FACING WAR:
RETHINKING EUROPE'S SECURITY AND DEFENCE

edited by **Serena Giusti** and **Giovanni Grevi**
introduction by **Paolo Magri**

ISPI

FACING WAR:
RETHINKING EUROPE'S SECURITY AND DEFENCE

edited by Serena Giusti and Giovanni Grevi

ISPI

Via Antonio Boselli, 10 – 20136 Milan – Italy
www.ledizioni.it
info@ledizioni.it

Facing War: Rethinking Europe's Security and Defence
Edited by Serena Giusti and Giovanni Grevi

First edition: November 2022

Print ISBN 9788855268141
ePub ISBN 9788855268158
Pdf ISBN 9788855268165
DOI 10.14672/55268141

ISPI. Via Clerici, 5
20121, Milan
www.ispionline.it

Catalogue and reprints information: www.ledizioni.it

Ministry of Foreign Affairs
and International Cooperation

This Report is realized with the support of the Policy Planning Unit of the Ministry of Foreign Affairs and International Cooperation pursuant to art. 23-bis of Presidential Decree 18/1967.

Table of Contents

Introduction

European security has made some important strides since becoming part of the EU remit in 1992. However, three decades after its first foray, it remains an incomplete project. Nowhere has this been easier to see than in the EU's response to the Ukraine crisis.

As with many other crises of the recent past, Russia's invasion of Ukraine elicited a common response from EU Member States. In fact, even more than during other crises, countries found a common ground very fast, in just a few days and weeks after February 24th. It took Eurozone countries months, and often even years, to agree on a number of common tools to lower the risk of repeating another debt crisis, and to improve their resilience in the face of a new one (2011-2014). During the worst phases of the Covid-19 pandemic, it took EU countries months of negotiations to agree on a common fund to support the post-pandemic recovery, leading to the first-ever issuance of common EU debt. On this regard, it could be said that the EU's response to Russia's invasion was exceptional: it came swiftly, and it remained strong and balanced throughout the first months. For instance, harsh sanctions against Russia were approved in (so far) eight rounds. This was not to be taken for granted, given that approving sanctions at the EU level requires unanimity between its 27 Member States, and that some of them were less keen than others to undermine their longstanding relationship with Moscow.

As with many other crises, however, such a communion of intent soon started to fade. Divergences re-emerged between members who wanted to do more (Poland and the Baltic countries, among others), those who preferred to tread more carefully (for example, Germany and Italy), and outright Moscow allies (Hungary). For months, those very negotiations over European sanctions have had to face stiff opposition from Hungary and a few other sceptical countries, and have been progressively softened in order to be approved by the 27.

Pledges to strengthen the EU common defence's industrial base by developing "European" weapons systems are also in a wobbly position. On the one hand, in early October the French President Emmanuel Macron and Germany's Chancellor Olaf Scholz called the heads of their respective defence industries to unblock work on the Future Combat Air System (FCAS) programme, which should aim to build a common European aircraft by 2040. On the other hand, however, on the same month Germany and another 13 countries announced the "European Sky Shield Initiative": the joint acquisition of an air and missile defence shield to be composed by German, American and possibly Israeli systems. By doing so, they angered France, which voluntarily remained outside the project, as it was developing its own shield with Italy. Moreover, since the 2021 botched withdrawal from Afghanistan, President Macron had been advocating for strengthening Europe's "strategic autonomy" – surely difficult to do by relying on US-made weapons systems. In a nutshell, as Serena Giusti puts it in her opening chapter, "whereas the EU has converged on common positions and actions (e.g. numerous packages of sanctions) against (…) the Russian Federation, it has so far failed to boost integration in security and defence".

This Report is an attempt to take stock of the state of Europe's security in the wake of Russia's invasion of Ukraine. As it appears that the conflict is going to drag out for several more months or even years, it appears to have become part of a new state of affairs in the Continent, and it is therefore important to

ask how countries are responding to this new reality. Moreover, even if the conflict ended in a ceasefire, grand bargain, or the victory of one of the parties, the very fact that President Putin decided to invade the country will continue to have a profound impact on how European governments perceive their own security.

This is the central question of Fabrizio Coticchia's chapter: whether we can define the war in Ukraine a turning point for EU foreign and defence policy. While it may be too early to answer this question properly, Coticchia outlines the implications of the conflict in Ukraine for the development of EU defence policy, emphasising especially the novelties and obstacles therein. In particular, the chapter focuses on the two never-ending problems that hinder the attainment of a proper EU defence: capabilities and coherence, while delving deeper into the potential transformation of the defence policy of two specific EU countries: Germany and Italy.

The following chapter focuses on one of these two vexed questions: joint capabilities. Efforts to promote defence integration appear to have increased after Russia's invasion. However, due to the previous record of failed EU initiatives in the military sector, Andrea Locatelli investigates whether these renewed efforts are doomed to follow the same path, or whether they will eventually change the security landscape of the continent. Specifically, Locatelli focuses on the goals, strategies and likely impact of the current initiatives on the European Defence Technological Industrial Base (EDTIB) – i.e. the complex web of infrastructure, institutions, and ideas that convert state resources into the means of warfare.

Following along these lines, Sven Biscop argues that, even after the Ukraine invasion (and possibly even more so) Europe needs a proper and autonomous security and defence policy, that remains distinct from NATO's. At the same time, the EU should focus on a number of goals included in its Strategic Compass, and that are not NATO's "core business": crisis management, hybrid threats, and capability development. An

interesting development is a *de facto* "Europeanisation" of the European theatre for NATO forces, with the core of NATO's New Force Model being 300,000 European troops in a state of high readiness. According to Biscop, defence efforts of the EU Member States, and of NATO, would not collapse if the EU terminates its defence efforts. Yet, national and NATO decision-makers should acknowledge that, without the assistance of the EU's instruments, the European defence effort will never be integrated to a significant degree.

This is also why the uneasy EU-NATO partnership deserves a standalone chapter, by Nicolò Fasola and Sonia Lucarelli. It is only obvious that Russia's invasion of Ukraine reasserted NATO's significance for European security, putting ideas about the Alliance's obsolescence to rest. So far, the EU and NATO have managed to work jointly (or, at least, in non-contradictory terms), capitalising on the gradual, growing interconnection they have facilitated over the last two decades. According to the authors, the current international context offers a unique opportunity for stepping up this partnership even more, to the benefit of Europe's security and defence. Rather than decoupling, the EU should find its place next to the Western military alliance, as the best place to manage non-military responses to Russia's aggression.

In the next chapter, Antonio Missiroli addresses a specific question: how has the EU's cyber security approach changed since Russia's invasion? His response seems to point at the fact that a change has occurred, and that it entails EU-NATO coordination, as no actor can efficiently develop cyber resilience and defence capabilities on their own. Still, Missiroli argues, it is precisely among EU members that more needs to be done – for instance, in the framework of Permanent Structured Cooperation (PESCO), where cyber-relevant projects are few and of limited scope – in order to upgrade the bloc's own collective ability to operate and collaborate credibly with more capable partners.

