amongst Schengen countries, are limited to what is strictly necessary.

Implications for Europe

Although many tend to emphasise the peculiarities of EU–UK relations, a future 'exit' cannot be completely excluded, thus the importance of looking at the risk factors and the ['exit propensities'](#) of individual Member States in order to prevent the risk materialising. Should another country leave the EU, the implications would be detrimental in both economic and political terms. The withdrawal of another Member State would inevitably have a huge disruptive effect for the whole EU, but more significantly it would risk the establishment of a pattern that others might be more likely to follow.

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Profound social instability and democratic contestation with civil unrest and disorder in Member States

State of play

While many of the developments in the first two decades of the 21st century have brought opportunities and economic growth across the EU, economic outcomes reflect a [shifting balance](#) between the individuals and institutions involved. There are also [gaps](#) between objective measures of inequality and perceptions of them. This is particularly [the case](#) in Member States that joined the EU as of 2004, from central and eastern Europe. The coronavirus outbreak and the way the crisis is managed affect all segments of the population and all regions in the EU, but particularly the most vulnerable. It magnifies previous negative trends, in terms of unemployment, inequalities, lack of protection, and declining mental health and well-being. [Recent data from the OECD show](#) that more than one in three people do not have enough financial assets to keep their family above the poverty line for at least three months, should their income suddenly stop. The risk is especially high in households headed by people who are younger than 34 and people without higher education, as well as for couples with children.

Risk factors

- A [triple crisis](#) – the pandemic's public health and economic consequences inter-twined with the underlying environmental crisis – is liable to [strain relations between governments and citizens](#), reduce the possibility for democratic dialogue and for political participation, and lead to a widening gap between decision-makers and citizens.
- Increasing **social anxieties** are fed by the rapid spread of the pandemic itself but also by ambiguous, contradictory or unreliable information from official channels about the necessary steps to be taken to contain the virus further – or to avoid a second wave – and re-launch the economy. Measures, such as limited freedom of movement and assembly, can be perceived as infringing upon long-standing human, civil and political rights. These, if not addressed appropriately, can [spark anger against and disregard of policies](#) that in fact aim to ease the economic fall-out from the pandemic.
- Moreover, the disease's very significant economic impact could lead to further **increasing divergences**, instead of convergence and cohesion **within and between Member States**. In the most negative scenario, this could translate into conflicts between different generations, regions, etc. across the EU.

Implications for Europe

Restoring a [resilient](#) and sustainable European economy would bring more security for everybody, which in turn is a key ingredient for restoring trust in democracy. The economic crisis brought about by the pandemic risks becoming a political and constitutional crisis too. In addition, it sheds light on the many ingredients of the discussion about inequalities. This is solvable in principle, but the EU's Member States need to agree on what is necessary to make their Union more resilient, and on how to bring about reform. Given the [interdependence of EU economies](#), the dynamics of the recovery in each Member State, determined by its own structures, will also affect the strength of the recovery in other Member States.

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Excess of executive power and/or increasing lack of democratic control

State of play

Under [Article 10\(1\) TEU](#), the EU is founded on the principle of representative democracy. One of the fundamental guarantees of the democratic form of government is **parliamentary oversight over the executive branch**, which guarantees effective control exercised by a body enjoying a direct democratic mandate. At EU level, the only institution where **EU citizens are directly represented** ([Article 10\(2\) TEU](#)) is the European Parliament (EP) which, according to [Article 14\(1\) TEU](#), enjoys not only legislative and budgetary functions, but also functions of **political control**.

However, EP democratic control faces challenges. For instance, during the financial crisis of 2007-2008, a dominant role in shaping and implementing EU economic policies with regard to countries suffering from a debt crisis fell to the '**Troika**' (Commission, ECB, IMF). The EP in a [resolution of 13 March 2014](#) stated that it 'regrets that the troika **lacks means of democratic legitimacy at EU level** because of its structure'. The same can be said of the European Stability Mechanism (ESM), created by [treaty](#), outside the EU structure. In the same [resolution](#) the EP noted that the 'ESM treaty does not define further the content of conditionality or adjustment programmes, thus allowing **great leeway** in recommending such conditionality'. EP democratic control is also challenged by the increasing **use of implementing acts instead of delegated acts**. In a [resolution of 25 February 2014](#) the EP called for more secondary legal acts to be adopted under [Article 290 TFEU](#) on **delegated acts**, which provides for democratic control by the Parliament, through the revocation of the delegation or an objection to a delegated act. Instead, [Article 291 TFEU](#) on **implementing acts** is used much more frequently, with no control by the Parliament.

As regards EU financial rules, the fact that the multiannual financial framework (MFF) **does not coincide with the EP's 5-year political cycle** creates challenges for its democratic legitimacy, as pointed out in an EP [resolution of 14 March 2018](#). A partial remedy to this is [mid-term review of the MFF](#). Concerning the proposed [rule of law budgetary conditionality](#), the Commission's original proposal did not provide for any role for the EP, which the latter has proposed to remedy in its [legislative resolution](#).

More recently, oversight and democratic control have been challenged at Member State level following the coronavirus crisis and the subsequent introduction of [emergency measures](#) by national governments.

Risk factors

- Increased role of **intergovernmental bodies** outside the scope of EP political control;
- Increased use of **emergency measures** in the Member States;
- Increased use of **implementing acts** by the Commission, outside the Parliament's control;
- **Lack of coordination** between the MFF cycle and EP's political cycle.

Implications for Europe

Depending on the outcomes, possible implications could include the **potential marginalisation of the European Parliament and national parliaments** and other representative bodies in a period in which crisis management, state of emergency, executive rulings, and negotiated deals between Heads of State or Government may become the rule. Given that democratic institutions in Europe are resilient, this a risk of **smaller likelihood** but nonetheless with a potentially large impact.

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Declining EU–Member State cooperation and declining cooperation among Member States themselves

State of play

Under the **principle of sincere cooperation** ([Article 4\(3\) TEU](#)) EU institutions and Member States are obliged to show each other mutual respect and assist each other in carrying out tasks that flow from the Treaties. Member States must take all measures to fulfil their Treaty obligations, including those flowing from acts of the institutions, such as judgments of the European Court of Justice (ECJ), but at the same time the EU institutions must respect the limits of EU competences ([Article 5](#)) and Member States' [national identities](#) ([Article 4\(2\) TEU](#)). In recent years, both principles of sincere cooperation and [mutual trust](#) have been under attack. A recent example is the [ruling](#) of the German Federal Constitutional Court, in which it explicitly **rejected a previous ECJ ruling**, claiming it was *ultra vires* (outside EU competences), and questioning its [binding force](#). Such cases have already happened in the past, e.g. in 2012 the Czech Constitutional Court [declared](#) the ECJ's [judgment](#) on Slovak pensions to be *ultra vires*.

Declining trust between EU institutions and Member States is also evidenced by unprecedented conflicts over the scope of EU competences and the organisation of national judicial systems (see e.g. ECJ Case [C-619/18 Commission v Poland](#)). This led to the [activation](#), in 2016, of the pre-Article 7 TEU procedure ([rule of law framework](#)) and then, to the triggering of the **Article 7(1) TEU preventive mechanism** for the first time ever in 2017 (concerning [Poland](#)). The Article 7(1) TEU procedure was also launched, by the European Parliament, with regard to [Hungary](#) over an alleged violation of a number of EU values. The lack of trust between the EU institutions and Member States had even led to the [proposal](#) providing for **possible cuts in EU financing** for Member States that are found not to respect the rule of law.

Risk factors

- Increased mistrust among Member States would further **erode the principle of mutual trust** that, while not mentioned in the Treaties, has become a key principle of EU law, in particular of the area of freedom, security and justice. This could also jeopardise judicial cooperation among Member States, as was in the case in the past, for example, in relation to the European arrest warrant when it was alleged that the requesting Member State could not guarantee a fair trial due to lack of judicial independence (see e.g. ECJ Case [C-216/18 Celmer](#)).
- Further **erosion of the principle of primacy of EU law** that, with the principle of the direct effect of EU law, represent the two pillars of the EU legal order. Ultimately, this could lead to the erosion of the legal nature of the Union as a [community of law](#), whose guardian is the ECJ.
- Mistrust between EU Institutions and Member States could undermine the political legitimacy of the European project, which rests on democratic procedures and is founded on the **rule of law**.

Implications for Europe

The possible implications of this process could include undermining of the role of law in the European project, a long-term decrease in cooperation and of loyalty among Member States and between them and the EU institutions, and/or an undermining of solidarity between Member States and EU interests, jeopardising the external unity of the Union and even triggering the further use of Article 50 TEU.

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Unsustainable lack of resources for the EU

State of play

In 2018, the European Parliament called for swift agreement on a new Multiannual Financial Framework (MFF), reform of Own Resources, and substantial extra resources to tackle common challenges such as climate change. On 21 July 2020, the European Council reached political agreement on a €1 074.3 billion MFF for the 2021-27 period, plus a €750 billion boost to EU spending ([Next Generation EU](#)) comprising €390 billion of grants and €360 billion of loans, financed through borrowing on capital markets. Spending financed by Next Generation EU will remain outside the MFF ceilings. As proposed by the Commission, the Own Resources ceiling will rise permanently from 1.2 % to 1.4 % of EU GNI because of economic uncertainty and Brexit, and to 2 % until 2058 at the latest, to guarantee the borrowing to fund Next Generation EU. Repayment of borrowed funds should start in 2026, and new EU own resources, yet to be agreed, should be introduced to finance this. Ready to negotiate the new MFF since November 2018, the [European Parliament](#) has welcomed the recovery plan but criticised the political agreement on the MFF. [Confirming](#) its readiness to start negotiations immediately, it has stressed that Next Generation EU could be launched rapidly with the current MFF rolled over to ensure continuity of funding and protect beneficiaries of EU programmes.

Risk factors

- Despite the need to fund new challenges and interest on Next Generation EU borrowing from the MFF, the European Council agreement on the core MFF is lower than the current MFF, and contains **cuts to traditional priorities and lower increases in investments in EU common goods than those proposed by the Commission and/or advocated by Parliament.**
- Given the reduction in EU GNI and increased risk of default of existing off-budget liabilities in the current economic climate, there is a **risk that Own Resources are not sufficient to cover existing off-budget liabilities, or even EU spending, unless the Own Resources ceiling is raised.** But since unanimity and ratification in Member State parliaments is needed to modify Own Resources, **will the political agreement be ratified, with sufficient speed, to cover current spending and off-budget liabilities and the proposed recovery plan?**
- If Member States do not agree to new Own Resources, there is a risk of **further cuts to traditional priorities and reduced ambition for new ones, particularly in the following MFF** (post-2027) when repayment of the principal from recovery plan borrowing becomes more substantial.
- **The Parliament may be pressured to accept a rushed, unsatisfactory MFF** to guarantee continuity of programmes in 2021. Even if a new MFF is agreed soon, there is a very high **risk of delay in the start of the new spending programmes.** To allow proper consideration of a new MFF and avoid an implementation gap it might be better to roll forward the current MFF.

Implications for Europe

Even if Next Generation EU spending is subject to discharge by the European Parliament through integration of spending into the EU budgetary instruments, the current earmarked financing rules will keep this financing outside the reach of Parliament as budgetary authority if the Financial Regulation is not modified. Moreover, the political agreement adds a new off-budget financing mechanism to an already complex EU financial system. Any weakening of transparency and financial accountability risks reducing the democratic accountability of EU policy to its citizens.

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Financing gaps in EU programmes

State of play

Multiple pieces of legislation remain to be negotiated and adopted, and technical preparations and appointment of managing authorities need to be made before the policies European citizens want can be implemented. Planning delays, insufficient administrative capacity and failure to respect conditionalities may also contribute to gaps in the implementation of EU programmes.

Risk factors

- The [European Parliament](#) is not ready to give its consent to the 21 July European Council political agreement on the **MFF** until it is satisfied that sufficient resources will remain available to deliver policies after the Next Generation EU (NGEU) boost runs out. NGEU cannot be implemented in any case until a new **Own Resources** decision is in place, after the European Parliament has given its opinion and the decision has been ratified in all Member States: this process typically takes around two years. The legal bases of the **sectoral programmes** must also be in place to allow the delivery of EU policies. Given the very little time left before the expiry of the existing programmes, there is a clear risk of gaps in implementation.
- **Planning delays** may also contribute to the risk of gaps in the implementation of EU programmes. The greater the planning horizon, the greater the gap. Thus while resources were rapidly implemented at high levels at the start of the current MFF in most of the programmes in the field of competitiveness for growth and jobs, there were substantial delays in implementation of resources for the cohesion, rural development and fisheries programmes.
- Effective planning and implementation require **sufficient administrative capacity**. Since the start of the current MFF, substantial extra financial resources have been made available to tackle unforeseen challenges such as the financial and migration crises and climate change, and an unprecedented boost in financial resources is envisaged over the next few years to help the EU economy recover from the coronavirus crisis. These additional resources need administering. And administration has become ever more complex with the increasing array of new off-budget instruments. However staff numbers in the EU institutions have been cut by 5 % since 2014. And the European Council agreement envisages a cut in administrative expenditure (excluding pensions and European Schools) from €56.8 billion in the current MFF to €56.0 billion in the next MFF. There is also a question over how quickly the massive increase in EU funds proposed can be [managed and absorbed](#) by the Member States.
- The disbursement of funds may also be impacted by [conditionalities](#). Existing conditionalities are most present in cohesion, rural development, fisheries, the Asylum, Migration and Integration Fund and the Internal Security Fund. New budget conditionalities related to respect for the rule of law have been proposed. The link between NGEU and challenges identified during the European Semester process could further complicate matters.

Implications for Europe

According to the latest [Eurobarometer survey](#), an absolute majority of Europeans believe the EU should have greater financial means to overcome the consequences of the coronavirus pandemic, primarily for public health, economic recovery and new opportunities for business, employment and social affairs, and climate change. However while the European Council agreed on a recovery plan and climate mainstreaming in both the MFF and NGEU, it decided against an NGEU health programme. Expectations could be further disappointed by any delays in delivery of resources.

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Unravelling of the single market, through obstacles to free movement and unfair tax and State-aid policies

State of play

The single market is of fundamental importance to the EU economy. During pre-crisis times, intra-EU trade in goods accounted for about two-thirds of the EU's [total trade](#) (imports and exports). In 2019, the single market was the most important trade destination for goods for all the Member States except Cyprus. On the [services](#) market, the total volume of trade has been split equally between the EU and third countries. The current crisis impacts the functioning of the single market, which is based on free movement of persons, goods, services and capital; cross-border movements of the first [three](#) have been affected. One of the first measures introduced by a majority of Member States was the reintroduction of controls at the internal borders. Restrictions on the free movement of people have a knock-on effect on the circulation of goods and services as well.