After cybersecurity and defence, Daniel Fiott moves to consider the matter of space defence. According to the author, one cannot think of EU strategic autonomy or sovereignty without first achieving autonomy in space. This is why space has arguably witnessed the clearest material realisation of the concept of strategic autonomy. Indeed, today the EU can boast of autonomous space capacities that help enable global positioning (Galileo) and monitoring (Copernicus). In a context where other strategic actors are rapidly increasing their presence in space, Fiott asks how the EU will meet this challenge through its space-defence outlook and the capabilities it is developing.

Finally, Giovanni Grevi asks whether European defence after Russia's invasion of Ukraine is poised for a quantum leap, or to fall in a limbo. What is sure is that the war has shaken Europeans out of the complacency that had long surrounded and stifled their approach to European security and defence. However, whether or not a paradigm shift is emerging for European defence depends on the extent to which European strategic cultures are converging, on collaboration among Europeans in generating new military capabilities, and on the role that Europeans will be willing to play to uphold their own security. Overall, according to Grevi, the experts who contributed to this report sense a moment of opportunity to foster cooperation on security and defence issues within the EU. However, they underscore the enduring systemic challenges facing the EU defence agenda, and withhold their judgment on prospects for the "quantum leap forward" advocated by the Strategic Compass in March 2022.

Paolo Magri
ISPI Executive Vice President

1. EU Security and Defence Policy in a Volatile Context

Serena Giusti

The war in Ukraine has accelerated processes that were already in place and has manifold implications. The international system is now under reconfiguration and is populated by a plethora of formal and informal actors who rely on a variable mix of sources of power; it is thus unstable and fluid. Whereas the EU has converged on common positions and actions (e.g. numerous packages of sanctions) against the aggressor, the Russian Federation, it has so far failed to boost integration in security and defence, launching instead disparate programmes or initiatives. Temporary agreements and actions are failing to turn into structural policies, which instead require a gradual and tortuous process of ceding sovereignty and control over sensitive issues. The greatest hurdle to the integrationist approach is that security and defence are at the core of any country's sovereignty, as direct emanations of what countries tend to define as their national interests.[1] As Hoffmann underlined at the beginning of the European construction process,

> in areas of key importance to the national interest, nations prefer the certainty, or the self-controlled uncertainty, of national self-reliance, to the uncontrolled uncertainty of the untested blender; ambiguity carries one only a part of the way.[2]

[1] On the relevance of national interest to politics see S. Giusti, *The Fall and Rise of National Interest: A Contemporary Approach*, London, Palgrave Macmillan, forthcoming 2022.

[2] S. Hoffmann, "Obstinate or Obsolete? The Fate of the Nation-State and the

These policies are therefore not easily transferrable to an entity such as the EU, even when there is an extraordinary and alarming external threat that some members, like Poland, Finland and the Baltic states, see as existential.

Polarised Politics

The difficulty in establishing common views and triggering joint action in defence matters cannot be seen in isolation from broader trends in EU politics. It is instead part of a larger shift towards increasingly polarised political party systems in most EU Member States, and towards the contestation of many of the EU's most salient choices.

Postfunctionalist research has revealed the increasing politicisation of issues within the EU, caused by harsh and divisive debates during elections and referendums. The preferences of the general public, channelled through political parties and other levels of political engagement, have become decisive for European policy outcomes, and identity politics has become critical in shaping discourse around Europe.[3] What has consequently emerged in recent years is a form of integration without supranationalism: intergovernmentalism prevails, with states trying to present their own viewpoints and opting for unanimous decision-making.[4] As Franchino and Mariotto put it, "Once an issue becomes politicised, public dissensus restricts governments' room to manoeuvre, making them less inclined to relinquish sovereignty and even tempted to rein in lost control".[5]

Case of Western Europe", *Daedalus*, vol. 95, no. 3, 1966, pp. 862-15.

[3] L. Hooghe and G. Marks, "A Postfunctionalist Theory of European Integration: From Permissive Consensus to Constraining Dissensus", *British Journal of Political Science*, vol. 39, no. 1, 2009, pp. 1-23.

[4] S. Fabbrini and U. Puetter, "Integration without supranationalisation: studying the lead roles of the European Council and the Council in post-Lisbon EU politics", *Journal of European Integration*, vol. 38, Issue 5, 2016, pp. 481-95.

[5] F. Franchino and C. Mariotto, "Polticisation and economic governance design", *Journal of European Public Policy*, vol. 27, Issue 3, 2020, p. 464.

Consequently, the actions of polarised and populist parties and the diffusion of identity politics have constrained states into narrow paths, making it harder to foresee a truly European perspective, or in any case to implement it accordingly.

Such a trend also emerged during the most decisive phases of the pandemic. After an initial phase of confusion and uncertainty, the European Commission took a common approach to secure vaccine supplies and facilitate their distribution, but at the same time Member States continued to adopt an ample spectrum of policies in order to fight the Covid-19 virus. It took a great political and diplomatic effort to reach an agreement on the NextGenerationEU temporary recovery instrument worth more than €800 billion to help repair the immediate economic and social damage brought about by the coronavirus pandemic. Despite this success, the pandemic did not become a critical juncture in terms of boosting further integration in health policies, which are still settled at national level.[6]

The case of the war in Ukraine is not likely to be an exception to the track record of Member States struggling to find a consensus on major leaps forward in European integration. What we are witnessing is rather the emergence of a number of initiatives which are not necessarily going in the direction of further integration; they amount only to strategies, programmes, and portions of policies that can be certainly strengthened and deepened, but do not lead to an overall strategic vision driving the EU's foreign, security and defence policy. The result is a constellation of forms of cooperation and action which might undermine the coherence and effectiveness of the strategic approach that circumstances require.

[6] On the concept of critical junctures see G. Capoccia, "Critical Junctures", in K.O. Fioretos, T.G. Falleti, and A.D. Sheingate (Eds.), *The Oxford Handbook of Historical Institutionalism*, Oxford, Oxford University Press, 2016, pp. 89-92.

Joining Forces: The Strategic Sovereignty Debate

Acknowledging the multiple forms of cooperation and even integration existing under the guise of "multi-speed Europe" or "variable geometry" integration, President Macron of France has called for innovation rather than predefined formats in order to promote common views and strategies.[7] His proposal concerns the selection of certain strategic domains – security, privacy, artificial intelligence, data, the environment, industry and trade – in which Member States share common interests and concerns and that are also closely related to security and defence. The concept of strategic autonomy and strategic sovereignty could be pivotal in the gradual construction of a composite security and defence policy with innovative programmes, along with intergovernmental cooperation and complementarity with NATO.

When, in August 2021, the US decided to withdraw its troops from Afghanistan without consulting its European allies, the question of the EU's strategic role in a broader geopolitical landscape became prominent. Debate on this matter had already appeared in the 2016 EU Global Strategy, which defined the Union's "strategic autonomy" as the ability "to act autonomously when and where necessary and with partners wherever possible". The idea was later revamped by French President Emmanuel Macron in his Sorbonne speech in 2017.[8] He defined European strategic sovereignty as the collective ability to defend Europe's interests in security, privacy, artificial intelligence, data, the environment, and industry in a strategic way. However, there has always been a certain confusion between strategic autonomy and strategic sovereignty. Whereas strategic autonomy refers to security and defence and hints at the possibility that the EU could become less dependent on the decisions or assets of other countries when acting in the

[7] M. Macron, Speech on new Initiative for Europe, Initiative for Europe, Sorbonne Speech, 26 September 2017.