Risk factors

- **Short-term risks** include difficulties in restoring flawless movement of goods and safe movement of people and services as quickly as possible. Lack of coordination at EU level of the otherwise highly linked economies makes a return to the pre-virus status quo challenging and uncertain. Production [capacity](#) is subpar, and some supply chains may disappear for good. The effectiveness and implementation of the Commission's non-binding guidelines is also at risk.
- **Long-term risks** concern the challenge to the level playing-field – a cornerstone of the single market and competition policy – through uneven distribution of [State aid](#). Some countries have much bigger [fiscal responses](#) than others. Access to liquidity depends on a business's location. In an extreme case, public spending to avoid competitive disadvantage could trigger [subsidy wars](#) between Member States.
- **Recovery risks** include insufficiently coordinated national policy responses, or a weak EU-level response may hamper economic recovery. Some of the most affected countries (and most dependant on tourism) happen to be those with least policy space to maintain the economy. 'Going it alone' and a weak EU response would not compensate for these differences. This could limit the efficient use of the workforce (e.g. labour mobility), result in different competitive positions of enterprises, bring down efficiency and productivity in the economy, weaken economic growth, increase [core-periphery](#) divergence, and ultimately threaten the integrity of the single market. At present, the lack of an agreed and accepted EU-wide [strategy](#) on counterbalancing state intervention is a case in point.
- **Risk of weakened integration:** the single market is an evolving project. With a crisis-related general strengthening of protectionist tendencies, the momentum for further integration, removing [barriers](#), and opening politically contentious sectors such as services, may be lost. This would be particularly damaging if it was to impact on [capital markets union](#) integration, which is crucial in mobilising markets in economic recovery.

Implications for Europe

Tight links based on supply chains, financial connections and mutual trade compound and spread any negative effects throughout the EU. There was a marked lack of coordination at the beginning of the crisis, and it is an open question as to how coordinated the exit from it will be. Uneven State aid [responses](#) and further entrenchment of a core-periphery divide compound the likelihood of significant pressures testing the integrity of the single market (and the currency union).

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Unravelling of the Schengen *acquis* and further deterioration of a borderless Union

State of play

The coronavirus crisis has heightened existing risks affecting the Schengen area. In an attempt to contain the spread of the virus, the [majority](#) of Member States introduced temporary internal border controls. Moreover, the crisis has added new risks: renewed migration and [asylum](#) pressures at external borders (looming economic crisis and political instability); persistent health risks (uncertainty about the disease and uneven responses worldwide); disruption of the internal market (shortages of workers, including critical workers, and disrupted supply chains); political frictions between Member States potentially leading to the collapse or [fragmentation](#) of the Schengen area; and rising nationalist, anti-globalisation and anti-EU sentiment. However, the crisis also offers an opportunity for reform. The EU has advocated a coordinated response to the pandemic, focused on minimising the impact of containment measures on the internal market ([essential goods](#) and critical workers) and working out a common exit strategy.

Risk factors

- Member States have introduced a variety of border controls that are different in scope, nature, temporal and territorial application, [generating legal uncertainty](#) for citizens and business, as well as inconsistent application in practice. This could potentially lead to undermining individual fundamental rights and the rule of law.
- The disruption in the functioning of the Schengen area, with its consequent fragmentation, has a variety of impacts on intra-Schengen travel for work and tourism, travel from outside the Schengen area, and for movements of goods, services and capital. There is a risk that **temporary measures become permanent**, undermining de facto the single market, a hugely important pillar of EU integration.
- Maintaining internal borders would generate considerable **economic costs**. In 2016, during the 'migratory crisis', an EPRS study estimated that the reintroduction of border controls at that time resulted in an annual economic loss – a 'cost of non-Schengen' – of around €10 billion per year. In 2019 another EPRS [study](#) on the issue of border control and visa policy, estimated that the status quo produced an annual cost of approximately €27.5 billion.

Implications for Europe

The unravelling of the Schengen area, in addition to direct economic loss, would generate negative political consequences. The stakes are high, given that Schengen is an enabling key pillar of the EU [single market](#) that underpins, inter alia, the free movement of goods and persons and, is a legitimising symbol of European integration. There is general agreement about the need to return to a 'normal' functioning of Schengen – which may require further development, in particular through completing reforms of the Schengen *acquis* (such as updating [Schengen governance](#) arrangements) and further strengthening compensatory mechanisms to deal with migration, asylum and security challenges (for example, launching the announced Pact for Asylum and Migration).

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Weakness of economic governance and lack of EU *Wirtschaftspolitik*

State of play

The last economic and financial crisis revealed vulnerabilities in the EU and euro area. In response, the EU reformed its economic governance and surveillance framework with a series of measures including most notably the six- and two-pack legislation. These reforms have aimed to strengthen economic and fiscal surveillance and to reinforce economic policy coordination under the European Semester. Although the reformed economic governance framework has shown some strengths in recent years, including, inter alia, correction of excessive deficits and of macro-economic imbalances and better policy coordination, it has also been criticised for the complexity of its fiscal rules, its lack of transparency and sometimes its political ownership. In addition, fiscal policies have been pro-cyclical to a great extent while public debt levels have remained very high in some Member States. The coronavirus crisis will put heightened pressure on public finances in the coming months and years, thus raising the issue of debt sustainability in the longer term. The IMF [projects](#) the euro area's public deficit and debt to increase to 11.4 % and 105 % of GDP, respectively, in 2020. Against this background, there is room for improvement. The Commission has recently launched a debate on how to enhance the effectiveness of the EU's economic governance framework and will reflect on possible future steps.

Risk factors

- **The fiscal debate has not changed over the last decade and may remain in deadlock in the future.** While some Member States are in favour of strict compliance with and enforcement of the fiscal rules in place, others support a very flexible approach, to seek to boost economic growth through increasing public spending, activating exception and escape clauses for instance. There is thus a risk that the two camps cannot compromise and that bold initiatives to complete EMU are not adopted or substantially watered down and, even that economic divergence takes place.
- **Many Member States were complacent and did not record any budgetary surplus or reduce their level of public debt enough** despite a positive economic period with solid growth rates and falling unemployment. As a result, their fiscal space to withstand significant economic or financial shocks is limited, such as in the current coronavirus pandemic.
- **EMU's design remains incomplete** with a few economies more vulnerable in the event of a shock due to poorer economic performances over the last decade(s). Key elements that could help the EU and the euro area withstand shocks more effectively are indeed still missing, including a central fiscal capacity or the issuance of bonds. At the same time, Member States should comply with all risk-reduction rules agreed previously.
- **At Member-State level, fatigue in implementing key structural reforms and putting public finances on a more sustainable path** could intensify further. That could in turn pose a threat to the objective of economic stabilisation and sustained convergence within the EU and euro area.
- **Mistrust towards the Commission**, in some quarters, for not properly enforcing the rules, or among Member States themselves for failing to comply with the rules, could lead to the erosion of the collective economic governance and surveillance framework and worsen coordination.

Implications for Europe

There is a broad [consensus](#) that the current economic governance framework has not functioned as effectively as it should despite recent reforms. The EU should address identified weaknesses – in both design and implementation – and build on a broad compromise so that all institutions and Member States adhere to the framework, which is essential for the proper functioning of the EU and EMU. If not, the Union will remain vulnerable in the event of a shock or a crisis. For example, the effectiveness of key policy responses, for instance from the ESM or the ECB, could be substantially hampered.

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Fragmentation of capital markets

State of play

Since the launch of the Capital Markets Union, EU legislation has been adopted in such diverse areas as securitisation, prospectuses for investors and central counterparties. Five years on, however, market-based financing remains limited. This is partly due to the fact that companies are encouraged to take on debt rather than equity, and to high costs of legal compliance. In addition to the above, some recently adopted rules (such as on the pan-European personal pension product) have been criticised for being too complex and for discouraging providers and investors (the listing of the European company Spotify in the US, instead of the EU is cited as an example of this). Another criticism is that the measures adopted so far have focused less on creating a single capital markets union, than on developing (the 27) existing capital markets in the EU.

Risk factors

- The lack of easily accessible, understandable and comparable **public information**, makes it difficult for investors to access and compare company data, and thus to invest cross-border.
- Progress in **areas that are critical for mobilising finance** through capital markets – for instance harmonising corporate or insolvency laws, regulating cross-border taxation or double taxation, and harmonising reporting across jurisdictions – is difficult to achieve, as they are complex objectives for which political will is necessary.
- The current **legislative framework** for new financial technologies is not comprehensive and is scattered among various pieces of EU legislation. This diminishes legal certainty (and thus investment) and creates loopholes that could undermine financial stability.
- **Brexit** threatens to move some key market infrastructure outside the EU, disrupting network linkages, carving significant business out of the European Union and increasing the risk of dependence of the EU economy on non-EU capital markets.
- While central counterparties have been regulated extensively, **central securities depositories** (CSDs), which provide essential settlement services and ensure that a transaction can be concluded with the delivery of a security and payment, continue to face regulatory obstacles in the cross-border provision of services.
- Investors have difficulties and incur higher costs when exercising rights associated with the **ownership of securities**, as national rules on allocation of ownership rights and execution of entitlements differ across Member States.
- Member States may implement some measures but **refrain from acting on all levers** that are interdependent and mutually reinforcing, reducing the overall impact of the initiative.

Implications for Europe

Despite the important efforts made by Member States over the last decade, the aforementioned technological differences, divergent tax regimes, the United Kingdom's departure, and differences in local financial structures, keep EU markets fragmented. This fragmentation is particularly harmful in a currency union, where deeper and more liquid financial markets should be able to compensate for the absence of other shock absorbers (such as flexible exchange rates).

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Lack of an integrated EU immigration policy

State of play

In recent years, the EU has embarked on a broad process of reform aimed at addressing a series of deficiencies and gaps in its policies on asylum and migration. Action to date has achieved relative success when it comes to securing [external borders](#), reducing the arrivals of irregular migrants, and showing solidarity with third countries. However, the EU has encountered many more difficulties in providing more legal pathways for refugees and [solidarity and responsibility-sharing](#) for asylum-seekers among EU Member States. Member States have also struggled to establish more efficient [legal channels](#) and integration opportunities for migrants, which remains of utmost importance to cope with current and future needs for skills in the EU. This lack of a resilient and balanced approach to dealing with irregular and legal (regular) immigration led the European Commission to announce a [Pact on Asylum and Migration](#) to be presented in 2020.

Risk factors

- **Deficiencies in the common European asylum system** (CEAS) mean asylum-seekers are not treated uniformly, and recognition rates vary across EU countries. Moreover, just a few EU countries, based on their geographical situation, are responsible for the vast majority of asylum claims submitted within the EU. This can lead to secondary movements, putting pressure on Member States' reception capacities, asylum systems, economies and security, and encourage human smuggling and trafficking networks.
- **Fragmented national policies** for attracting third-country nationals (TCN), especially highly skilled, are currently undermining the ability of the EU as a whole to attract the workers and researchers it will need due to its ageing population, shortages of labour and skills and the likely intensification of automation and innovation. Competition for migrants could intensify, as other countries facing an ageing population and a shrinking workforce might become more attractive immigration destinations and offer better economic and social prospects to migrant workers and their families than the EU.
- The **sectoral approach** taken in the EU framework for legal migration fails to cover all TCN. Different rules create different standards for different categories of TCN, which prevents their intra-EU mobility and weakens EU economic competitiveness and growth. **Unfair and unequal treatment** of TCN could negatively influence their integration prospects and overall societal cohesion, fuelling negative sentiment towards migrants, leading to increased discrimination and shifting support to popular right-wing parties.

Implications for Europe

Migration must be seen not only as a challenge, but also as an [opportunity](#) for the EU. The impact of any future migration flux into the EU will largely depend on its capacity to develop an integrated EU immigration policy. This should be based on a more efficient, harmonised and fairer EU asylum system and well-managed labour migration and integration, taking into account international and EU human rights and labour standards. Migration will be an important tool to enhance the sustainability of EU countries' welfare systems and to ensure sustainable growth of the EU economy. The EU should focus more on common EU action in the area of legal migration and asylum, which, according to research done for the European Parliament, could result in up to [€44 billion](#) in benefit to the economy.

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Lack of a European defence instrument

State of play

The EU's level of ambition in terms of security and defence, as defined in the [EU Global Strategy](#), is to protect its citizens, to respond to external conflicts and crises, and to build partners' capacity. To meet its self-set ambition the EU has fine-tuned existing Common Security and Defence Policy (CSDP) crisis-management and capacity-building instruments. Several have been introduced, including a [Military Planning and Conduct Capability](#) (MPCC), which provides a permanent command and control facility for 'non-executive' military operations. More needs to be done, particularly on joint financing for military operations, as the review of the [Athena Mechanism](#) has not yet been completed despite several [calls](#) from the European Council to finalise this process. The EU and the Member States would need to raise their game beyond crisis management to protect EU citizens in the event of a new activation of the mutual assistance clause. This would require a dedicated European defence instrument allowing national capabilities – equipment and troops – to intertwine more than is currently the case. An enhanced level of interoperability among Member States, with NATO, and with partner countries, such as the UK, would also be required.

Risk factors

- A **return to geo-politics** dominated by global powers. The EU risks being caught between their clashing interests, unless it uses its 'soft power' tools – trade, development, sanctions – in a more assertive way, whilst at the same time developing 'hard power' mechanisms. Doing so would require a robust European defence instrument.
- The absence of an **assessment of the threats** that the EU and the Member States face in common represents a vulnerability, which the forthcoming strategic compass should remedy.
- There is a non-negligible risk that NATO could continue to face **turbulence** because of more assertive behaviour of some of its members and/or increased disengagement of other members. The EU could mitigate this risk by building a European pillar within NATO, based on a European defence instrument.

Implications for Europe

The EU will need to get better at speaking the '[language of power](#)' if it wishes to protect its interests, defend its values and have a credible voice internationally at a time when geo-politics prevails. A dedicated European defence instrument allowing both projection of power (CSDP missions and operations) and to protect EU citizens on European soil would enable the EU to meet its self-set level of ambition in a credible way. It would also ensure that all Member States, whether NATO or non-NATO members, could rely on the full solidarity of their EU partners if the mutual assistance clause were to be activated again. The forthcoming strategic compass should, in addition to identifying common threats to security, outline the capabilities needed to address the entire spectrum of threats. It should in particular identify the type of equipment and forces (land, air, maritime), both conventional and non-conventional, required for that purpose, including cyber, hybrid and nuclear. The EU and Member States should build on previous reforms and continue strengthening military CSDP by addressing outstanding issues, in particular persistent slow force generation, joint financing of military CSDP, military intelligence cooperation, inter-operability with NATO as well as the future of the EU's rapid reaction capacity. Yet, before that, Member States would first need to [agree politically](#), within the European Council, on the overall purpose of the European defence instrument.

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Lack of a joint liability instrument

State of play

The idea of issuing common or joint debt instruments, especially among euro-area countries, has been linked in various ways to the Union's financial integration. To respond to the financial and economic crisis that broke out in 2008, supranational issuers were created – such as the European Financial Stabilisation Mechanism ([EFSM](#)), European Financial Stability Facility ([EFSE](#)) and European Stability Mechanism ([ESM](#)) – although with limited capacity. While joint debt instruments present considerable potential advantages, particularly in reducing market fragmentation and enhancing the shock absorption capacity of the system, they also entail challenges, the most politically sensitive of which are the potential removal of incentives for sound budgetary policies, and the transfer of sovereignty from the national to the EU level. In the context of the crisis caused by the coronavirus pandemic, supranational debt instruments have come to the fore as a solution to avoid a symmetric exogenous shock producing asymmetric effects on Member States.

Risk factors

- **Different fiscal capacity of Member States:** with taxation and government spending almost entirely at the national level, the European Union lacks policy instruments to provide additional, targeted stimulus in the event of widespread severe economic downturn.
- **Different credit worthiness of Member States:** debt servicing and principal redemption of sovereign bonds depends on the fiscal capacity of single Member States; therefore investors require different risk *premia* for different sovereigns.
- **Size and fragmented nature of European equity and bond markets:** if the size of capital markets is measured as just the volume of outstanding bonds and shares, US and Japanese markets are substantially larger than the EU's. Moreover, the EU capital market is fragmented in national compartments. That implies higher transaction costs and makes it more difficult to manage currency and interest rate risks. As a result, the market is less attractive for investors, and the capacity of the EU to protect itself from economic shocks is reduced.
- **Concentration of domestic sovereign bond holdings on banks' balance sheets:** banks tend to concentrate their sovereign bond holdings in their country of domicile, in so doing reinforcing the 'sovereign–bank nexus'. Studies demonstrate that simple higher diversification requirements are likely to increase the risk profile of most banks in the euro area, while having little effect on contagion risk. Regulatory reform needs to be complemented by an expansion of portfolio opportunities to include an area-wide low-risk asset.
- **Increasing TARGET2 imbalances:** according to some commentators, the implementation of the ECB's quantitative easing programme contributed considerably to the increase in TARGET2 imbalances registered between 2015 and 2018. That effect would not occur if the totality of purchases were carried out by the ECB, or national central banks benefitted from the possibility to purchase an area-wide asset instead of domestic sovereigns.

Implications for Europe

The fiscal stimulus provided by Member States in an economic downturn can vary significantly according to their fiscal capacity. Together with the other factors described, that could lead to persistent economic, financial and social divergences between euro-area Member States, to severe distortions within the single market and potentially to a new sovereign debt crisis. The lack of a euro-area safe asset also impairs the ability of the euro to achieve a greater international role.

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Climate action failure and increasing number of weather- and climate-related hazards

State of play

The EU has made climate action a high political priority. The European Green Deal, Europe's new growth strategy, enjoys broad political and popular support. To address climate change effectively and meet the goals of the Paris Agreement (PA), EU efforts would need to be matched by other global economies. However, international climate action is stalling. Global carbon emissions keep growing and countries' climate plans (Nationally Determined Contributions) are insufficient to collectively reach PA temperature targets. International climate finance is struggling to reach the agreed target of US\$100 billion by 2020, let alone the amounts needed by developing countries to implement their plans. Two successive climate conferences (COP24 and COP25) failed to finalise the PA rulebook, and COP26 has been postponed. The US has decided to leave the PA, and most other nations have failed to raise their ambitions in line with the PA targets. Meanwhile, the number and severity of climate-related weather events and forest fires is rising, ecosystems are impacted, glaciers and sea ice are melting, and the rise in the sea level is accelerating.

Risk factors

- Achieving the temperature targets of the PA requires deep emissions reductions, as well as removal of greenhouse gases, enabled by a rapid and unprecedented low-carbon transformation of the economy. Such a **deep transformation** may be hard to achieve in Europe, and may prove even more challenging on a global scale in the context of growing population, economic development, and scarcity of skills, technologies and resources.
- The EU may fail to engage **other nations** in ambitious climate action, leading to a risk of trade conflicts over low-carbon standards and border carbon adjustments, as well as a failure to create global markets for low-carbon products and technologies.
- The **coronavirus pandemic** has hit economies hard, creating a risk that states and companies lack the funds to invest in a low-carbon future. National recovery plans may support polluting industries and lock in high levels of emissions for the future.
- Accelerating climate change may lead to impacts that exceed the **adaptive capacity** of human and natural systems, leading to human and economic losses, conflict and migration.

Implications for Europe

If the **European Green Deal** leads to low-carbon prosperity, growth, job creation and social cohesion, it can serve as a model for other regions to follow. The success or failure of the European Green Deal thus has implications far beyond Europe's borders.

International engagement remains critical, as Europe accounts for only a fraction (ca 10 %) of global GHG emissions. Europe can reinforce its lead in climate diplomacy, trade agreements, development cooperation, bilateral cooperation and engagement in international fora and organisations

Europe needs to **adapt to climate change**, be prepared for its impacts, build resilience (e.g. through nature-based solutions) and address key vulnerabilities related to human health and agriculture. Good preparation is equally important for responding to natural disasters such as earthquakes, volcanic eruptions, tsunamis, meteorite impacts and solar electromagnetic pulses.

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Man-made environmental disasters

State of play

Human-made environmental disasters appear among the top ten global risks in terms of likelihood and severity of impact of the World Economic Forum's [Global Risks Report 2020](#). Man-made disasters can be understood as those [caused](#) by technological hazards: [technical hazards](#) stem from technological or industrial conditions, dangerous procedures, infrastructure failures or specific human activities, including the mismanagement of such hazards/events. Examples include industrial pollution, nuclear plant explosions or extensive radioactive releases, toxic waste, dam failures, transport accidents, factory explosions, fires and chemical spills. They may also be triggered by a natural hazard event.

Risk factors

- The risk of technological accidents is [increasing](#) as a result of industrialisation, population growth leading to more urbanisation and community encroachment on natural-hazard areas, and climate change.
- **Industrial accidents** involving the release of dangerous substances, explosions or fire occur [frequently](#) in Europe, with, in the majority of cases, localised impacts. Major industrial events, however, are considered a low likelihood/high impact risk. Transportation of dangerous goods through a country's territory may increase the risk of an accident. Expansion of urban areas may increase exposure to the risk of accidents (proximity of urban communities to high-risk industrial sites). Hazardous industries may be vulnerable to the impacts of natural hazards ([Natech](#) accidents).
- **Nuclear accidents** and incidents involving radioactive release are considered risks of low likelihood, but with potentially high levels of impact (involving land/water contamination, longer-term health complications due to radiation exposure; significant economic costs due to losses in the agricultural sector, reduced tourism and affected industrial production). Nuclear accidents have [the potential](#) to cause a disaster both in the vicinity of and even far away from the damaged nuclear facility.
- **The risk of Natech accidents** is expected to increase in the future due to more natural hazards associated with climate change, and the increasing vulnerability of society (urbanisation, interconnectedness).

Implications for Europe

The EU has several tools in place to address such risks, including specific legislation (such as the [Seveso Directive](#) for industrial accidents) and platforms for rapid exchange of information and data (such as [ECURIE](#) for radiological/nuclear accident). Recent initiatives taken in relation to disaster management include the setting up of the [Disaster Risk Management Knowledge Centre](#) to provide evidence to inform policy, and the upgrading of the [EU Civil Protection Mechanism](#). Since industrial/nuclear accidents present cross-border risks, cooperation both within the EU and with non-EU countries will remain a key element in management of such disasters.

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Water crisis and destruction of agricultural land

State of play

Central to agriculture, land and water resources are [intrinsically](#) linked to global challenges of food insecurity and poverty, and climate change adaptation and mitigation, as well as degradation and depletion of natural resources. Agriculture is a main user of freshwater resources. Significant declines in water quantity and quality can thus have harmful consequences. Water scarcity is already a reality. An estimated 1.9 billion people already live in severely water-scarce regions, and [nearly half](#) of the global population lives in area that are potentially water-scarce at least one month per year. These figures could increase to 3.2 billion and 5.7 billion, respectively, by 2050. [Water quality](#) has deteriorated in most world regions since 1990, mainly because of organic and chemical pollution (pathogens, nutrients, pesticides, sediments, heavy metals, plastic and microplastic waste, persistent organic pollutants and salinity). In Europe, freshwaters continue to be affected by several pressures, including pollution from nutrients and hazardous substances, over-abstraction and physical changes. Many of these pressures are likely to be exacerbated by climate change. Land and soil are also under significant pressure, including loss of productive land because of land take and soil sealing, climate change, and intensive land management.

Risk factors

- **Increasing demand** for [land, food and water](#) as a result of population growth, combined with increased income and changes in consumption patterns. Growing demand for food could lead to increased production and pressure to intensify agriculture, with adverse effects on the environment.
- **Climate change** is expected to lead to significant degradation of productive land and water scarcity, globally and in Europe.
- **Pollution** threatens both land and water resources.
- **Unsustainable agricultural practices:** agricultural intensification – including over-cultivation, over-grazing, deforestation, over-use of chemical inputs and heavy machinery, and poor irrigation practices – enables the production of more and cheaper food, but this happens at the expense of limited natural resources. This increases the risk of land degradation and of reduced capacity of soil to produce food, with a subsequent risk of decline in land productivity and crop yields. Excessive use of synthetic chemicals can [contaminate](#) the land, rivers, lakes and groundwater in a wider area.

Implications for Europe

Securing the sustainable use of [water](#) and [soil](#) remains a key challenge. To alleviate water scarcity, the EU has adopted [rules](#) on the re-use of wastewater for agricultural irrigation. Initiatives to address pollution are envisaged as part of the European Green Deal, notably a zero pollution action plan for air, water and soil. A proposal for a [Farm to Fork strategy](#) for a fair, healthy and environmentally friendly food system, also part of the European Green Deal, was presented on 20 May 2020. The strategy envisages, among other things, action to reduce the use and risk of chemical pesticides, as well as measures to reduce the losses of nutrients from fertilisers.

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Destruction of biodiversity, depleting crucial resources

State of play

Biodiversity makes an essential contribution to human life, through the provision of food, fuel and medicines, crop pollination, climate regulation through carbon storage and control of local rainfall, water and air filtration, mitigation of the impact of natural disasters, and soil formation. It is, however, under intense pressure from human activity, and declining increasingly rapidly. 75 % of the terrestrial environment and 40 % of the marine environment are now [severely altered](#) globally, and 1 million animal and plant species (out of a total estimated number of 8 million) are threatened with extinction. Policy responses so far have not proved sufficient. Most of the targets agreed at international level – under the UN Convention on Biological Diversity (CBD) – and at EU level to tackle biodiversity loss by 2020, will be missed. A new post-2020 global biodiversity framework is expected to be adopted at the 15th meeting of the Conference of the Parties to the CBD, originally planned for October 2020, but postponed to 2021 due to the coronavirus pandemic.

Risk factors

- **Inter-twined challenges:** Direct drivers of biodiversity loss include land- and sea-use change; over-exploitation of natural resources; pollution; climate change; and invasion of alien species. Indirect drivers include growing population, urbanisation and consumption levels. Climate change, biodiversity loss and pollution are highly [interconnected](#) and mutually reinforcing. Increasing levels of global warming and pollution are likely to exacerbate the loss of natural capital and biodiversity, while the loss of natural capital and related carbon stocks increases greenhouse gas emissions, leading to climate change.
- **Lack of policy coherence** across sectors and areas: Adequate integration ('mainstreaming') of biodiversity concerns into sectors and policies exerting considerable pressure on biodiversity (including agriculture, forestry, fisheries, spatial planning, energy, transport, tourism and industry) is essential, as is the [alignment](#) of private and public financial flows (including subsidies) with biodiversity conservation and restoration. Failure to take these elements into account would jeopardise nature protection efforts.
- **Impacts of the coronavirus pandemic:** Risks include [lack of resources](#) to invest in the green agenda; [rolling back](#) of existing environmental standards and failure to embed ambitions on climate change, biodiversity and wider environmental protection in stimulus measures and policy responses; adverse effects on efforts for global coordination and cooperation (e.g. diversion of time and resources to other priorities).
- **Putting nature protection aside**, however, could backfire, since [biodiversity loss](#) has fundamental consequences for society, economy, human health and well-being, and the window of opportunity to halt nature's deterioration is [narrow](#).

Implications for Europe

International cooperation on this global issue is essential. The EU could lead international action, using its diplomatic and economic influence to push for more ambitious global 2030 targets and commitments. At the same time, a more holistic approach is needed to stem the drivers of nature deterioration. Leading the world by example and providing an integrated framework to tackle the biodiversity crisis are among the core ambitions of the [EU biodiversity strategy for 2030](#) presented on 20 May 2020 by the European Commission, as part of the European Green Deal.

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Health risks associated with climate change, including an increasing number of extreme air pollution episodes

State of play

Climate change is among the biggest threats for humanity and is already happening. Measuring the health effects from a changing climate can only be approximate; nevertheless, the World Health Organization (WHO) projects that climate change is expected to cause some [250 000 additional deaths per year](#) worldwide between 2030 and 2050. Climate change is attributable to human activity, and the top priority in addressing the problem is to stabilise the climate. The United Nations' [Sustainable Development Goal 13](#) is to take urgent action to combat climate change. As part of the [European Green Deal](#), the European Commission is preparing a new EU strategy on adaptation to climate change. Climate and health are closely linked: action on one gets results in the other. Yet the specific threats that climate change poses to human health are less well known, despite experts such as [Dr Tedros Adhanom Ghebreyesus](#), WHO Director-General, sounding the alarm.

Risk factors

- Climate change has brought [a range of risks for human health](#) through different exposure pathways, and risks will increase as temperatures rise. Health effects may be direct – from heatwaves, wildfires, storms, floods – or indirect, resulting in a higher risk of vector-borne diseases due to the spread of disease-carrying insects into previously temperate zones or a revival of deadly and infectious diseases previously locked in permafrost. All these risks are likely to continue for many decades to come.
- Negative health impacts from **air pollution** are also projected to rise, as are allergies. Worldwide, ambient (outdoor) air pollution in both cities and rural areas accounts for an estimated [4.2 million premature deaths](#) per year. According to the Organisation for Economic Co-operation and Development (OECD), outdoor air pollution could cause [6 to 9 million premature deaths](#) per year by 2060 and cost 1 % of global gross domestic product annually, unless action is taken.
- **Vulnerable people**, such as the elderly, children and marginalised groups, will be at higher risk. This may contribute to worsening [health inequalities](#). Mental health effects likely to arise from climate change are also of serious concern.
- Climate change will potentially affect **agriculture**, thereby weakening **food security**. There is also a growing risk of forced [migration](#), with a rise expected in the number of climate refugees.

Implications for Europe

Although the EU is actively engaged in efforts to reduce greenhouse gas emissions and to identify how best to adapt, it can be argued that the impacts of climate on health [have been relatively neglected](#) in EU policy. In a recent [opinion](#), the Commission's independent group of chief scientific advisors recommends integrating health into all climate-change adaptation policies, supporting health-sector resilience, and designing policies to support the most vulnerable social groups and geographical areas. The von der Leyen Commission's [political guidelines](#) state that 'European citizens' health and the planet's health go together'. According to the EU's [strategic agenda 2019-2024](#), 'we must continue to improve the environment in our cities and our countryside, [and] enhance the quality of our air and waters'. The Commission is currently piloting an EU observatory on climate change and health, expected to become operational by the end of the year.

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Large-scale data fraud or theft from European public institutions, companies or individuals

State of play

Data theft is the act of stealing data for their informational value or to steal or ransom other valuables. **Data fraud** is the fabrication, falsification or plagiarism of data, e.g. for social engineering (manipulating individuals into divulging confidential information). Data theft and fraud and other forms of cybercrime are **increasingly costly** to the European economy. The average yearly [costs to firms](#) due to sophisticated cyber-attacks reach US\$13 million, and worldwide damages over the next five years will amount to US\$5.2 trillion. [Cybercrime](#) is becoming more aggressive (e.g. sexual extortion), specialised and professional. It is also used in **political contexts**. Terrorists use it to replenish funds or for coercion. State actors (and companies acting on their behalf) steal to reverse-engineer and copy, everything from consumer products to military technology.

Risk factors

- Political and economic actors could use data theft or hostage-taking as a **strategic political weapon**. [North Korea](#) did so when it wanted to force Sony to drop a movie, whilst Russia stole Clinton campaign emails to interfere in the US election.
- Rival **states could cooperate with (or deploy) organised crime**. The [Russian](#) state, for example, is doing so on a regular basis.
- **Offensive artificial intelligence capabilities** of states and companies could lead to a rebalancing of the offence-defence balance in the cyber domain.
- Rival businesses, disgruntled employees or extremists use cybercrime as **covers for cyber-attacks**. Inside attacks in particular have been shown to be highly destructive.
- Data theft against critical infrastructure could lead to **disasters** and massive loss of life, even if just through a series of bad luck or incompetence on both sides.
- Coronavirus could lead to even more **dependence** on digital platforms. Even the US intelligence services have decided to let analysts work from home. A pandemic could also **weaken defences**, as skilled personnel are scarce.