[8] Ibid.

field of foreign policy, the concept of strategic sovereignty deals with the EU's capacity to manage certain strategic policies in a coordinated way. As a result, strategic sovereignty is about rethinking interdependencies in trade and critical supplies, reframing strategic partnerships and sustaining a multilateral order open to cooperation.

Strategic sovereignty has the potential to become a central narrative for further development of the EU following the war in Ukraine. Firstly, to support Ukraine, the EU has mobilised a substantial number of military, financial and humanitarian resources. Secondly, the EU's dependency on energy from Russia has clearly highlighted the weakness of the organisation in its susceptibility to blackmail, and the imperative need to reduce its vulnerability to the weaponisation of energy and other flows. While imposing sanctions and providing military equipment to Ukraine, the EU is nevertheless still sending money to Moscow in exchange for energy.

Acknowledging contradictions and weak points in the EU's responses to crises and global challenges, the Versailles Declaration (11 March 2022) strengthened the idea of European strategic sovereignty. The concept of strategic sovereignty would require reducing the EU's dependencies while planning a new growth and investment model that can be implemented through three key dimensions: a) bolstering the EU's defence capabilities; b) reducing energy dependencies; and c) building a more robust economic base. The concept of strategic sovereignty seems to incorporate the idea of a more autonomous and emancipated polity that opts to develop strategic thinking in some crucial policies, with Member States gradually deciding to renounce aspects of their sovereignty for the sake of jointly advancing their interests in a more competitive world. For that to occur, however, they would need to rework the very concept of sovereignty and find innovative ways to integrate national perspectives and practices in a European vision when dealing with selected, strategic policies.

A New Compass for European Defence?

The EU's Strategic Compass (SC) for Security and Defence (21 March 2022) could help develop a coherent and robust security and defence policy, complementing the 2016 Global Strategy and the 2018 Integrated Approach to Conflicts and Crises. These two important documents establish guidelines for EU action in its neighbourhood and further afield; they aim to foster resilience and rely on principled pragmatism, partnering with multiple actors operating at different levels of governance, including international, regional, and local actors, to address conflicts and crises.[9] They also envision the EU intervening over prolonged periods of time to manage all dimensions of the conflict cycle, stretching from conflict prevention to peace consolidation.

The SC seems to review this approach somewhat, as it focuses on the higher end of crisis management in challenging environments, facing the question of security by considering all sorts of threats the EU may face. The SC is promoting the development of an EU Rapid Deployment Capacity to "swiftly deploy" a modular force of up to 5,000 troops. The document corroborates the idea that the EU's diplomatic force also needs to be accompanied by a military force. This conception derives from a realistic and pessimistic analysis of the nature of the threats – from traditional military invasions to hybrid cyber-attacks and massive disinformation campaigns[10] – that all actors, including the EU, need to confront, and builds on recent achievements such as the start of the Permanent Structured Cooperation (PESCO) and the progressive consolidation of the Military Planning and Conflict Capability (MPCC).[11]

---

[9] On the EUGS see S. Giusti, "The European Union Global Strategy and the EU's Maieutic Role", *Journal of Common Market Studies*, vol. 58, no. 6, 2020, pp. 1452-68.

[10] See European Commission, Joint Framework on countering hybrid threats a European Union response, Brussels, 6 April 2016.

[11] The MPCC commands the EU Training Missions (EUTM) in Mali, Somalia

Certainly, one of the effects of the war in Ukraine has been the strengthening of the EU's relationship with NATO, showing the relevance of both organisations to overall European security. The fact that two previously neutral members of the EU, Finland and Sweden, simultaneously applied to join NATO (18 May 2022) after thorough debates across their societies and with large parliamentary majorities supporting the decision, testifies to a new momentum in EU-NATO relations. The fact that more countries are members of both organisations can help smooth their convergence on certain decisions and enhance their complementarity. Furthermore, the increased number of EU Member States within NATO can help strengthen the European point of view and the prioritisation of European objectives within the alliance.

Re-Shaping a Pan-European Strategic Space

After the presentation of the Strategic Compass for Security and Defence in March 2022, the EU also reconsidered neighbourhood management, which it sees more than ever as a pillar of European security and stability. The promise of membership that proved a powerful tool of foreign policy for the stabilisation of Central and Eastern European countries is not a limitless political resource, however, as it cannot be offered to all neighbouring especially those which are not in the proximity of the EU, at least in the short term, in search of transformation and security. The European Council decision (23 June 2022) to grant candidate status to Ukraine, Moldova and (depending on further reforms) Georgia, is a very important act even in terms of symbolic politics, anchoring these countries' choice of full sovereignty and democracy to the EU. However, effective entry is not imminent.

---

and the Central African Republic. On 19 November 2018, the Council agreed to give the MPCC additional responsibility for preparing to plan and conduct an executive military operation of the size of an EU battlegroup.

The European Neighbourhood policy (ENP) and its two corollaries, the Union for the Mediterranean (UfM) and the Eastern Partnership (EaP), have exhibited miscalculations and dysfunctionalities (permanence or return of autocratic regimes, the retreat of democracy in some countries, the persistence of unsettled conflicts, severe economic crises).[12] Partner countries have often considered the EU approach as standardised and not receptive of differences across countries and regions. The so-called civilian and normative power, which permeates EU regional initiatives like the ENP, has been perceived as a paternalistic power founded on the unequal status of the EU and its partners.

The war in Ukraine urges a new approach to reshaping the pan-European space. With remarkable speed, on Europe Day (9 May), Macron launched the European Political Community (EPC) that gathered for the first time in Prague on 6 October 2022. The first summit meeting of the EPC involved forty-four countries, 27 EU Member States and 17 partners, including the UK and Turkey. While it is not yet clear what level of institutionalisation the EPC may reach (so far preference is for a more flexible structure without needless procedural rules), overlap with other pan-European organisations, particularly the Organisation for Security and Co-operation in Europe and the Council of Europe, should be avoided. The idea is to create a regular forum for leaders on the European continent to come together outside EU structures. At twice-yearly meetings they would discuss not just the crises of the moment, from war to energy, but broader geopolitical challenges in the face of actual threats from Russia and presumed ones from China. The summit was split into different "streams", one on energy and climate, the other on security and peace: no formal conclusions were issued since the aim was dialogue rather than decisions.[13]

[12] See A. Dandashly and G. Noutcheva, "Unintended Consequences of EU Democracy Support in the European Neighbourhood", vol. 54, no. 1, *International Spectator*, 2019, pp. 105-20.

[13] "Meet the brand-new European Political Community", *The Economist*, 6

The EPC could provide another weak framework to keep the EU's neighbours anchored to it. Certainly, it could be used for constituting an anti-Russia conglomerate of states or it could serve as a political forum to discuss the main foreign and security policy issues linking the EU and its partner countries, connected to the agenda of EU summits.[14] Although the functioning, scope and benefits of the EPC are still unclear, its inauguration marks a further step in aggregating states on a more equal level than in other pan-European projects, in response to the critical situation in Ukraine.