Implications for Europe

Political institutions' need to be open makes them difficult to secure against cybercrime, especially against state-sponsored cybercrime. Many attacks can be stopped by upholding standards and not compromising on security, especially in the face of economic pressure. Employee training, maintenance of networks through screened firms, guaranteeing key European industrial capacity and increased investment in public-private intelligence and threat-sharing are all important tools. Although cyber-theft and fraud are mostly used to steal valuable items, they can also be used for **purposes** of discreditation, coercion, sabotage, or even money laundering. Institutions need to prepare. Other countries have shown that pressure against **China** could lead to fewer state-sponsored attacks. The **main responders** to cybercrime are the targeted public and private institutions themselves, security providers, cyber emergency response teams (CERTs), police and justice, Interpol and Europol, with its European cybercrime centre, and, if need be, counter-intelligence services and political actors. The development of an EU counter-intelligence capacity could help diminish the vulnerability of EU institutions.

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A Europe 'unfit' for the digital age, with the EU as a rule-taker rather than rule-maker

State of play

The coronavirus pandemic has highlighted the importance that upgraded telecoms networks and online services have for societies and economies. However, the most popular digital companies, such as those collectively known as the [GAFAM](#), are not of EU origin, posing concerns for the EU's digital dependency, competitive position and data privacy. In fact, the coronavirus has [further consolidated](#) the pre-existing dominance of Big Tech firms. They are collecting and exploiting massive amounts of data from citizens and businesses, while generating advertising revenues and [gaining competitive advantage](#). Moreover they are acquiring innovative EU origin start-ups (i.e. 'killer acquisitions'), and many of those transactions [are not](#) examined in detail by authorities. In key technological sectors such as artificial intelligence (AI), cloud computing, quantum technologies and supercomputers, indicators also [show](#) the EU is falling behind in the global competition with the US and China, both also competing fiercely against each other, to see who will lead the technology race and the world, and become rule-makers, rather than rule-takers.

Risk factors

- **Digital dependency:** The EU's digital dependency is becoming even more of a concern in the face of controlling the pandemic as reliance on big data analytics, tracing apps and AI tools – many to be developed outside the EU – are needed. These tools should respect EU values, while the EU must be able to defend itself from the [rise](#) in cybersecurity and cybercrime incidents.
- **Lack of investment:** The estimated shortage of €155 billion needed to meet the Commission's 2025 connectivity objectives (including its 5G targets), together with the investments needed in key technologies such as AI and quantum might be affected by the economic crisis.
- **Widening of the digital divide:** Despite basic broadband being available for all since 2015, there remains a digital divide, both urban–rural and among Member States in terms of the quality and affordability of networks. Furthermore, there is a digital divide in terms of low e-skills. During confinement, disadvantaged groups suffered most, being least able to profit from the internet. According to the OECD, the use of digital technology by businesses remains low in Europe. Traditional sectors and SMEs are lagging behind in their digital transformation.

Implications for Europe

The coronavirus crisis highlights the fact that reliable digital infrastructure and services are critical, and play a key role in the [road to recovery](#). The EU needs to tackle these risks, while at the same time embracing the digital transformation and allowing it to play a critical role in defeating the pandemic. Against this background, [key policies and strategies](#) at EU level need to be put forward to accelerate the digitalisation process, such as deploying secure 5G networks and achieving the 2025 connectivity targets. Investment in key technologies, e-skills and cybersecurity should also be supported through the 2021-2027 [Digital Europe Programme](#), with an ambitious budget to boost innovation. The EU needs to adapt a number of its current legal, regulatory and financial frameworks and to defend its world standard-setting ambition in areas such as data protection and surveillance, product liability, e-commerce platforms, cybersecurity and [ethical AI](#), while securing European values and fundamental rights. From a competition perspective, a shift towards more [defensive and prudential](#) mechanisms including new rules to address foreign state ownership and big tech companies' distortive practices should be considered. The EU also needs to hasten the achievement of the Digital Single Market and avoid adopting different positions that lead to fragmentation.

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Rolling-back of data protection measures / privacy rights with mass adoption of personal surveillance technologies

State of play

As part of the process of ending the coronavirus lockdown, the Joint European [Roadmap](#) towards lifting Covid-19 containment measures suggests creating 'a framework for contact tracing and warning with the use of mobile apps, which respects data privacy'. The European Commission has published a [toolbox](#), [data protection guidance](#) and [a common approach](#) providing advice and direction on what such apps should look like. Several countries and actors around the world have already launched such apps, [mainly](#) using mobile-phone Bluetooth technology to trace contacts. If a person has been infected, the app can identify those who have been in close proximity (although Bluetooth has [limitations](#)); these people would then be alerted, tested and potentially confined. However, data protection and privacy issues do exist.

Risk factors

- Once such apps are developed and installed, there is a legitimate risk that some actors, governments and regimes could be tempted in the future to **use mass surveillance apps** like those proposed to track people infected with the virus, **for other purposes**.
- In crisis situations, people are more willing to make [privacy concessions](#) for the 'greater good'. Pandemics may, however, last for a long time, and some initially temporary measures can become the 'new normal'. It is important to ensure the **coronavirus crisis does not turn into a privacy crisis**.
- Some [experts suggest](#) that **anonymised data can be traced back to the person** with the help of an algorithm. This 'anonymous' data is not considered personal data in most of the world, and can be shared and sold without breaking laws.
- There are [centralised apps](#), in which data are stored on a central server, and decentralised apps, in which data are stored on mobile phones. In the centralised model, there is a much greater risk that the **database with all the recent contacts of people will be misused or leaked**.
- There is a worry that the [apps might turn into](#) 'immunity passports' and people might have to show their health status from their phone before entering public spaces.

Implications for Europe

In the EU, the General Data Protection Regulation ([GDPR](#)) and the [ePrivacy Directive](#) are powerful tools in preventing misuse of data and breaches of privacy. These rules should not be relaxed, even in crisis times. It is essential to ensure that the use of coronavirus tracing apps is voluntary; that only the absolutely essential data are gathered, and that the data are kept for the shortest time possible, and when the pandemic is over, the apps and the remaining data will be permanently deleted. If the apps are not considered trustworthy and secure, people will not install them, and their development as a tool to fight coronavirus will have been in vain. Therefore, it is crucial that all security and privacy issues are addressed proactively. Furthermore, app cooperation and interoperability with third countries is potentially risky and should be considered carefully.

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Increase in organised crime and cyber-criminality

State of play

[Serious and organised crime is an increasingly dynamic and complex phenomenon](#). While traditional crimes such as international drug-trafficking remain a principal cause of concern, the effects of globalisation on society and business have facilitated the emergence of significant new variations in criminal activity. These include migrant smuggling and trafficking in human beings, money laundering and the online distribution of child abuse, terrorist, racist and xenophobic content. It is noted in this regard that [cyber-threats](#) not only arise from new technologies but also come from known vulnerabilities in existing technologies. Current estimates consider that illicit markets represent around [€110 billion](#). With the development of modern technologies, organised crime groups have expanded their activities to cyber-crime, which is estimated to reach an additional value of around [€100 billion](#) annually. The coronavirus pandemic has led to an increased reliance on digital technologies, thereby creating new vulnerabilities to [online fraud schemes](#) regarding counterfeit face masks and test kits and to more [cyber-attacks](#). It could also lead to an increase in [other forms of crime](#) (drug trafficking, migrant smuggling or child abuse). In the medium to long term it may furthermore lead to an increase in [corruption](#), [money laundering](#) and the [resurgence of mafia-type organised crime](#) groups in regions with weak governance and economic hardship.

Risk factors

- The risk of an **infiltration of the legal economy**, as well as politics, by organised crime groups can be considered as likely in [an environment where corruption and rule of law problems in the Member States are left unaddressed](#)
- The increased use of digital means provides organised crime groups with **new 'business opportunities'**. EU measures aimed at furthering [digitalisation](#) and those in [response to the coronavirus pandemic](#) should be [proofed against fraud](#) and other potential criminal abuses.

Implications for Europe

The EU tackles organised crime and cybercrime through a number of specialised EU agencies and measures ranging from those coordinating crime-prevention efforts, to police and judicial cooperation, including online. Tackling the threats identified will require further steps towards [an EU criminal policy cycle, a further approximation of criminal definitions and sanctions, genuine investigation and prosecution, competences and capabilities](#) at EU level, and a [European law enforcement culture](#) among law enforcement authorities, on the basis of a [consolidated framework for police and judicial cooperation](#). To be successful, these initiatives should be underpinned by both a sufficient allocation of human and financial resources to EU agencies and national law enforcement authorities, notably in the area of [cyber-related crime](#), and EU action to ensure respect for [democracy, the rule of law and fundamental rights](#).

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Labour market disruptions with the EU falling behind in technological advances and automation

State of play

[Analysis](#) suggests that automation, technology-assisted division of labour, and algorithmic workforce management (for instance through online platforms) have already fundamentally changed production processes and the shape of the world of work, and they will continue to do so. The technical progress of the EU has been slowed down by the coronavirus crisis, which is leading to increased unemployment in technological sectors among others. In the euro area, the unemployment rate [increased](#) to 7.4 % in May 2020 (from 7.1 % in March). Women and young people under 24 years were particularly touched by this rise. These young people are at risk of becoming, after the economic crisis and the pandemic, the [next lost generation](#). The coronavirus pandemic is also leading to increased use of [short-time work schemes](#), which have been encouraged by the Union's provisional [SURE](#) instrument, set up in order to cope with the immediate consequences of the crisis, to protect jobs in Member States. However, the long-term trend was already towards more precarious employment, and the current crisis is likely to accelerate that.

Risk factors

- Pressure for automation and digitalisation is likely to [increase](#), even among sectors that recover from the current shock. This will aggravate technology-based job disruption for which many workers are insufficiently prepared – particularly [affecting](#) at-risk workers without access to [reskilling](#), upskilling and redeployment support, adding to a growing digital divide. For sectors that do not fully recover, the risk of long-term unemployment is high, especially in the absence of retraining, income support and other active labour-market policies.
- According to the [OECD](#), whilst the digital transformation will undoubtedly create many new opportunities, it will also make a growing number of current workers' tasks redundant, and will require substantial restructuring. There is evidence suggesting that these trends are already making job losses and employment changes more frequent for many workers, increasing their needs for income and re-employment support.
- Some social protection systems seem not to be well prepared for the faster pace of [job reallocation](#) (the destruction and creation of jobs in different firms and industries) which will probably accompany the adoption of new production technologies.

Implications for Europe

[Robotics and digitalisation](#) in the EU raise new questions, as machines progressively replace the human workforce, and new types of [professional and personal skills](#) are required to respond to technological progress. Europe will have to find solutions to provide workers (in particular older workers with often insufficient digital skills, and young people at the beginning of their professional career) with these new types of skills. EU digital policy needs to be [shaped](#) in a way that represents our societal values, endorses inclusiveness, and remains compatible with our way of life. It will be necessary to adapt [social protection](#) to the future of work, which will most likely create additional financing charges at a time when social protection budgets are already under pressure in many Member States.

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Large-scale cyber-attacks, involving state and non-state actors, against critical EU infrastructure, sectors or networks

State of play

Sophisticated cyber-attacks periodically succeed and can wreak havoc, costing billions of euros every year. These **large-scale attacks** normally consist of long preparatory phases, during which targets are spied on and secretly breached; and an attack phase, with targeted, simultaneous or cascading attacks that cripple or sabotage the target. EU reaction could fall in the remit of Article 222 TFEU (EU [solidarity](#) clause), the Article 42(7) TEU [mutual assistance](#) clause, and/or NATO's Article 4 (consultation) or Article 5 (collective self-defence). **Attackers** could be competitors and rival states, non-state actors, such as terrorists and extremists, interest groups, powerful individuals or online communities. Attackers in large-scale incidents normally expose themselves to the extent that attribution is possible. **Motivations** for a large-scale attack on the EU could be to accompany a conventional attack, as deterrence or controlled escalation, as shows of force to spread fear, as [revenge](#) for third-party attacks via EU networks, or constitute failed espionage or sabotage efforts or a reaction to a mis-attribution, and be worsened by mistakes or cascade effects. As recent crises show, **critical infrastructure** is a context-dependent and broad category. It can include neuralgic nodes in governance (e.g. people, buildings, networks, processes such as elections), energy (e.g. electric grids, pipelines, dams, nuclear power plants), transport (e.g. air, rail, traffic management), economic (e.g. banks, bio/chemical industry), communication (e.g. 5G, satellites, internet), health care and food supply. It normally does not include the security sector itself.

Risk factors

- **Vulnerabilities** are sensors, hard- and software that are not designed to be secure, especially against state-led attacks; the dependence on global supply chains, with insecurities and backdoors built into hard- and software; a focus on the lowest bidder in acquisition, data storage and maintenance; inadequate safety standards and protocols, missing updates, damage and responsibility assessment; inadequate crisis response.
- The EU could become the **cyber-battlefield** for a 'Cold War'-style confrontation between the US and the UK on one side, and China and Russia on the other side.
- In addition, **new technologies** such as AI and quantum computing could result in much more devastating attacks. They could also be tools to improve defence.
- EU Member States follow **different strategies**. Some, such as [France](#), highlight their capacities to retaliate to deter; others classify such attacks as criminal or diplomatic issues.
- The **Russian strategy** to have competing factions actively search for weaknesses and to exploit them to score points with the president, can lead to miscalculation and escalation.

Implications for Europe

EU Member States have learned much since the US 2016 Presidential election, but fragmented capabilities, strategies and limited information-sharing is still a problem. Cyber-attacks, that do not cross the threshold of war, are hard to respond to. Raising resilience, anticipating together, building deterrence, limiting online dependencies and information-sharing could all be improved.

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New migration crisis, including an influx of climate refugees

State of play

According to UN statistics, the global stock of migrants had been on a [steady rise](#) before the current health crisis, counting 271 million in 2019, of which 10.6 % were refugees and asylum-seekers. Refugee flows are more prone to sudden large movements, caused by conflicts, instability, and political persecution. Economic migration, including [irregular movements](#), follows more stable trends, but sudden opportunities, such as border openings (e.g. in the EU in 2015), or severe crises (e.g. Venezuela) can cause mass movements of people across borders. The European region (including Russia) hosts the second biggest number of migrants – 82 million – in the world, after Asia.

The current health crisis is having a deep impact on migrants and migration. Travel restrictions have left migrants [stranded](#) all over the world. Migrants are also among those most vulnerable to the effects of the crisis, with asylum-seekers facing additional hurdles in getting protection. However, barriers put in place do not discourage, for example, [African migrants](#), from still trying to reach Europe.

Risk factors

- A **prolonged health crisis** will continue to hinder migration, through restrictions on movement, increased controls and personal risks to migrants. These trends also influence the [patterns](#) of human trafficking and migrant smuggling, which look for ways to evade barriers. With migrant worker communities among those most affected by coronavirus and its economic impact, future severe outbreaks could again drive mass returns of migrants seeking shelter (as already witnessed in [India](#), or in the EU – back to [southern Italy](#) or to [Romania](#)).
- **Economic trends:** Without sustained economic growth in developing countries, which currently face severe economic risks, not enough jobs will be created for the numerous young people entering job markets, causing migratory pressures. Reshoring of supply chains for political or technological reasons could leave many people in developing countries out of work.
- **Climate change** exacerbates conflicts over land and water, already causing displacements, e.g. in the [Sahel](#). Small farmers in areas affected by prolonged droughts could be forced to look elsewhere for a living; rising sea levels will threaten people living on low islands and on coasts.
- **Shifting public perceptions and legal frameworks** could influence migration trends. [Populist politicians](#) struggling to contain the economic damage could be tempted to scapegoat foreigners, and local populations could become more [hostile](#) towards migrants, driving them towards more welcoming countries. The EU, with its strong protection framework, and particularly its countries with more open attitudes towards migrants, could again be at the forefront.