A Defining Moment for EU Defence Policy?

These many initiatives, programmes, frameworks, and even the recognition of the candidate status of Ukraine are all significant manifestations in the direction of political ferment and rapidity in reacting to unexpected and violent events. They testify to EU Member States' proclivity to converge and align on strategic decisions. Can the war in Ukraine therefore be considered a critical juncture, capable of producing deep structural changes and transforming the nature of security and defence policies? Critical junctures are related to crises, and refer to an extraordinary period in which institutions have the opportunity to take new and momentous decisions far more easily than in ordinary periods while gaining the support of public opinion. So far, EU institutions have not planned any major shifts in the direction of a truly European common security and defence policy; instead, security policy remains an assemblage of various projects on specific issues, with the risk of lacking coherence. Furthermore, if the war lasts too long and causes not only death and destruction in the territories concerned but also economic recession, social discontent and poverty across Europe, the

October 2022.

[14] The three possibilities have been sketched out by N. Pirozzi, "Realising Europe's geopolitical vocation", *Social Europe*, 14 October 2022.

momentum for accelerating certain projects related to security and defence may vanish rapidly. So will the war in Ukraine prove a critical juncture, or merely an impulse for accelerating programmes and developing new formats without, however, producing any breakthrough plan?

2. A Watershed Moment? European Defence and the War in Ukraine

Fabrizio Coticchia

In her 2022 State of the Union Address, Ursula von der Leyen stated that the Russian invasion of Ukraine represents "a war on our energy, a war on our economy, a war on our values and a war on our future".[1] The President of the European Commission considered the conflict in Ukraine a "watershed moment"[2] that calls for a rethink of the EU foreign policy agenda. Similarly, the German Minister of Defence, Christine Lambrecht, has stressed how "our values, democracy, freedom and security are being defended in Ukraine".[3] Italian Prime Minister Mario Draghi too, addressing the EU Parliament, said that "by supporting Kiev we protect ourselves and the project of democracy and security we built".[4]

Can we actually define the war in Ukraine as a turning point for EU foreign and defence policy? It may be too early to answer this question properly. Yet, we can assess the degree of change in

[1] "2022 State of the Union Address by President von der Leyen", 14 September 2022.
[2] Ibid.
[3] H. Von Der Burchard, "EU security 'being defended in Ukraine': Germany's Lambrecht vows continued support for Kyiv", *Politico Europe*, 11 September 2022.
[4] "Draghi a Strasburgo: l'Ue aiuti e accolga l'Ucraina, serve coraggio su modifica Trattati", *Huffington Post*, 3 May 2022.

European foreign and defence policies since the war started in late February 2022. This paper outlines the implications of the conflict in Ukraine for the development of EU defence policy, emphasising especially the novelties and obstacles therein. The first part of the chapter identifies the war as an exogenous shock to EU security as a whole, illustrating the reaction of the EU and its members to the Russian invasion and the elements that could reveal a new path towards a common defence policy. The second part of the paper underscores the conditions that shaped the European security architecture when the war erupted, focusing on the two never-ending problems that hindered (and still prevent?) the attainment of a proper EU defence: capabilities and coherence. Finally, after investigating the potential transformation of the defence policy of selected EU Member States (Germany and Italy), the chapter examines whether the war has really allowed the EU to develop a new trajectory in the complex search for a supranational defence policy. The conclusion summarises the main findings and provides a general recommendation for the future of EU defence.

The External Shock and the EU Reaction

The Russian invasion of Ukraine was a shock for European security, bringing back almost forgotten features of power politics in the continent: inter-state conflict and war of conquest. For this reason, among others, it is worth asking ourselves whether, after 24 February, European foreign and defence policy is facing a "critical juncture"[5]. In the International Relations literature, a critical juncture refers to a way of altering a (foreign or defence) policy in which an external shock can cause a drastic transformation in this policy, radically changing its course. Does the Russian war against Kiev represent that

[5] On critical junctures see: G. Capoccia and R.D. Kelemen, "The study of critical junctures: Theory, narrative and counterfactuals in historical institutionalism", *World politics*, vol. 59, no. 3, 2007, pp. 341-69.

exogenous shock capable of fostering a real paradigm shift in European defence policy? To answer this question, we need to understand whether the consequences of the conflict will allow Europe to overcome the historical obstacles to the development of an EU defence policy.

Three elements deserve to be highlighted. First, the rhetoric adopted by the EU – as well as by its members (especially the countries that had generally been more reluctant to talk openly about military affairs, such as Germany and Italy) – revealed a significant change. The open calls for "rearmament", and the support for a "military victory on the ground by Ukraine",[6] reflect a narrative that is far removed from decades of discourses on the EU as a "civilian power". In a nutshell, it seems that the EU – in line with the "pragmatism" of its "Global Strategy" and the willingness to behave as a "Geopolitical Commission"[7] – has definitely embraced a foreign policy language that fully includes the military component, which had been disregarded by Brussels for decades.

Second, the EU has proved united in its response to Russia, adopting a series of new sanctions against Putin's regime (and also against Belarus)[8] while using the European Peace Facility (EPF) to support EU Member States' supplies of military equipment to Kiev.[9] Thus, "for the first time in its history, the EU is now using a dedicated, although off-budget, tool to finance – but not to deliver, with that responsibility falling on Member States alone

[6] Draghi affirmed that Italy and the EU should "rearm". Mario Draghi, European Council, 25 March 2022. The High Representative of the EU, Jospep Borrel, stated that "Ukaine must win the war on the ground". See "Borrell: Ucraina vincerà guerra sul campo", *Adnkronos*, 9 April 2022.

[7] See L. Bayer, "Meet von der Leyen's 'geopolitical Commission", *POLITICO*, 4 December 2019.

[8] Sanctions include targeted restrictive measures (individual sanctions), economic sanctions and diplomatic measures. For additional details see: European Council, EU sanctions against Russia explained.

[9] At the time of writing (September 2022) the EU contribution under the EPF for Ukraine is around €2.5 billion. See: European Council, Press release, "European Peace Facility: EU support to Ukraine increased to €2.5 billion", 22 July 2022.

– lethal military equipment to a third country".[10] Moreover, European countries sent military equipment to Ukraine on a bilateral basis too. Such novelties, along with the decision to support several packages of sanctions despite their costs for the EU Member States' economies, show the considerable degree of commitment by Brussels in the war in Ukraine. This evolution does not occur in a "vacuum". Indeed, the EU has taken important steps in recent years towards the development of its defence policy, such as the Permanent Structured Cooperation (PESCO), the European Defence Fund (EDF) and the brand new Strategic Compass (the White Book of the EU Defence). Exploiting the opportunities provided by the Lisbon treaty, following the Russian annexation of Crimea in 2014 and Brexit, and in view of the growing US interest towards Asia, EU Member States decided to devote more resources to industrial defence projects, developing common initiatives and adopting a new governance framework to enhance Europe's strategic autonomy.[11] The Strategic Compass (2022),[12] which aims to guide further development of the EU defence agenda, focuses on issues such as the EU Rapid Deployment Capacity, the sharing of intelligence assessments among members, enhancing joint defence procurement and empowering the "Military Planning and Conduct Capability" (MPCC). According to some authors, the Compass "represents the willingness of 27 countries with different strategic cultures to better coordinate, invest in capacity building, and partner with international organisations […] knowing that a secure environment is crucial for European security".[13]

---

[10] B. Bilquin, "Russia's war on Ukraine: The EU's financing of military assistance to Ukraine", European Parliamentary Research Centre, 11 March 2022.

[11] On the EU strategic autonomy see, among others: D. Fiott, "Strategic autonomy: towards 'European sovereignty' in defence?," European Union Institute for Security Studies (EUISS), 2018.

[12] European Union External Action (EEAS), A Strategic Compass for Security and Defence.

[13] A.G. Rodriguez, "EU Strategic Compass: The Right Direction for Europe?", ISPI Commentary, 16 June 2022.

Third, all the European countries started to perceive Russia and its revisionist policy as a clear threat to their national security. In fact, even after the Ukraine crisis in 2014, some Member States (especially in the southern part of the continent) did not share the same level of concern as the Baltic states and Central and Eastern European countries regarding Moscow. However, after the Russian invasion of Ukraine in 2022, change appeared to be under way both in the positions of individual governments and at the level of public opinion.[14] Italy, for example, further enhanced its military presence in the Eastern flank in 2022, providing military assistance and adopting harsh sanctions, despite its dependence on Russia for the import of natural gas. After years of reluctance, several EU Members States decided to enhance military spending towards the goal of 2% of GDP. For example, Chancellor Olaf Scholz, addressing the Bundestag on 27 February 2022, announced the creation of a €100 bn special defence fund to modernise Germany's military capabilities, stating that Berlin would increase its military spending beyond 2%[15]. Scholz stressed that the war in Ukraine represented a *Zeitenwende*: a historical turning point for German and European defence.

In sum, the EU has made (before and at the beginning of the Russian invasion of Ukraine) some progress on the tortuous path towards an EU defence policy. Thus, the external shock of the war has further shaped a European political scenario that was already "under construction" regarding defence policy, after decades of immobility.

To understand whether the EU reaction to the exogenous pressure caused by the conflict in Ukraine described above can lead to further significant changes, it is worth noting that (political, cultural and economic) legacies matter when we assess

[14] See, for instance: M. Vice, "Publics Worldwide Unfavorable Toward Putin, Russia", Pew Research Center, 16 August 2017.

[15] See The Federal Government, "Policy statement by Olaf Scholz, Chancellor of the Federal Republic of Germany and Member of the German Bundestag, 27 February 2022 in Berlin", G7 Germany, 27 February 2022.

the impact of a potential critical juncture on policy change. Strategic choices and specific institutional arrangements adopted over many years must be regarded as "permissive conditions" that define the scope for future developments. In other words, path-dependent mechanisms[16] – for the EU and its members – should be taken into account in order to comprehend the possible extent of defence policy change after the shock of the war. Against this background, we will consider the two main long-standing obstacles along the path of European defence policy: coherence and capabilities.

Enduring Obstacles: Capabilities and Strategic Cacophony

European strategic autonomy could be conceived in different ways: from greater military commitment in defence and security affairs by EU members to real autonomy from the US and the Atlantic Alliance.[17] Yet, to guarantee the possibility of planning and undertaking military operations across the whole spectrum of conflicts, as well as providing territorial defence (as NATO does), it would be necessary to acquire new advanced military capabilities while finally enhancing coherence among its members. In this connection, we should emphasise two aspects. First, the existing gaps in European military capabilities – from available tanks and troop transport vehicles to the advanced military technology that recent operations have shown to be lacking (air refuelling, suppression of enemy air defences, and C4ISR – command, control, communications, information technology, intelligence, surveillance and reconnaissance capabilities) – would require huge investments that would deliver over a considerable timespan, partly due to the fragmented European defence industry. Indeed, EU

[16] J. Mahoney, "Path dependence in historical sociology", *Theory and society*, vol. 29, no. 4, 2000, pp. 507-48.
[17] Fiott (2018).

Members States (among which only France is a nuclear power) – despite the recent development in fostering joint programmes – have systematically favoured national production or off-the-shelf purchase (i.e., military material already available on the market) over intra-European cooperation.[18] On the whole, addressing such gaps requires significant time and resources. For this reason, communication to engage public opinion on these issues should be more transparent, developing an effective strategic narrative if the EU wants to really sustain such efforts, especially in a period of economic crisis.

Second, "strategic cacophony"[19] – an expression that illustrates divergent threat perceptions and national strategic priorities among Member States – constitutes the other crucial obstacle on the trajectory of EU defence. For instance, Italy, Spain and Greece have focused on the Mediterranean as the vital area for their interests, while Eastern European countries have traditionally devoted their attention (and concern) mainly to Russia. Therefore, the construction of a coherent defence policy at the EU level requires such differences to be overcome. The creation of a shared EU foreign policy is clearly the necessary premise to address these divergences, paving the way for a common path in defence policy.

In sum, the question is whether the external shock caused by the war in Ukraine as well as the above-mentioned EU reaction reveal some tangible possibilities to finally surmount EU pitfalls in terms of coherence and capabilities.

Only a very preliminary assessment can be made in answering this question, due to the very limited timespan under consideration and the uncertain evolution of the ongoing conflict on the ground. Yet, as illustrated in the following section, it seems that (self-reinforcing) traditional

[18] On this point see F. Coticchia and H. Meijer, "La politica di difesa italiana nel nuovo quadro europeo", *Il Mulino*, no. 2, 2022, pp. 96-106.

[19] H. Meijer and S.G. Brooks, "Illusions of Autonomy: Why Europe Cannot Provide for Its Security if the United States Pulls Back", *International Security*, vol. 45, no. 4, 2021, pp. 7-43.

obstacles along the EU defence path have maintained their enduring relevance. The legacy of the post-Cold War era within the EU, which lacked a common defence policy for decades, surely cannot vanish in a few months but appears, rather, to shape further development even in the aftermath of a potential critical juncture such as Russia's attack on Ukraine.

The War in Ukraine as an Actual "Watershed Moment"?

As seen above, the EU reacted strongly to the Russian invasion of Ukraine, adopting new sanctions and providing military support to Kiev, while crafting a new narrative more in line with the aims of a "geopolitical commission" than with the rhetoric of the European Union as a civilian power. Moreover, EU Member States started to change their foreign and defence policies to better address the threat posed by Moscow, which reintroduced the "war of conquest" in Europe.[20] Finally, countries that have traditionally been reluctant concerning military affairs – such as Germany – conceived the Russian invasion as a turning point for their foreign and defence policy.

It is worth asking ourselves whether all these (significant) developments are enough to be confident that the problems of coherence and capabilities for EU defence policy will be addressed in the short term. So far, the record offers little cause for optimism.