Implications for Europe

Despite [certain progress](#), the EU is not fully [prepared](#) to confront another unplanned large-scale influx of migrants, as the latest [refugee stand-off](#) in February 2020 has shown. Specific potential risks for the EU include lack of cooperation from its neighbours and the ACP partners (in the framework of the [Post-Cotonou partnership](#)) on fighting human trafficking and readmissions; and an economic crisis in traditional destinations of migration in the EU's proximity (such as [oil-rich Gulf countries](#) and Russia) which could redirect potential migration to the EU. Conversely, however, diversification of EU companies' supply chains, away from China to countries in the EU's neighbourhood or [sub-Saharan Africa](#), could offer an important opportunity to create jobs there, in line with the current [EU priorities](#) for these regions.

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Resurgence of terrorism in the EU, including greater radicalisation

State of play

Terrorism continues to constitute a [major threat to security in EU Member States](#). This includes ethno-nationalist and separatist, and jihadist terrorism, as well as a [growing threat of extreme right-wing terrorism](#). Besides the impact on victims and their families, terrorism has a negative effect on the well-being of the population as a whole, affecting people's life satisfaction, health and trust within communities, as well as trust in national political institutions. It has been estimated that, between 2004 and 2016, [terrorism cost the EU](#) about €185 billion in lost GDP and around €5.6 billion in lost lives, injuries and damage to infrastructure. The coronavirus pandemic is being used by jihadist and extreme right-wing terrorist groups to [recruit vulnerable individuals](#) (such as adolescents and individuals struggling with mental health problems), using online narratives which assign blame to 'others' (e.g. Asians, Jews, immigrants, Muslims, or Westerners) and offering simple 'solutions'.

Risk factors

- [Public perception](#) of the terrorist threat is strongly tied to the **recent occurrence of attacks**. This however, does not correspond to the [actual threat](#), requiring the EU and its Member States to remain vigilant at all levels, even if public attention wanes.
- [Terrorists could benefit](#) from a **diminished focus on counter-terrorism** during the coronavirus pandemic and its aftermath. It is essential to prevent the current health and economic crisis from also becoming a [security crisis](#).
- The current pandemic could fuel the emergence of [new forms of violent extremism linked to conspiracy theories](#), apprehension of perceived governmental over-reach, and technophobia.

Implications for Europe

The [EU helps to fight terrorism](#) through exchange of information to prevent radicalisation and recruitment, measures against terrorist financing and the possession and acquisition of weapons and explosives, as well as strengthened security at the Union's external borders. It also supports operational cooperation between national law enforcement authorities and the harmonisation of terrorism-related provisions in criminal law and procedure. EU action includes [active cooperation with third countries and international organisations](#). [Stepping up EU action in this domain](#) could build on an evidence-based EU criminal policy cycle, involving the European Parliament and national parliaments. It is also argued that the effectiveness and fundamental rights compliance of counter-radicalisation programmes should be further monitored. Moreover, [comprehensive data collection and research](#) into all forms of radicalisation should be further encouraged; the framework for countering terrorist financing needs to be further refined; and a European law enforcement culture fostered. The latter also requires the adequate funding of national law enforcement authorities, training and exchange programmes as well as increased capabilities for Europol and Eurojust, notably as regards [tackling terrorist content online](#) and the [coordination of prosecutions](#).

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Use of biological weapons by a state or non-state actor, potentially escalating to a biological war

State of play

[Biological warfare](#) is the 'deliberate spreading of disease amongst humans, animals and plants'. [Biological weapons](#) are 'complex systems that disseminate disease-causing organisms or toxins'. They generally have two components – a weaponised agent and the means of delivery. Almost any disease-causing organism (such as bacteria, viruses, fungi, prions or rickettsia) or toxin (poisons derived from animals, plants or micro-organisms, or similar substances produced synthetically) can be used in biological weapons. Biological weapons have been described as '[the poor man's atomic bomb](#)', because they are relatively cheap to develop and produce. Some [17 countries](#) are known or believed to have had biological weapons programmes, and some may still do. Biological weapons were last [used](#) by States parties during Japan's invasion of China in the Second World War, and during the Iraq-Iran war.

The on-going coronavirus pandemic – even though it occurred naturally – provides a real-life example of the potential for large-scale disruption from certain [biological agents](#). The pandemic has shown that EU Member States are not well prepared to deal with a potential use of a biological weapon and the risk of widespread contagion. The virus has indeed exposed [fundamental flaws](#) in the strategies nations around the world employ to provide security for their citizens.

Risk factors

- [Biological agents](#) can kill hundreds of thousands of citizens, cost vast sums in economic losses, and create political and economic instability.
- Global travel and urbanisation increase the threat, as do newly developed or manipulated pathogens with pandemic potential.
- The most plausible threat today is the use of [biological weapons by rogue states](#) (such as North Korea) as a means to wage '**asymmetric warfare**' against more powerful states, and by **non-state actors, in particular terrorist groups** (especially ISIL/Da'esh).

Implications for Europe

The EU supports all multilateral instruments devoted to disarmament and non-proliferation, including the Biological and Toxin Weapons Convention (BTWC), which is the cornerstone of multilateral efforts to prevent biological agents and toxins from being turned into weapons. The Convention has been [ratified](#) by 175 States parties, including all EU Member States. However, lack of a verification mechanism weakens the Convention, and it does not cover non-state actors. Experts have therefore called for 'a new international defence architecture against disease pandemics' that can be maintained at sufficient readiness and effectiveness to defeat any new outbreak, whether it occurs naturally or is started deliberately. The EU Chemical, Biological, Radiological and Nuclear (CBRN) [Action Plan](#), renewed in 2017, provides the policy framework for strengthening security against CBRN risks and threats throughout the EU. The European Council has [called for](#) strengthening the [EU's resilience](#) to CBRN-related risks, including through closer cooperation between the EU and its Member States, as well as NATO. In June 2018, the European Commission [called](#) for an increase in resilience and to bolster capabilities to address hybrid threats, setting out additional measures to address the 'developing and evolving' CBRN threat.

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Use of nuclear weapons by a state or non-state actor

State of play

The world has entered a [new nuclear age](#) that is very different from the Cold War, both in terms of characteristics and challenges. Two nuclear superpowers, Russia and the US, still possess the vast majority of nuclear weapons. The greatest challenge still lies in saving the bilateral agreements between them that have led to a very significant reduction in nuclear weapons over the past 30 years. However, the number of nuclear-armed states that determine whether and when nuclear weapons will be used has grown over time to include China, India, Israel, Pakistan and North Korea, and may soon also include Iran. Pakistan and North Korea rank high on the list of fragile states (25th and 30th respectively). In this overall climate, where multilateral arms control has effectively been declared '[\(almost\) dead](#)', Europe is at particular risk that any renewed arms race between Russia and the US will play out on European soil. At the same time, the probability of a successful theft and detonation of an actual nuclear weapon or manufacturing of an improvised device by non-state actors is [considered to be low](#).

Risk factors

- The 2010 New Strategic Arms Reduction Treaty (New START) continued the trend of gradual reduction in the nuclear arsenals of the US and Russia that started in the 1990s. New START will expire in 2021, unless both parties agree to extend it, which looks unlikely, opening up the prospect of a **renewed nuclear arms race between Russia and the US**.
- All nuclear weapon-possessing states continue to modernise their nuclear arsenals. The US and Russia are investing huge sums in the overhaul of their nuclear weapons systems and propose to introduce 'low yield nuclear weapons' with a lower threshold for use.
- The **Nuclear Non-Proliferation Treaty**, the cornerstone of the global non-proliferation and disarmament regime, **is under threat**, including from tension between supporters and opponents of the [Treaty on the Prohibition of Nuclear Weapons](#).
- The recent demise of [the Intermediate-Range Nuclear Forces \(INF\) Treaty](#) may lead to the **redeployment of intermediate-range missiles** and put Europe once more in the **line of fire of strategic nuclear weapons**, for the first time since 1991.

Implications for Europe

Based on the [Global Strategy](#) for the EU's Foreign and Security Policy, the EU [Strategy](#) against the Proliferation of WMD and their Delivery Systems, and the [New Lines for Action](#), the guiding principle of the EU in the fight against the proliferation of WMD continues to be effective multilateralism, including safeguarding the centrality and the promotion of the universality of the global non-proliferation and disarmament architecture, through diplomatic action and financial assistance to third countries and international organisations. In order to strengthen regional cooperation against proliferation of WMD, the EU launched the EU Chemical Biological Radiological and Nuclear Risk Mitigation [Centres of Excellence Initiative](#) in 2010. The EU also pursues close cooperation with individual countries to strengthen the international non-proliferation regime. An increasing number of the EU's bilateral relationships include a non-proliferation component. The EU has also contributed to promoting the highest standards and practices in nuclear safety applied in the European Union in third countries, and continues to promote alignment with EU policies and priorities in the field of nuclear safety in non-EU countries.

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Reduction in the level of ambition of, and/or potential halt to, the CSDP process

State of play

European defence cooperation is an area in which substantive progress has been achieved in recent years, based on a strong political [commitment](#) by the European Council, from December 2013, stressing that 'defence matters'. Three elements [define](#) the [EU's level of ambition](#), namely the Union's capacity to protect its citizens, to respond to external conflicts and crises, and to support and build the capacity of partners. The EU should be able to act globally, in complementarity with NATO, but also autonomously, whenever needed. To meet this self-set level of ambition, the EU Member States have already started working on reducing duplication and on jointly developing new capabilities. A series of inter-linked mechanisms, including [Permanent Structured Cooperation](#) (PESCO) and the European Defence Fund (EDF), have been established with the aim to help build defence capabilities and allow for greater cost-sharing. There is a risk of these recent accomplishments being put in jeopardy, not least because of pressures on public finances.

Risk factors

- Diluted **political will** to continue deepening European defence cooperation, resulting in little or no progress made towards a 'defence union'.
- The lack of assessment of **security threats** faced by the EU and its Member States represents a vulnerability. To address this, a white paper on defence outlining threats and the collective means necessary to address them, including the size and shape of forces, would be very useful.
- Continuation, despite the horizontal impact of the coronavirus outbreak on all EU policies, of a [silo approach](#) to policies. A cross-policy approach allowing economic, industrial policy, and foreign and security policy issues to be addressed in an inter-connected manner is important for the post-coronavirus crisis recovery process.
- Lack of appropriate **financial allocations** for defence at both EU level – through the upcoming 2021-27 long-term budget (MFF) – and at national level. This would make the EDF redundant, as no meaningful capabilities programme could be pursued without appropriate funding. It would also undermine transatlantic relations, since most of the European NATO allies would, most probably, not meet the 2 % of GDP defence expenditure target they committed to reach by 2024.
- A **lack of solidarity** among EU Member States reflected in their low appetite to contribute capabilities to (certain) EU missions and operations.
- The **implementation of PESCO** will largely determine the EU's success in strengthening its Common Security and Defence Policy (CSDP).

Implications for Europe

There is a non-negligible [risk](#) that the EU will not fully grasp the benefit of progress made on defence cooperation and/or will not be able to stand by its announced level of ambition. Unless a common threat assessment is undertaken as a matter of priority, and the next MFF allocates sufficient funding for defence, this risk could materialise. The financial needs of the post-coronavirus recovery might lead to the [prioritisation](#) of other policy areas. Yet, the High Representative of the Union for Foreign Affairs and Security Policy, Josep Borrell, has [warned](#) that only by allocating appropriate funding for security and defence, will the EU be able to meet its level of ambition in a volatile international context in which [power politics](#) is on the rise.

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Weakening of the transatlantic partnership, including the potential break-up of NATO and possible 'swings' in alliances

State of play

The weakening of the transatlantic partnership in recent years results from an increasingly diverging view on multilateralism, which the coronavirus outbreak is unlikely to help overcome, and indeed may exacerbate. Since the Trump Administration came to power in January 2017, the US has progressively rejected multilateralism, by leaving international agreements, such as the [Paris Climate Agreement](#), or by progressively disengaging from different international fora, including the [UN Human Rights Council](#). The EU has continued to place [multilateralism](#) at the centre of its foreign policy action, repeatedly expressing its support for an international trade policy based on World Trade Organization rules and calling for the full implementation of the Paris Agreement. This drift, if accentuated further, might lead to 'swings' in alliances, whilst cooperation on a case-by-case basis – for example on climate change – with other partners would rise. Although collective defence, guaranteed through NATO, has been and will most probably remain the central element of the transatlantic partnership – despite much rhetoric focused on a possible US disengagement and on the alliance's [dysfunctionalities](#) – the notion of the US leaving NATO no longer seems impossible.

Risk factors

- In a world drive by [global powers](#), the EU faces the risk of not **having its voice heard** unless it transforms into a ['smart power'](#) by combining 'soft' and 'hard' power attributes.
- Post-coronavirus economic recovery could [lead](#) to **cuts in security and defence spending**. This would deepen transatlantic tensions since the European NATO allies would not meet their commitment to allocate 2 % of GDP to defence expenditure by 2024.
- Upcoming **high-level technology** choices, linked inter alia to the development of 5G networks, by some of the European NATO allies, have the potential to exacerbate tensions.
- The **arms control** framework, designed to preserve Europe's security, is severely put into [question](#) nowadays, making it urgent for the EU Member States to reach a [common position](#).

Implications for Europe

The EU should take a more pragmatic approach to its foreign policy and multiply flexible partnerships. This would allow it to better pursue and protect its interests in order to avoid becoming a [playground](#) at a time when power politics is on the rise. In parallel, the EU must bolster transatlantic relations, including through sustained dialogue on sensitive dossiers – trade, high technology, climate change and arms control – where there is a real risk of drifting apart.

The coronavirus crisis has [exposed](#) the EU's vulnerabilities and dependencies, making it urgent to work towards achieving strategic autonomy in a wide range of domains, including security and defence, health, technology, energy and critical infrastructure. Deepening European defence cooperation can lead to the [construction](#) of a strong European pillar within NATO, benefiting both NATO and a strategically autonomous EU. Hence, the EU should not trade off its medium- to long-term security and stability for short- to medium-term economic recovery. It should allocate the necessary financial means for security and defence at both the national and European levels, as a lesson learned from the recent economic and financial crisis and as a means to strengthen NATO.

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'Trump II': Growing anti-EU rhetoric and positions of the US Administration

State of play

Since coming to power in January 2017, President Donald Trump's views of the EU have ranged from indifference – illustrated by the unprecedented delay in designating a US Ambassador to the EU – to stark criticism, rivalry and, at times, open rejection. His 'America First' foreign policy has contributed to a rift between the EU and the US on matters of international security and multilateralism. His rhetoric has occasionally supported the weakening or disintegration of the EU, most notably through open support of Brexit, whilst he has voiced strong criticism of some aspects of further EU integration, for example in defence, as antithetical to US interests. The US President has a preference for transactional bilateral engagement with individual Member States, rather than for a deeper partnership with the EU based on common values. In matters of trade, the US has imposed steel and aluminium tariffs and voiced threats of auto and other tariffs on the EU, as part of a row over subsidies to Airbus. A tariff war regarding EU digital taxes may also be imminent, following US withdrawal from OECD talks on a global digital tax framework. In June 2020, President Trump announced a temporary ban on new work visas, including for EU citizens. The re-election of President Trump could further diminish US support for the EU and for successful transatlantic relations.