In this respect, three elements deserve to be emphasised. First, the war in Ukraine has not solved the problem of "strategic cacophony". The growing perception of Russia as a threat across the EU, and its implications, should be understood by considering that before February 2022 many countries in Western and Southern Europe (e.g., Italy, at the level of both

[20] On this point see: T.M. Fazal, "The return of conquest. Why the future of Global Order Hinges on Ukraine", *Foreign Affairs*, vol. 101, no. 3, May/June 2022, pp. 20-27.

governments and public opinion) simply did not perceive Russia as a security concern. While increased concern about Russia therefore marks a significant change, such amplified apprehension over Moscow's aggressive and imperialistic policy has not altered the hierarchy of national strategic priorities for all EU countries, with Eastern European EU Member States devoting more than ever all their "attention" to Moscow. Surely, the threat posed by Putin climbed the ranks in the assessments of the biggest challenges facing European states. Yet, for some countries, Russia has not become the main preoccupation even after February 2022. Looking at Italy, for example, the "Eastern Flank" – despite Italy's enhanced military commitment there – did not replace the "Enlarged Mediterranean" as the vital strategic priority within Italian national defence planning. The renewal of military missions in the region, public speeches and documents by the Draghi government, and new diplomatic missions, demonstrate the persisting importance of the "Southern front" for Italy. The new Italian defence strategy for the Mediterranean,[21] which was published several months after the Russian invasion of Ukraine, confirmed the "Enlarged Mediterranean" as the crucial area for Italian interests, from securing energy supplies to countering terrorism and illegal migration. It is also worth noting how all the election manifestoes of Italy's political parties and coalitions shared the same views on the "Enlarged Mediterranean", perceived as the crucial region for Italian foreign and defence policy. Moreover, the consequences of the war indirectly increased the significance of the Mediterranean, from searching for alternative energy sources to growing concerns about the presence of the Russian Fleet not far from Italy's shores.[22]

Second, the salience of the "Eastern Flank" strengthened NATO's presence in Europe. The growing military involvement of European states along the Ukrainian border occurred mainly

[21]See Ministero della Difesa, Strategia di Sicurezza e Difesa per il Mediterraneo.
[22] See G. Di Feo, Intervista all'ammiraglio Cavo Dragone: "Così la marina ha respinto le navi russe nell'Adriatico", *La Repubblica*, 20 August 2022.

through NATO – and not EU – deployments and frameworks, still crucial for deterring Moscow. After some difficult years for the Atlantic Alliance – with Trump's criticisms and Macron's strong words on the "brain death" of NATO – the Russian invasion renewed its strategic centrality. European members swiftly provided their military contribution to new deployments while the US also diverted resources and personnel from their "Pivot to Asia" to fostering deterrence in Europe faced with the rising Russian threat. Moreover, the perception (shared by Germans and Italians) of EU strategic autonomy as an asset within the broader Transatlantic Alliance, rather than a trajectory of greater European independence in defence and security (as mainly advocated by France, which seeks to play a guiding role in European defence policy), has been reinforced by the dramatic events that occurred after late February 2022.

Third, the conflict in Ukraine highlights the never-ending problem of military capabilities. Boosting national defence spending – without proper coordination at the EU level – could paradoxically exacerbate intra-European divisions, with individual states following diverging trajectories (with some investing in territorial defence capabilities while others invest in crisis management, for example) and – above all – acquiring military assets "off-the-shelf". In fact, the feeling of urgency can lead some national governments to invest in existing capabilities (such as Germany replacing its Tornado fleet with F-35 fighters), thus reinforcing dependence on the United States and delaying joint projects – which require time – within the EU framework. Finally, despite announcements and promises of greater military commitment, states should first of all confront the actual pitfalls in their defence policies: the limited number of assets that can be provided to Ukraine, [23] unbalanced budgets as an enduring legacy of the Cold War

[23] On Germany see: T. Bunde, "Lessons (to be) learned? Germany's Zeitenwende and European security after the Russian invasion of Ukraine", *Contemporary Security Policy*, vol. 43, no. 3), 2022 pp. 516-30. See also: K-H Röhl, H. Bardt, and B. Engels, "Zeitenwende für die Verteidigungswirtschaft? Sicherheitspolitik

era (with limited scope for new investments due to the vast resources devoted to personnel),[24] and poor interoperability among services at national level. These problems are still shaping the development of the defence policies adopted by the EU Member States and will not evaporate in the short-term.

Conclusion

The war in Ukraine will affect the future of European security. Yet, it is too early to assess whether the shock of the conflict really represents the watershed moment that will foster a process of radical change for EU defence. However, as illustrated above, the prospects for overcoming long-standing obstacles to European defence – a lack of advanced capacity and strategic cacophony – do not appear to be particularly significant at the moment. Therefore, rather than the wishful thinking that sometimes marks the debate on the "EU army", a pragmatic communication and strategic reflection should be promoted at the national and European level, discussing further innovation with realism, taking into consideration all the potential costs and benefits associated with the future of European defence. The communication efforts related to the publication of the "Strategic Concept", which aimed to draw a clear distinction between the need for EU Member States to integrate their capabilities and dreams of an "EU army", reveals a prudent attitude that ought to be developed in the years ahead, along with a more compelling narrative on European defence and security. A well-structured and convincing discourse on this issue would be crucial to attract the support of public opinion, which – even after years of mounting Euroscepticism – has

---

und Verteidigungsfähigkeit nach der russischen Invasion der Ukraine", *IW-Policy Paper*, no. 4, 2022, Berlin/Köln.

[24] On Italian military budget see: F. Coticchia and F.N. Moro, *The Transformation of Italian Armed Forces in Comparative Perspective. Adapt, Improvise, Overcome?*, London, Routledge, 2015.

always viewed positively the development of EU defence.

The exogenous shock of the Russian invasion of Ukraine has certainly produced some conspicuous changes, but only a broader transformation of EU foreign policy can foster a real evolution. The coming into office of new governments (in Europe and beyond), a possible new drive to amend the EU treaties, and potential future external shocks, are all elements that can shape the trajectory of EU foreign and defence policy. Above all, after the end of the "permissive consensus" towards the EU and the success of Eurosceptic parties, Brussels should avoid the devastating mistake of not constantly involving European public opinion in its projects of reform to acquire strategic autonomy.

3. EU Defence: Joint Capability Development

Andrea Locatelli

Since 2016, the European Union has displayed a strong commitment to promoting defence integration. These efforts have been further strengthened after Russia attacked Ukraine in February 2022. Due to the previous record of failed EU initiatives in the military sector, it is worth investigating whether these renewed efforts are doomed to follow the same path, or whether they will eventually change the security landscape of the continent. The aim of this chapter, then, is to focus on the goals, strategies and likely impact of the current initiatives on the European Defence Technological Industrial Base (EDTIB) – i.e. the complex web of "infrastructure, institutions, and ideas that convert state resources into the means of warfare".[1]

The European Defence Technological Industrial Base at a Glance

To this end, it is first necessary to outline the main features of the EDTIB. Indeed, the very idea of a "European" base is somehow exceptional, since traditionally defence markets have been nationally defined. Put simply, since the Armed Forces

[1] V. Briani et al., *The Development of a European Defence Technological and Industrial Base (EDTIB)*, Directorate-General for External Policies, Policy Department, 10 June 2013, p. 13.

depended on a regular supply of assets, states (or at least major powers) developed their own industries to procure those assets autonomously. In the case of Europe, however, EU institutions have promoted market integration – a goal now accomplished in many sectors. The Commission has played its cards to set up a single regulatory framework in the defence domain too, although mostly unsuccessfully.[2]

The end result is a fragmented defence market, where states implement procurement policies largely unilaterally, and firms compete unevenly due to barriers and restrictions to free competition. These features can be observed from two different angles: supply (i.e. the defence firms' perspective) and demand (i.e. the Member States' perspective). With reference to the former, the EDTIB includes just two trans-European companies (Airbus and MBDA), plus a number of "national champions", like Britain's BAE Systems, France's Thales and Dassault, Italy's Leonardo and Fincantieri, and Sweden's SAAB, to name a few. The supply side of the market ends up being fragmented, with many small enterprises specialised in niche capabilities and a few (if any) corporations that may aspire to be system integrators.[3]

On the demand side, European states have been notoriously reluctant to allocate adequate resources for their own defence, even more so for R&D-related investments. Particularly after the 2007 financial crisis, as repeatedly lamented in NATO circles, defence budgets have been paltry. As reported by the European Defence Agency (EDA),[4] in the past fifteen years, defence investments were above the 20% threshold of total

---

[2] L. Béraud-Sudreau, "Integrated Markets? Europe's Defence Industry after 20 Years", in D. Fiott (Ed.), *The CSDP in 2020. The EU's Legacy and Ambition in Security and Defence*, European Union Institute for Security Studies (EUISS), Paris, 2020, p. 59.

[3] E. Gholz, "Globalization, Systems Integration, and the Future of Great Power War", *Security Studies*, vol. 16, no. 4, 2007, pp. 615-36.

[4] European Defence Agency, "Defence Data 2019-2020. Key Findings and Analysis", 6 December 2021, pp. 6, 8.

defence expenditures only three times (in 2010, 2019 and 2020) – a disappointing record if compared to other major powers like the US and China. Moreover, due to the lack of coordination among EU countries, collaborative procurement and joint Research and Development have represented only a tiny fraction of total defence equipment procurement: in 2020 collaborative procurement reached its lowest level at 11%, and collaborative R&D was only 6%.[5]

So, at least up to the war in Ukraine, European states suffered from tight financial constraints in the defence sector and poor budget allocation. The combined effect of these features resulted in a long-lamented list of duplications, waste and capability gaps. As noted in a plethora of EU documents,[6] compared to the US, EU states procure six times the number of weapons systems – with slightly more than one third of the American defence budget. Apart for the interoperability problem that necessarily arises from such a variety of platforms, there is a financial cost, which according to the most conservative estimates is in the order of €26 billion per year.[7] Finally, Europe depends on the US for critical military assets, like Anti-Access, Area-Denial (AA-AD), next-generation platforms and C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance) capabilities. Due to the technological and industrial complexity of these systems, only an integrated EDTIB would make autonomous production possible at the European level.

[5] Ibid., pp. 11, 14-15.

[6] For a recent summary, see B. Wilkinson, *The EU's Defence Technological and Industrial Base*, Directorate-General for External Policies, Policy Department, 10 January 2020, pp. 4-5.

[7] European Parliamentary Research Unit, "Mapping the Cost of Non-Europe, 2014-19", Bruxelles, 2014, p. 77, quoted in Ibid., p. 5.

EU Initiatives Aimed at Promoting Defence Integration

The issue of achieving a more integrated EDTIB has gained new prominence due to the security concerns created by the war in Ukraine. However, the EU and Member States have launched initiatives aimed at promoting military cooperation since at least the early 2000s.[8] Due to space constraints, we will only focus on the most recent and ambitious efforts.

The so-called 2017 EU defence package, including the Coordinated Annual Review on Defence (CARD), the Permanent Structured Cooperation (PESCO)[9] and the European Defence Fund (EDF), marked an important milestone. Taken together, these three mechanisms were supposed to operate as an almost seamless process: in the first place, CARD had to identify potential areas of cooperation among Member States through a bottom-up approach; then PESCO would provide a legal framework for multilateral cooperation among countries willing to jointly produce common capabilities; finally, the EDF would back up these projects with EU funds. In order to smooth the process, EDA was given a coordinating role (albeit with very limited powers) in all these initiatives.[10] All in all, then, their intended combined effect is to forge a common strategic vision among Member States, to foster capacity building and to strengthen the EDTIB.[11]

The second main initiative that deserves consideration is the so-called Strategic Compass (SC),[12] a doctrinal document

[8] For an overview, see Béraud-Sudreau (2020), pp. 59-63.

[9] PESCO was originally introduced in 2009 with the Lisbon Treaty, but it had never been activated before.

[10] J. Domecq, *Coherence and focus on capability priorities: why EDA's role in CARD, PESCO and EDF matters*, Real Instituto Elcano, ARI 54/2018, 19 April 2018.

[11] B.O. Knutsen, "A Weakening Transatlantic Relationship? Redefining the EU–US Security", *Politics and Governance*, vol. 10, no. 2, 2022, p. 171.

[12] Council of the European Union, "A Strategic Compass for Security and Defence. For a European Union that protects its citizens, values and interests and contributes to international peace and security", 21 March 2022.

detailing an EU-wide threat assessment, as well as operational goals to improve EU military and civilian capabilities. The SC tackles the issue of EDTIB indirectly, in the investment basket, where it explicitly states that "investing more in collaborative capability development ensures more efficiency by increasing economies of scale and greater effectiveness when acting".[13] In particular, the document stresses the role of PESCO and EDF in critical capabilities, outlining six focus areas[14] that will require joint procurement.

Writing the SC has been a long process that lasted for about two years. Paradoxically, the war in Ukraine made it both timely and in need of further refinement. In fact, ten days before its rollout, it was preceded by the Versailles Declaration, the final communication of the 10-11 March meeting of EU Heads of state or government in Versailles, in which Member States showed a renewed commitment to "resolutely invest more and better in defence capabilities and innovative technologies".[15] In particular, the document stated the EU states' intention to increase their defence budgets, military R&D and collaborative procurement, as well as to strengthen the EDTIB.[16]

The Council also invited the Commission and the EDA to report on the EU capability shortfalls by mid-May – a task which resulted in the publication of the "Joint Communication on the Defence Investment Gaps Analysis and Way Forward" on 18 May. Admittedly, the investment gap analysis section of the document does not add much to the SC. What is more interesting for our purposes is the list of new initiatives to be launched in the coming months: a Defence Joint procurement Task Force to support Member States' immediate procurement

[13] Ibid., p. 30.

[14] These are: Main Battle Tank, Soldier Systems, European Patrol Class surface ship, Anti Access Area Denial capacities and Countering Unmanned Aerial Systems, Defence in Space and Enhanced Military Mobility. Ibid., p. 32.

[15] European Council, "Informal Meeting of Heads of State or Government. Versailles Declaration", Versailles, 10-11 March 2022 p. 4.