Risk factors

- A continued **rise of populism and protectionism** resulting from a range of factors, including domestic polarisation, the implications of coronavirus, disinformation and heightened tensions between the US and China.
- A new **tariff war** on EU digital taxes and beyond.
- Diminished **US security guarantees** for Europe or potentially even a US withdrawal from NATO.
- Weakening of **multilateralism** and possible rise of disrespect for international rules across the world, with a possible domino effect on the EU.
- Further escalation of **US-China rivalry** in the absence of a strong transatlantic relationship, could pose a great challenge for EU and EU Member States' foreign policies.
- Deadlock in the reform of the WTO, a key EU trade policy goal.

Implications for Europe

The US has been the EU's primary strategic partner since its creation, and indeed Washington consistently supported European integration throughout the second half of the 20th century. While the trends of the US 'pivot to Asia' precedes Trump's presidency, the deterioration of trust and cooperation between the two partners in the past four years has been very worrying. This creates doubts as to whether, regardless the outcome of the 2020 presidential election, transatlantic alignment will be a given in the future. In spite of the current tensions, the political, security and trade relationship with the US continues to be critical for the EU. Thus, while the EU continues to build its strategic autonomy, it will also continue to work on recalibrating the transatlantic relationship with the next Administration. Identifying issues where there is a natural common front – such as on the situation in Hong Kong – is the main avenue for cooperation. At the same time, US disengagement from issues that are at the heart of EU foreign policy (for instance, human rights and multilateralism) demands that the EU also engage in building new partnerships with like-minded actors, where it can. It also reinforces the need for a higher degree of unity among EU Member States on transatlantic issues.

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Reduced or withdrawn US support for eastern European security/defence

State of play

The United States, bilaterally and through NATO, has been the guarantor of European territorial defence since the end of the Second World War. Although pressure on the European members of NATO for increased burden-sharing in defence contributions has been a regular feature, the Trump Administration's approach has intensified it. As Europeans listened carefully to the Obama Administration's '[Pivot to Asia](#)', the 2014 fund to strengthen eastern Europe's defence posture in response to the illegal annexation of Crimea came as a relief. Known as the [European Deterrence Initiative](#), the fund received strong bipartisan Congressional support. The fund had seen yearly increases since its launch up until 2020 when it started to decrease (from US\$6.5 billion in 2019 to US\$4.5 billion [planned](#) for 2021). This decrease is occurring in the context of President Trump's questioning of NATO, distrust of the EU (and of multilateralism more broadly), affinity for President Putin and fixation with China. The US military presence in Europe has been decreasing since the 1960s, from 400 000 troops to around 60 000 in 2020. As China is the [largest challenge](#) to American national interest and given the prevalent view that Europeans should become more responsible for their security, it is not impossible that these troops could be redeployed in Asia in support of US interests. Such questions have intensified given recent reports of the US potentially [withdrawing](#) 9 500 of its 34 500 troops stationed in Germany, which serve the global interests and reach of the US.

Risk factors

- European security concerns would grow, and the likelihood of hybrid and conventional **confrontations on Europe's eastern flank could increase** without the US protective umbrella.
- The continuing fragmentation of defence industries, together with the lack of a common European threat perception and strategic culture, represent **severe encumbrances for Europeans to compensate** for a potential US withdrawal from Europe and/or eastern Europe
- A **sensitive nuclear dilemma** could emerge, putting in question the ultimate security guarantee through the US and NATO. Discussions of a European nuclear deterrent are unlikely to find EU-wide consensus and could sow tensions between European countries.
- **NATO could either see its raison d'être redefined** in order to accommodate new US priorities (e.g. expansion to Asian theatres) or it could become obsolete in its current form.

Implications for Europe

US disengagement from eastern Europe would have severe security repercussions for the whole continent. Vulnerabilities such as potentially lacking a nuclear umbrella and tripwire troops would be exposed to aggressive neighbours. While such a nuclear debate would be likely to drive wedges between EU countries, it could also lead to incremental defence integration. Awareness on both sides of the Atlantic that defence reliance on the US should decrease and the anticipation that the 'Pivot to Asia' is likely to continue regardless of who sits in the Oval Office mean that Europeans should further deepen their defence integration through the architecture built in recent years (such as Permanent Structured Cooperation and the European Defence Fund). The latter could also lead to a 'Europeanisation' and thus rebalancing of NATO. Therefore, more cooperation between EU and NATO structures is logical. However, given the slow progress of defence initiatives, the EU should intensify engagement with the US Congress, traditionally a staunch supporter of eastern Europe and NATO, to ensure this transition is not too abrupt, while also investing in reliable strategic partnerships. As the trend towards less dependency solidifies, the EU should cement its defence technological and industrial base, in order to effectively protect itself and its interests abroad.

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Progressive breakdown of global governance, including in the UN and WTO

State of play

The current system of global governance – comprised of a multitude of international organisations and mechanisms of cooperation – gravitates around the United Nations, with its agencies and programmes, and related financial and trade organisations (IMF, World Bank, WTO). As it marks 75 years of existence, with a [mixed record](#) of [achievements](#) and [failures](#), the UN system faces an [unprecedented crisis](#). Most recently, the world has witnessed the incapacity of its health agency, the WHO, to prevent the pandemic, whilst the UN Security Council has been sluggish in calling for [cease-fires](#) in conflict areas during the crisis. However, global governance is necessary more than ever – whether it be to coordinate the medical response, adopt financial measures to respond to the crisis, address food shortages and humanitarian needs, and/or fight climate change. These are global public goods that depend on multilateralism.

The structures of global governance are respectful of the sovereignty of states, and to be effective they require states, big and small, to accept their responsibilities, to cooperate to generate collective global public goods, and to respect international norms. The high-profile actions by the US to weaken parts of the UN system (such as [withdrawing funding](#) or leaving the [WHO](#)) or the more subtle lack of cooperation by China (as on the [health crisis](#) and on [upholding the rules](#) of global commerce) both have a debilitating effect, creating a leadership vacuum.

Risk factors

- **The withdrawal of the US and other like-minded states** from the UN, or parts of the system (such as the [WTO](#)), has been an option long called for by hard-line critics in the [US](#), in particular.
- A more likely risk is that countries opposing globalisation will **undermine the system from within**. If economic and trade globalisation is seriously shaken, the mutual economic interest that has cemented global governance could fade. A side effect would be serious financing problems for the UN, if countries are unable or unwilling to pay their due.
- **Creeping authoritarianism** could lead to paralysis comparable to the Cold War era. The functioning of the UN – with few exceptions such as the [UN Security Council](#), the [IMF](#) and the [World Bank](#) – is based directly or indirectly on the principle of one state, one vote. For the first time in two decades, the majority of countries in the world are [autocracies](#). Broad alliances of illiberal regimes headed by an assertive China could pose a serious systemic risk.

Implications for Europe

Being born out of similar aspirations at the end of the Second World War and being based, through history and its Treaties, on similar principles and values as the United Nations, the European Union is deeply committed to the concept of global governance. The EU is the world's biggest commercial bloc and has a special interest in the survival of the global trade system. Not having a powerful army of its own, the EU is tied to a world of mutual cooperation, where all states voluntarily respect international norms. Any failure of global governance will reverberate at European level, ideologically, politically and economically. For this reason, the EU needs a strategic approach, based on a sober assessment of existing problems. A much deeper reform of global governance structures could be needed, rather than the repeated attempts with limited success at [administrative reform](#). Cooperation on this with traditional EU partners, the US first, such as on the [WTO](#), remains crucial.

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Further destabilisation of the EU's neighbourhood, especially in unstable or weakened states/regions

State of play

Stabilisation of the EU's neighbourhood and acceleration of the enlargement process were defined as priorities of the new 'geopolitical' European Commission in the [Strategic Agenda 2019-24](#). The EU neighbourhood is marked by intensive competition between global and regional forces, each projecting different sets of values and interests. This is accompanied by a global [battle of narratives](#), disinformation campaigns and unconventional warfare. The military conflicts in [Ukraine](#), [Syria](#) and [Libya](#) are a test of regional security, but also of the strategic autonomy and the credibility of the EU. To tackle these internal conflicts and their causes, the EU is deploying new Common security and Defence Policy missions. A [new approach to EU enlargement](#), as well as the recent [EU-Western Balkans summit](#), recall that all Western Balkan countries enjoy a 'European perspective'.

Risk factors

- The coronavirus crisis is putting the **balance of payments of some countries** (in particular Turkey and Lebanon) under growing stress. These countries are facing, in addition to internal political conflicts, social stability risks accentuated by capital outflows and sharp currency depreciations.
- Beyond direct security risks for the EU, a destabilised neighbourhood exacerbates the **changed nature of potential terrorist threats** posed both by EU citizens returning from Syria, and also increasing numbers of European citizens willing to perpetrate attacks in the name of non-European organisations such as ISIL/Da'esh or al-Qaeda.
- **New flows of undocumented migrants** would be an additional burden, as they could tilt the political balance towards populism, exacerbating social tensions and divisions.
- The extent to which the EU will be affected will depend, inter alia, on its handling of the **internal conflicts in Syria and Libya**, as well as a clear stance towards **China, Russia and Turkey, competing for influence and natural resources**. EU Member States that have common borders with regional powers such as Russia and Turkey could face increasing pressures and hybrid threats, if not direct aggression. The lack of a completed defence union and proper European defence instrument creates vulnerability.

Implications for Europe

The EU is [committed](#) to continue pursuing an ambitious but realistic neighbourhood policy, and to develop strategic autonomy, including military capabilities. In this respect, in response to the coronavirus pandemic, HR/VP Josep Borrell has [noted](#) that the EU should reinforce the modalities for the use of military assets to support civilian authorities. In parallel, the EU has to foster long-term resilience of partner countries, but also good governance and rule of law. The EU neighbourhood also highlights the importance of a shared European response with regard to undocumented migrants. The non-achievement of enlargement and further destabilisation of the neighbourhood would be a major blunder of EU foreign policy. The pandemic accentuates both the global powers' competition within the region and the economic and financial fragility of some enlargement and neighbourhood countries that need [macro-financial assistance](#). For Europe to be a credible player in the neighbourhood, it must invest in both its military capabilities and its decision-making structures.

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Economic and social crises in Sub-Saharan Africa

State of play

Many African countries have declared fewer coronavirus cases than the global average. Several factors explain this, including widespread implementation of [preventive measures](#), informed by the experience of previous epidemics. However, these measures, such as lockdowns and closure of borders, have caused serious economic disruption, negatively affecting the living conditions, and the very lives, of many. This could add to insecurity, as well as political and social instability. In several countries, the pandemic comes on top of other disasters, such as Ebola in the Democratic Republic of Congo (DRC), and a massive locust invasion in east Africa. In west African–Sahel countries and in fragile states such as the DRC, the Central African Republic and Somalia, [armed groups](#) have already taken advantage of the weakening of national and international security forces as a result of the pandemic to intensify attacks. In Africa, like in other parts of the world, the pandemic has led to measures that [restrict fundamental freedoms](#) beyond what may be considered legitimate. Abuse and violence against women and children have escalated, and [hate speech](#) against LGBTI, foreign or local minorities has grown unleashed.

Risk factors

- The coronavirus outbreak and measures to combat it are leading to a **global depression** – as evidenced by the World Bank, the WTO and the IMF – something new to Africa in the last quarter of a century, and this will require unprecedented aid measures, including consideration of debt relief.
- The **domestic economic measures**, notably on taxes, might be the **opportunity to reduce inequalities** in better redistributing wealth. **If they fail** to do so, for example in taking measures from which the informal economy cannot benefit, **social discontent could grow**.
- The **unrest** could be aggravated in countries where lockdown measures have been used as an excuse to further **clampdown on civil liberties and media freedom**. In addition, **armed groups** might take advantage of some governments' increased fragility in launching deadly attacks and/or offering economic opportunities to local communities.
- By contrast, the **ability** demonstrated by some states **to protect their population** during the coronavirus outbreak could increase **their legitimacy**.

Implications for Europe

The European Commission has put Africa at the core of its work programme, notably through a joint proposal with the High Representative to build a new and [comprehensive partnership with Africa](#), based on five areas: green transition and energy access; digital transformation; sustainable growth and jobs; peace and governance; and migration and mobility. The coronavirus outbreak will probably lead to a redefinition of the strategy's priorities. At the same time, it shows the need to strengthen the links between the two continents to tackle the most urgent global issues. The EU will struggle to preserve its own economic and security interests in the aftermath of the coronavirus pandemic while trying to find common ground with African countries on migration, security management and fundamental values. However, the AU and EU have converging interests in a number of areas – such as the fight against climate change and a sustainable, job-creating African economy – which could make them privileged partners in the redefinition of the multilateral order.

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Increasing tensions between liberal democracies and authoritarian regimes

State of play

As democracy appears to be in [decline](#) across the world, the unfolding coronavirus pandemic has further accelerated pre-existing systemic [tensions](#) and competition between liberal democracies and different [variants](#) of authoritarian regime. The outbreak has exposed the [weaknesses](#) of centralised, top-down systems, prompting authoritarian leaders to further stifle criticism, increase efforts to [control the narrative](#) and exploit divisions between democratic states – including transatlantic ties – to expand their strategic influence. Use of these tools poses broad and severe challenges to the liberal world order. As 'Trumpism' has [jeopardised](#) the leadership of the United States, the European Union has found itself with fewer allies. Moreover, the Union is challenged from within through democratic backsliding in some of its own Member States.

Risk factors

- The **spread of authoritarian standards and norms** (an '[unvirtuous circle](#)'), such as historical [revisionism](#), corruption, [kleptocracy](#), coercive behaviour (including energy coercion and [debt trap diplomacy](#)) and [interference](#) in democratic elections.
- **Information campaigns** – often combined with cyber-attacks, hacks and selected leaks – to sow distrust in democratic institutions, create confusion, amplify already existing rifts and distort the debate are likely to accelerate, as evolving technologies make such operations even easier, faster, wider reaching and less risky.
- **Technological disruptions:** many authoritarian regimes are using tech platforms and big data as tools of information control to suppress human rights, increase [surveillance](#), discredit political opponents, and stifle dissent. Increasingly powerful global tech companies can enable totalitarian practices. This would benefit authoritarian state actors and undermine liberal democracy, including the EU's fundamental values.

Implications for Europe

The EU's efforts to withstand both internal and external pressure can benefit from a sharpened strategic focus on its values and interests. Boosting alliances with other like-minded democracies, including to ensure that the digital sphere is compatible with democratic values, is crucial. At the same time, efforts to strengthen collective cognitive resilience (including ensuring access to quality news and verified information/general-interest knowledge for all) are very important. Fighting authoritarian tendencies and systemic threats as listed above can signal to citizens in authoritarian countries that there are viable and attractive alternatives. But the EU's credibility in its neighbourhood and the Western Balkans hinges on its authenticity: any authoritarian tendencies within the EU will erode its soft power. Long-term strategies are key: authoritarian state actors are able to plan decades ahead, whereas the time-horizon of democracies tends to correspond to single legislative terms. The EU's role as an ethical regulatory power and standard-setter in the digital sphere, most notably, can help project its values and standards to the rest of the world (the 'Brussels effect'). The EU could usefully explore [opportunities](#) to create its own non-commercial social media platform(s), in this context.

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Increasing global leadership or gradual decline of China

State of play

Economists confidently forecast that China will become the world's largest economy by 2030-2035. Its strategic ambitions are supported by flagship initiatives, such as the state-led industrial programme 'Made in China 2025', intended to enhance the country's competitiveness and secure a dominant position in next-generation technologies. The Belt and Road Initiative, launched in 2013, to boost regional integration in China's wider neighbourhood (with an estimated US\$1 trillion in investments planned) is a visible expression of the country's grand designs. Yet with the onset of the coronavirus pandemic, China's economy has taken a considerable hit. The shock of slower or even negative growth could reveal additional vulnerabilities concealed up to now. GDP contracted in Q1 2020 for the first time in four decades and, uniquely since 1990, the government has failed to stipulate a forward growth target. China's handling of the current crisis has also exacerbated tensions with the West.

Risk factors

- China represents probably the most important **strategic challenge** facing the EU in diplomatic, economic and security terms. How the EU deals with the rise of China is likely to determine Europe's global importance in the post-Covid-19 world.
- China's influence in **international organisations** will probably grow in the coming years if the US continues on its path of isolationism. China would seek to shape a new world order more in line with its own norms and values, so that it achieves lasting prosperity and security.
- China's increasingly dominant position in **emerging technologies and innovation** (5G telecommunications, artificial Intelligence, quantum computing) poses long-term economic risks to Europe while threatening its privacy, security and sovereignty.
- A major economic slowdown could expose China's **financial and economic imbalances** (including a total debt-to-GDP ratio amounting to over 300%) and hit the global economy hard. It could also fuel contagion on other emerging markets. Such an economic slowdown could also lead to rising domestic unemployment and inequalities, in turn prompting social upheaval. The ageing of the Chinese population could add to that process.

Implications for Europe

Europe will have to take difficult decisions on its future relationship with China as the latter becomes a much stronger global player. Already, there are signals coming from Europe, including on the pursuit of a more values-based approach to bilateral ties. The European Commission's 'Strategic approach to China 2019' might need to be updated to deal with a rising threat to Europe's interests. Should Europe position itself as a moderator between the US and China, or seek to align more heavily with the former in defending liberal democracy and the rule of law? China has demonstrated its ability during the pandemic crisis to sow division in Europe, most obviously in the '17+1' configuration. This initiative represents the most blatant example, to date, of attempts to divide Europe.

Europe's global influence could diminish as China grows. To safeguard its strategic sovereignty and long-term economic prosperity, the EU must strike the right balance between cooperating further with China and protecting its own economy and strategic sectors. To mean something, this should involve a significantly stronger EU defence capability. If China fails to achieve the status of the leading global power and/or faces a substantial slowdown in its economy, Europe would have to address a potentially severe supply-chain shock with a significant impact on its economy in the short term. In these circumstances, however, the EU could more easily retain its influence on the global stage.

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Escalation of geo-political competition between the US and China

State of play

The growing rivalry between the US and China has already been likened to a new Cold War. It extends to all fields, from economic/political models to competition for technological supremacy, external influence and trade. While [forecasts](#) suggest that China will surpass the US and become the world's largest economy by 2030-35, the assumption that its economic growth would be accompanied by liberalisation and integration into the international order – which once guided US policy – has now been abandoned. Instead, the 2017 US [National Security Strategy](#) views China as a revisionist power, aiming to 'expand the reaches of its state-driven economic model' and to 'shape a world antithetical to US values and interests'. Since 2019, China has [become](#) one of the world's top military spenders, signalling that a military competition is also under way. Competition between China and the US is most visible in the on-going commercial tensions, even if there may be the prospect of a [trade deal](#). But geo-political and geo-technological competition may only be starting. In foreign policy, dividing-lines are being drawn by China's Belt and Road Initiative and the [militarisation](#) of the South China Sea, as well as by US action in the Middle East and Asia. A potentially game-changing rivalry over high technology (5G, artificial intelligence, semiconductors, the Internet of Things and quantum computing), which lies at the heart of new types of power, could determine many facets of the future world order. As great power competition increases, multilateralism is challenged both from within and without.

Risk factors

- **A slow recovery** of the global economy from the global pandemic would create political challenges on both sides that may intensify rivalry and competition.
- **US elections:** A new Congress and government consisting of more hardliners on China (rather than moderates) could further deepen rivalries and increase competition.
- The impact of coronavirus on both countries could strengthen **nationalist and hardline positions** in foreign policy.
- The coronavirus recession could weaken or kill the prospects of a US-China **trade deal**.
- The military dimension of US-China rivalry in the **South China Sea** could escalate.

Implications for Europe

China-US competition could threaten the EU with the loss of its voice in international affairs, and reduce EU foreign policy to a policy of reaction to the two poles, losing agenda-setting power in areas such as trade, cyberspace and climate. It would also diminish the relevance of multilateralism in the global system, with a harsh return to bipolarity. To avoid this, the EU should work on building strategic autonomy to reduce economic, security and technological (including medical) dependence on the US and China. The EU needs to strategically define its relations with China, and work on reinvigorating a balanced transatlantic relationship, and ensure that multilateral institutions remain relevant and effective. Equally important is the need to work with other potential allies and strategic partners, to counterbalance the increasing weight of the US and China.

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Escalation to a full-scale war between the US and a country in breach of the international order

State of play

US President Donald Trump has at times suggested that he could consider military action to deal with countries violating international rules, such as [Venezuela](#) and [Iran](#). In 2017, a former NATO supreme allied commander, James Stavrides, [estimated](#) that there was at least a 10 per cent probability of a nuclear war between the US and North Korea, and a 20 to 30 per cent probability of a conventional conflict that could kill a million people or more. So far these crises have been addressed through diplomacy or sanctions, but the weakening of multilateralism could in the future tempt these or other regimes – not least, Russia – to further breach international norms on sovereignty, security and human rights. Failing coordinated non-military responses by the global community, a full-scale war involving the US cannot be completely ruled out. Such a conflict could play out as a proxy war involving US rivals such as Russia and China, magnifying its impact. According to the Council on Foreign Relations' [conflict tracker](#), Afghanistan, the South China Sea, North Korea and Iran are the conflict areas of critical interest to the US, meaning that they 'directly threaten the U.S. homeland, [are] likely to trigger U.S. military involvement, or threaten the supply of critical U.S. strategic resources'. These are followed by several 'significant impact' conflicts, including Venezuela, Syria, Libya, Ukraine and Israel/Palestine.

Risk factors

- **The declining economic power of the West** reduces US ability to use sanctions in lieu of military force.
- **Coronavirus** is [likely](#) to prolong or intensify conflict in the Middle East, creating dilemmas for US policy-makers.
- Further **US withdrawal from multilateral institutions** and a less critical role of the US in the international system, is [likely](#) to increase armed conflict around the world.
- Renewed provocation by **North Korea**, as Kim Jong-un [struggles](#) with coronavirus.
- Further [escalation](#) of **US-Iran** tensions, as the economic situation in Iran worsens.
- The combination of the rise of **strongmen** and the unravelling of **arms control agreements** makes armed conflict more likely; the US military could be forced to respond to [proxy wars](#) by other powers.

Implications for Europe

The outbreak of a war involving the US could destabilise EU economic and political relations with the US and other major powers. A war in the wider EU neighbourhood could lead to new waves of refugee flows into Europe. Humanitarian aid and potential new CSDP peace-keeping missions would be considered, requiring the EU to commit further (human and financial) resources to its external policies and defence. A US request for military support could potentially divide the EU, reviving (as in the case of Iraq) the perception of a fragmented EU foreign policy; division could also strain EU-UK relations. It would also test the EU defence sector, which may not yet be ready – or cohesive enough – to face complex conflicts. Ensuring that multilateral structures can effectively address breaches of international order would reduce the likelihood of this risk.

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Hard Brexit constraining or undermining future relations with the UK

State of play

The possibility of extending the transition period, and the 'future relationship' negotiations, beyond 1 January 2021 has been rejected by the UK, and the 1 July deadline to agree any extension has now passed. There are thus two basic scenarios for the end of 2020: an agreed deal on the future EU-UK relationship, or no agreed deal. The two sides agreed to intensify negotiations as of July, but [progress to date is limited](#), despite five rounds of negotiations. While some policy areas are relatively straightforward, the two sides remain far apart on fisheries and [financial services](#), as well as on issues related to the role of EU law and future governance arrangements.

The EU aim is a [strong and close partnership](#) that reflects the size and importance of the UK, as well as its history in the EU. It seeks an overarching agreement with sections covering different policy areas. The UK seeks a [free trade agreement similar to CETA](#), as one of several agreements in different sectors. The terms of UK access to the single market is a critical point. The EU is offering zero-tariff and zero-quota access, in return for continuing UK alignment with EU standards, for example on food safety and environmental protection. However, the stated intention of the UK is to be free to diverge from EU standards. This represents a threat to fair competition within the single market, and could potentially grant a non-member more favourable terms of access than enjoyed by EU countries.

Risk factors

- Absent some very creative thinking around an interim agreement (an extension by another name), a disorderly end to the transition period, or '**hard Brexit**', is a realistic outcome. This would mean considerable disruption across the spectrum of EU-UK relations.
- A negotiated agreement **could fail to be ratified** by either side, for example if a ratifying body opposed undue concessions. This would likely also mean a 'hard Brexit'.
- **Excessive concessions** to the UK could lead to the undermining of the single market.
- Even a **minimal agreement** could lead to on-going disputes and tensions in the future, not only souring bilateral relations, but weakening the perception and effectiveness of Europe in the wider world.

Implications for Europe

The lack of a free trade agreement with a G7 economy and former Member State on its doorstep would be a serious anomaly for the EU. It could conceivably prompt internal discontent with the EU's long-established support for open multilateral trade and the **international, rules-based economic order**. The pandemic has already thrown up serious questions about global supply chains and the need to protect or recreate domestic production of strategic goods.

Economic analyses suggest that a disorderly Brexit would have a more **negative impact on GDP** for the EU as a whole, and particularly on Ireland, than an orderly exit. This would compound the already severe economic impact of the coronavirus pandemic. EU-UK trade would become subject to reporting requirements and **trade barriers**. This risks reducing levels of trade in goods. However, there are some signs of progress on arrangements for transit trade between the continent and Ireland. The expiry of current certification arrangements would have a strong impact on trade in services. There is also a potential for spill-over from economic issues into the political situation in [Northern Ireland](#). The 1998 Good Friday/Belfast Agreement established cooperation in many areas across the whole island, including in economic matters. Disrupting these arrangements could undermine the cross-community support needed to sustain peace in the longer term.

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Possible decline in global aid and assistance to the developing world, as a result of the coronavirus crisis, recession and/or protectionism

State of play

The EU institutions and Member States collectively provide nearly [half of the world's total official development assistance](#) (ODA), even though they have still failed to achieve the [objective](#) of raising [ODA](#) – i.e. public grants and the grant-equivalent part of certain official loans with 'the promotion of the economic development and welfare of developing countries as [their] main objective' – to 0.7 % of their GNI. ODA actually represents a small share of the total flows to developing countries, compared to remittances and foreign direct investment. (In 2017, ODA, remittances and FDI accounted respectively for 15 %, 33 % and 41 % of these flows.)

The coronavirus outbreak has demonstrated that climate change and biodiversity loss, mostly induced by human activity, have contributed to the deterioration of global well-being. This confirms the urgency of achieving the Sustainable Development Goals (SDGs) by 2030. Yet, current results are lagging on most SDG targets. Financing the SDGs will be more challenging in the aftermath of the crisis, as the IMF forecasts [negative global growth](#) in 2020. The World Bank estimates that the pandemic will push 49 million more people [into extreme poverty](#). The [number of migrants and asylum-seekers](#) trying to escape the disease, food insecurity or unsustainable economic conditions will rise sharply. The [humanitarian cost](#) of the pandemic was estimated in May 2020 at US\$6.7 billion, on top of the global humanitarian response plan of US\$28 billion, with a funding gap already over 80 %.

International reactions during the coronavirus outbreak have demonstrated both the temptation to focus on national measures and an increased sense of international solidarity – not least because the weakest links could undermine global efforts in fighting the pandemic.

Risk factors

- **Progress towards SDGs** might be **slowed down or reversed**, or, conversely, the pandemic might act as a wake-up call to **better manage SDG** synergies and trade-offs.
- The **domestic coronavirus response** in richer countries might reduce non-ODA and ODA flows.
- A global reshuffle of international development cooperation could happen:
 - in terms of priorities, with an increased focus on global health;
 - in terms of modalities (budget support, trust funds, private–public), with an increased or faltering (see next point) monitoring of their respective effectiveness.
- The debate on ODA validity, standards and governance might be revived, depending on the evolution of the influence of emerging donors, such as China. Beyond a technical discussion on its 'concessional character', analysts point out the risk of undermining its ability to fairly measure development outcomes.

Implications for Europe

The EU's global coronavirus response is mostly the reallocation of existing resources, uncommitted or previously committed for programmes delayed due to the pandemic. €502 million has been used to finance emergency response; €2.8 billion will help to strengthening medical capacities, research and sanitation; the bulk of the package, €12.28 billion, will address the economic and social consequences of the pandemic in the most fragile countries. The coordination of international initiatives will be a key asset for the future of development cooperation, and the EU has a significant role to play to promote renewed multilateralism. Domestic recovery considerations and the focus on migration-related issues risk putting a strain on policy coherence for development.

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State failure and/or state collapse in the wider EU periphery (Sahel, Middle East, Central Asia)

State of play

The common denominator of the so-called 'arc of crisis' – which stretches from the Sahel, over the shores of the Mediterranean to the countries of Central Asia – is fragile social and political structures threatened with fragmentation, state failure and rising jihadist terrorism. Despite the collapse of Islamic State in Iraq and Syria in 2019, the predominant ideology of radical Islam seems to be the unifying element of insurgent groups in this region, but rebel networks remain divided and autonomous, marked by strong local links. In 2019, the Sahel experienced an unprecedented rise in terrorist violence, with more than 4 000 deaths reported by the [International Centre for Counter-Terrorism](#). According to the [UN Under-Secretary-General for Peace Operations](#), terrorist groups are exploiting the coronavirus pandemic to increase the threat, putting G5 Sahel countries (Burkina Faso, Chad, Mali, Mauritania and Niger) under pressure. The internal conflict and chaos in Libya allows mainly Syrian jihadists to interfere, in addition to mercenaries supported by Russia and Turkey. The [Syrian Observatory for Human Rights](#) estimated that there are around 12 000 Syrian mercenaries fighting for the Libyan Government of National Accord (GNA). The Syrian civil war is still going on, and economic and social collapse is compounding security risks, on top of the migratory crisis (over 6 million Syrian refugees) threatening the stability of the whole region. Coronavirus exacerbated pressure on the governments of Iraq and Iran, where protests turned into violent riots.

Risk factors

- The unstable situation within the 'Arc of crisis' region will continue to threaten EU security and its interests as the populations of these countries, in particular young people and disaffected groups, facing the failure of nation states to provide economic and social security, are prone to **illegal migration, migrant smuggling and trafficking**. Climate change and associated land degradation, as well as a serious threat of famine, are major risk factors too.
- **Islamist terrorism** will continue to be a threat, as local branches of Islamic State and al-Qaeda are the first beneficiary of states failing in the region. Coronavirus will help these groups, as it is further weakening states in the region. Favourable demography, high unemployment and weak economic prospects are also nurturing terrorist networks.
- Falling commodity prices, mainly of crude oil, will put additional **economic stress** on countries that are already facing balance of payments crisis and depreciation of their currencies. The sanctions regime in Syria and Iran will continue to weaken these states' capacities further.

Implications for Europe

The EU wishes to continue pursuing an ambitious but realistic foreign policy and to develop strategic autonomy, including military capabilities. Regional security risks are accentuated by instability in Syria and Libya, as well as a deepening gap between the EU and other players, in particular Turkey, that do not respect the UN arms embargo. Within the 'wider periphery' region, the engagement of Europe ranges from military and civilian missions (IRINI Libya, EUCAP Sahel Mali), to the support of refugees and internally displaced persons (Madad Fund). An additional €240 million has been allocated, on top of €2.1 billion for the Southern Neighbourhood, to strengthen resilience in neighbouring countries hosting Syrian refugees in light of the pandemic. At a time when the US is withdrawing from the region and multilateralism is put at risk, the engagement of the EU and Member States is of even greater importance. Europe can continue to play a key role within the United Nations Multidimensional Integrated Stabilisation Mission in Mali (MINUSMA), the Barkhane military operation, and the International Coalition for the Sahel.

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Structural risks for the European Union:

Risks over the next four years (2020-24)
and potential policy responses

RISKS (over the next four years)	Options for EU response during the current EP mandate (2019-2024)
Single Market unravelling	<p>Commission to ensure the effectiveness of the monitoring mechanisms (Article 36 of TFEU, Directive 2015/1535) and assess possible legislative changes.</p> <p>Legislative initiatives to ensure the effective and homogeneous implementation of Commission Guide lines for border management measures to protect health and ensure the availability of goods and essential services (considering also the transport dimension in general).</p> <p>Joint procurement needs to be strengthened. Commission to facilitate the sharing of solutions arising from digital public procurement events ("hackathons") and via GovTech platforms. Taking initiative to restore and deepening the single market towards a common innovation and industrial policy.</p> <p>Introduce measures to incentivise and support the faster roll-out of digitalisation and virtual mobility in the area of e-commerce, e-payments, e-delivery, e-health, e-assistance, dedicated apps, smart cities, Internet of Things, 3D printing and AI and evaluate their impact on public administration and services.</p> <p>Evaluation of competition distortions arising from COVID-19 related State Aid measures, taking into account their combined effect with EU budget support.</p>
Schengen <i>acquis</i> unravelling	<p>Possible update of the SBC regulation both to ensure an effective and timely shutdown of the external and internal Schengen borders in order to reinforce the ability to keep unobstructed flow of goods and persons in crisis times (e.g. pandemics).</p>
EU – Member State cooperation eroding	<p>Supporting and introducing an EU Mechanism on the Rule of Law, as requested by the European Parliament (EP resolution of 17 April 2020).</p> <p>Strengthening the activities of the LIBE Monitoring Group on Democracy, Rule of Law and Fundamental Rights.</p> <p>Ensuring that the Conference on the Future of Europe specifically addresses these and other fundamental issues (e.g. EU law primacy, ECJ supreme authority on the interpretation of EU law).</p>
Lack of genuine new EU own-resources	<p>Use all accessible means and leverage for the introduction of new, additional, diverse, genuine and more autonomous own resources; case for powerful Recovery and Transformation Fund and next and future MFFs may even hinge on such new own resources; Potential candidates: a common consolidated corporate tax base, digital services taxation, a financial transaction tax, income from the emissions trading scheme, a plastics contribution and a carbon border adjustment mechanism (EP Resolution of 15 May 2020).</p>
Sovereign debt crisis	<p>Completing the Banking Union and Capital Market Union, including a balance between risk sharing (EDIS) and risk reduction (caps on banks holdings on domestic sovereign debt).</p> <p>Making progress to strengthen economic and social safety nets (and/or public goods) provided by the EU.</p> <p>Consider ways to reinforce and further develop non-monetary policy stabilisation functions in the euro area. Progress on European fiscal instruments, notably a Recovery and Transformation Fund may prove to be crucial in this respect (see EP Resolution of 15 May 2020). EU/EA policies may be used to support Member States, regions, sectors or enterprises hit most by the pandemic.</p>

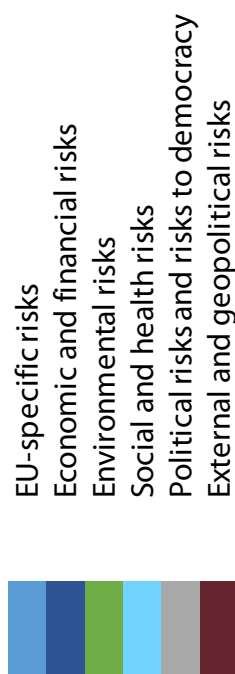
RISKS (over the next four years)	Options for EU response during the current EP mandate (2019-2024)
Global economic depression	<p>Monetary policy-makers must continue assessing unconventional measures (zero or negative interest rates; enhanced forward guidance; quantitative easing; and credit easing to backstop banks, non-banks, money market funds, and even large corporations and apply them if on balance (effects/side-effects) justified.</p> <p>ECB and US Federal Reserve to continue the expansion of its cross-border swap lines to address the massive dollar liquidity shortage.</p> <p>Global fiscal stimulus. Strengthen the EU effort in the G20, World Bank and IMF to stabilise global economy.</p> <p>At EU level: Recovery and Transformation Fund of €2 trillion in size to be adopted in 2020, to be financed through the issuance of long-dated recovery bonds guaranteed by the EU budget and to operate through loans and, mostly, through grants, direct payments for investment and equity (EP Resolution of 15 May 2020).</p>
International financial instability	<p>Fiscal, monetary, and financial policies should be used to stabilise economies stricken by the pandemic. International cooperation is essential to tackle this extraordinary global crisis.</p> <p>Multilateral cooperation is essential to help reduce the intensity of the COVID-19 shock and its damage to the global economy and financial system. IMF will be the main international actor. EU can contribute through Balance of Payments and (third countries) macro-financial assistance.</p> <p>Aim to enhance EU/Euro Area international and regional voice and role by making progress to strengthen internal governance and cohesion and making progress on the external dimension, including strengthening the international role of the euro.</p>
Escalating trade protectionism	<p>EU to uphold the multilateral system, e.g. through a temporary dispute settlement mechanism at the WTO and a constructive approach in trade and investment negotiations with partners such as the US and China.</p> <p>EU Trade Policy Review 2021.</p>
Energy risks	<p>EU Energy Security Master Plan, drawing on the existing energy security instruments and establishing inter alia and industrial shutdown master plan of certain energy-intensive activities, key supply chains (too big or too strategic to fail), minimum energy supply for households.</p> <p>EU oil stocks to be purchased (in euros) collectively in times of low prices, backed by EU guarantees.</p>
Climate action failure	<p>Recovery and reconstruction package to include at its core the European Green Deal and the digital transformation (EP Resolution of 15 May 2020).</p>
Health crisis	<p>Need to further pool efforts in areas such as research and development for vaccines and treatments. Establishing at EU level common strategic stocks of critical medicines, pharmaceutical and medical products as well as equipment.</p> <p>Reinforce coordination at EU level of European procurement policies to secure more effectively European and global access. Harmonising methodology at EU level to have comparable statistics on cases in epidemics. Dealing with the spill-over effects of uncoordinated (or poorly coordinated) responses through a reinforcement of the coordination role of the European Medicines Agency and of the European Centre for Disease Prevention and Control.</p> <p>European Health Programme (MFF) (EP Resolution of 15 May 2020).</p> <p>Health Autonomy Action in strategic areas (e.g. active pharmaceutical ingredients), and thus reducing EU dependence on third countries (EP Resolution of 15 May 2020).</p>

RISKS (over the next four years)	Options for EU response during the current EP mandate (2019-2024)
Rising poverty and inequalities	<p>European legal instrument for a minimum wage (Commission proposal to be discussed).</p> <p>Monitoring of the implementation of the comprehensive 2013 Council Recommendation on Investing in Children and complementing it with a European Child Guarantee.</p> <p>Reduce the digital divide (deepened by the COVID-crisis) through specifically-targeted funding through the European Social Fund Plus.</p> <p>Reducing the gender pay gap by monitoring the pay transparency and suggest changes, if appropriate.</p> <p>Develop an EU instrument to support increasing the stock of social and affordable housing.</p> <p>Better targeting inequality resulting from regional disparities through effective allocation criteria for the available funding.</p>
Profound social instability	<p>To be primarily addressed through economic and social measures. Public order issues to be addressed by Member States. However, given the cross-border nature of some recent phenomena (including 'contagion' through social media) Member States should prepare Risk Analysis Frameworks and Preparedness Scenarios for civil emergencies (including civil unrest and disorder), to be shared at EU level. To enable at EU level the possibility of using EU Civil Protection mechanisms in such scenarios.</p>
Rise of nationalism and populism	<p>Address declining trust in the EU and declining appeal of liberal democracy and its values, by strengthening the EU legitimacy and problem-solving capacity, through: strengthening systemic output performance in EU "good policies" (i.e. with an added value for European citizens); effectively communicating these achievements; together with actions aimed at increasing the resilience to (online) disinformation and "fake news" (e.g., by expediting the European Digital Media Observatory); allowing for further transparency and civil-society involvement in the EU's decision-making.</p> <p>Promoting bottom-up initiatives and increasing the use of "linking the levels tools" towards a European public space: fostering European mobility and exchange across all age groups (e.g., by means of a strengthened Erasmus+ programme); encouraging democratic engagement/civic participation as well as European historical remembrance (e.g., by means of the scope of the current Europe for Citizens Programme being expanded in the future Rights and Values Programme); tailored investments in state-of-the-art education – especially citizenship and history education – in all Member States; specific initiatives to raise awareness for the richness and diversity of Europe's cultural expressions.</p> <p>Channel many of these issues through the debates at the Conference on the Future of Europe.</p>
Massive disinformation against EU	<p>EEAS/Commission to target sources of disinformation (Promoted by states e.g. Russia, China, or non-state actors) with counter public diplomacy campaigns; reinforce services such as EEAS 'StratCom' (Strategic Communication Teams) with additional financial/human resources (EP to issue an own-initiative (INI) report on disinformation, and support budgetary reinforcement).</p> <p>EU to share good practices of EU and Member State legislation and cooperation with private sector, addressing disinformation and reinforcing information literacy among citizens (including through early education), while respecting freedom of expression and privacy.</p>

RISKS (over the next four years)	Options for EU response during the current EP mandate (2019-2024)
New migration crisis	<p>Effective evidence/fact-based public diplomacy campaigns on democratic model/values, benefits (and cost of non-EU/reduced democracy models) at EU scale (also with EU National Parliaments involvement).</p> <p>The upcoming Pact on Asylum and Migration is an opportunity to address the bottleneck of outstanding reforms of the EU's internal migration and asylum policy, while also recognising the interconnection between internal and external aspects of migration. The new external action instrument (NDICI) is expected to provide flexible tools to respond to crises in third countries most in need. Building on the Global Compacts on Migration and on Refugees, the EP as co-legislator can ensure a strong focus on solidarity between Member States and a human right-based approach. (The EP is preparing an own-initiative report on human rights protection and the EU external migration policy.)</p> <p>The EP can use parliamentary diplomacy to support international cooperation on asylum and migration issues in line with international human rights standards and the Global Compacts.</p>
US-China escalating tensions	<p>Monitoring of the situation by the EU (EEAS) using EU (Delegation, Intelligence and Situation Centre 'Intcen') and EU Member States' assets; EU diplomacy in cooperation with <i>ad hoc</i> like-minded alliance (Russia, Japan, Korea, India, Canada, Australia, New-Zealand...) to avoid escalation.</p> <p>The EU (EEAS, Council) should look for ways to stabilise/de-escalate tensions (avoiding spill-over effects for instance), within the UN/established multilateral frameworks (also in case of disorderly collapse of the DPRK regime).</p> <p>EP to use its parliamentary- diplomacy capacity.</p> <p>EU support for the 'One-China-Policy' on the one hand and the categorical rejection and condemnation of the use of force – or the threat thereof – on the other hand. If tensions rise, EP should adopt a resolution using the threat of targeted sanctions for breach of these principles.</p>
Destabilisation of EU neighbourhood	<p>Monitoring of the situation by the EU (EEAS) using EU (Delegation, Intelligence and Situation Centre 'Intcen') and EU Member States' assets;</p> <p>EP to be kept informed (e.g. Joint Coordination Meetings, JCM) and make recommendations (via own-initiative (INI) reports) on improvement of EU alert (intelligence/anticipation).</p> <p>EU (EEAS/Commission) to work with UN/Multilateral organisations, or build <i>ad hoc</i> coalitions to build resilience, consolidate the democratic base of state institutions and the respect of rule of law and fundamental rights, and provide help to affected regions/countries, building on experience/lessons-learned and support to regional organisations (e.g. the African Union, AU) and regional cooperation (e.g. among Eastern Partnership countries);</p> <p>Review EU support programmes within the new external action instrument (NDICI) to match needs with means; plan for potential migration flows; revise procedures to react rapidly to developments.</p> <p>EP to participate in multilateral efforts (UN/other conferences); to ensure adequate budgeting; to contribute to debate on proper migration policy, using contacts with National Parliaments; own-initiative reports on migration and on regional organisations' role and reinforcement.</p> <p>EU Diplomacy to prevent: EU (EEAS) to prepare for possible increased assertiveness on part of some actors (e.g. Russia, China, Turkey...). Strong messaging to be passed (by the High Representative/Vice President) to potential 'spoilers' using crises to get geopolitical gains.</p>

RISKS (over the next four years)	Options for EU response during the current EP mandate (2019-2024)
	<p>EU to try and reinforce the role of the UN or other multilateral organisations in order to avoid fragile countries being taken hostage of fights of influence; EU to use campaigns on 'public goods of humanity' (access to commodities, water resources, health, in context of pandemics or climate change catastrophes) to reach this objective, in alliance with other states/regional groupings.</p> <p>EP to be kept informed and provide coordinated support via parliamentary diplomacy, EP's own democracy support programmes to be maintained and reinforced.</p> <p>Act to dissuade: EU (Commission) to use attributes of economic sovereignty (as global power) to exert pressures on potential 'spoilers' (e.g. via trade/economic leverage and better labelling of EIB/Macro-Financial Assistance).</p> <p>Disruptions of supply chains in key sectors should be covered by Risk Analysis Frameworks and Preparedness Scenarios.</p> <p>EP to issue an own-initiative report on EU Economic Sovereignty.</p> <p>EU to use CSDP missions/operations to ensure strategic presence in the EU neighbourhood, in coordination with NATO and other partners (e.g. UK);</p> <p>EP to pave the way by issuing an own-initiative report on the geopolitical/strategic role of CSDP missions and operations.</p>

Colour coding:



Further reading:

Books and articles
about various risks
facing the European Union

Further reading

A selection of books and articles available in the European Parliament Library that relate to various risks facing the European Union.

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The current coronavirus crisis emphasises the need for the European Union to devote more effort to anticipatory governance, notably through analysis of medium- and long-term global trends, as well as structured contingency planning and the stress-testing of existing and future policies. In order to contribute to reflection on, and discussion about, the implications of the coronavirus pandemic for EU policy-making, this paper offers an initial 'mapping' of some of the potential structural risks which could confront Europe over the coming decade, with 66 such risks analysed briefly in a series of short notes. The document then goes on to take a closer look at some of the more immediate risks to be considered in the near-term and outlines possible EU action to prevent or mitigate them over the remainder of the 2019-24 institutional cycle.

This document is prepared for, and addressed to, the Members and staff of the European Parliament as background material to assist them in their parliamentary work. The content of the document is the sole responsibility of its author(s) and any opinions expressed herein should not be taken to represent an official position of the Parliament.



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