[16] Ibid.

needs; a short-term Instrument to enhance joint procurement; an EU Framework for Defence Joint Procurement based on a Commission-led European Defence Investment Programme (EDIP) regulation; and a European Defence Capability Consortium (EDCC) that will benefit from VAT exemption.[17]

Where Next?

The EU has been increasingly concerned by the lack of defence integration. For this reason, the recent wave of initiatives aimed at consolidating the EDTIB should not come as a surprise. What is remarkable, however, is the political capital spent by the Commission in the attempt to drive this process. It is a risky effort that may lead to substantial improvements in terms of capabilities and strategic autonomy, but it could also expose deep divisions among Member States and eventually thwart the whole process. Due to the uncertainty surrounding this process, some considerations on the prospects and likely impact of these initiatives are in order. On balance, there are reasons for optimism, as well as enduring obstacles that might hinder (again) all these efforts. Let us examine them in turn, starting from the novel features that make the initiatives discussed above more promising than the past ones. Two, in particular, deserve mention.

Firstly, the Commission – previously excluded from defence policy – has been particularly careful in crafting a mediating role among Member States. As shown by the EDF (and potentially also by the EDIP and EDCC), it has also built up some prerogatives, like grants allocation. In doing so, the

[17] European Commission, Joint Communication to The European Parliament, the European Council, the Council, the European Economic and Social Committee and The Committee of the Regions on the Defence Investment Gaps Analysis and Way Forward, Brussels, 18 May 2022, pp, 8-13. The short-term instrument has been proposed in July with the European Defence Industry Reinforcement through common Procurement Act (EDIRPA).

Commission has followed a bottom-up approach, portraying itself as a promoter of cooperation at the national level, and carefully avoiding getting on a collision course with Member States. By so doing, it has sought to turn a potentially zero-sum game with (and between) Member States into a cooperative effort, whereby all the partners involved gain more from cooperation than from protectionist procurement.[18] The incentives provided by the Commission, then, are intended to ease the relative gain problem among national capitals,[19] lowering the costs of cooperation and increasing the benefits. For this reason, going forward, if the Commission manages its new-found competence carefully, we might expect the number and relevance of joint procurement programmes to increase.

The second factor that may pave the way for closer defence cooperation at EU level concerns the current international context. The war in Ukraine, as deplorable as it is, has provided an unforeseen rationale for the defence initiatives of the Union and of its Member States. For example, marking a watershed in German recent history, chancellor Scholz declared Berlin's intention to reach the 2% threshold and allocate a €100 bn fund for army modernisation. It should be clear, however, that increased defence budgets do not necessarily mean better allocation. Whether the conflict will have a lasting impact or not in enhancing European defence cooperation remains to be seen. Nonetheless, differently from previous experience, the war today has provided European leaders with a shared, clear and urgent threat assessment: defence and deterrence – previously overshadowed in EU strategic documents – are now recognised as priorities.

---

[18] C. Håkansson, "The European Commission's New Role in EU Security and Defence Cooperation: The Case of the European Defence Fund", *European Security*, vol. 30, no. 4, 2021, pp. 589-608; E. Sabatino, "The European Defence Fund: A Step towards a Single Market for Defence?", *Journal of European Integration*, vol. 44, no. 1, 2022, pp. 133-48.

[19] L. Simón, "Neorealism, Security Cooperation, and Europe's Relative Gains Dilemma", *Security Studies*, vol. 26, no. 2, 2017, pp. 185-212.

This assessment provides a stepping stone for the threefold task of determining what capabilities are needed, making Member States converge around them, and fund R&D and investment properly. In fact, defence and deterrence require capabilities that are precluded to most – if not all – EU states and which require cooperation for their development and production. As stated in the SC, what the EU needs most are strategic enablers and next generation platforms. In short, systems that no European state can procure alone. This requirement had been noted before,[20] but after the war there is a compelling reason to move from words to deeds. In a nutshell, differently from previous conflicts, the war in Ukraine provides a sobering lesson on the dangers inherent in the return of geopolitical competition.

These reasons for optimism are counterbalanced by old and new challenges. Starting from well-known problems, it is worth remembering that the Commission still has limited powers and constrained resources. While the path marked by Presidents Juncker and von der Leyen thus far is commendable, being founded on the best tool at the Commission's disposal (i.e. funding powers), three limits remain: the first concerns the risk of bureaucratic inertia and frictions due to overlapping functions between EU agencies. This is particularly true of the EDA and DG DEFIS,[21] but also of the European External Action Service (EEAS).[22] The sudden growth of initiatives and consequent reshuffling of competences among agencies has not been guided by a comprehensive project; it is rather the result of an incremental institutional development, which at worst may lead to policy incongruence and, at best, could hinder the

[20] European Defence Agency, *2020 CARD Report*.

[21] The Directorate General for Defense, Industry and Space (DG DEFIS) was established under the European Commissioner for Internal Market in January 2021. It is in charge of the implementation and oversight of the EDF.

[22] K. Engberg, "A European Defence Union by 2025? Work in progress", Policy Overview, SIEPS, Swedish Institute for European Policy Studies, January 2021, p. 17; S. Sweeney and N. Winn, "Understanding the Ambition in the EU's Strategic Compass: A Case for Optimism at Last?", *Defence Studies*, vol. 22, no. 2, 2022, p. 201.

potential of communitarian efforts. So, better coordination between these bodies will be key to avoid turf wars or policy schizophrenia.

The second limit concerns the adherence to a bottom-up principle, whereby Member States ultimately decide on whether or not to cooperate. This means that, for the time being, it is still national capitals who call the shots. Put bluntly, should the call for more collaborative projects fall on deaf ears, there is not much the Commission could do to force states in that direction. Admittedly, a top-down approach would be unrealistic, and would probably create more problems than it would solve.[23] However, one of the big questions for the future is whether the economic incentive provided by the EU will be enough to consolidate the EDTIB. How generous does EU funding need to be to shape national procurement? In other words, will the promise of EU funds ever suffice to tilt the balance in favour of collaborative projects and away from national ones? As the old saying goes, there are some things that money can't buy.

The latter consideration underpins the third, longstanding limit in the recent waves of initiatives. While the Commission has largely relied on economic incentives to foster collaborative capability development and, based on its recent proposals, procurement, at the national level planning and procurement processes are driven by a broader range of factors. In fact, European states have organised this issue-area in very different ways, as neatly captured by the diverse capitalism literature.[24] Simply put, while some governments are firmly in command of their armaments policy (France being a case in point), others are

[23] A. Azzoni, "European Defence: Time to Act", IAI Commentaries 22|32, 12 July 2022, p. 1.

[24] Seminal contributions include M. DeVore and M. Weiss, "Who's in the Cockpit? The Political Economy of Collaborative Aircraft Decisions", *Review of International Political Economy*, vol. 21, no. 2, 2014, pp. 497-533; A. Calcara, "State–Defence Industry Relations in the European Context: French and UK Interactions with the European Defence Agency", *European Security*, vol. 26, no. 4, 2017, pp. 527-51.

more permeable to the influence of defence firms (for instance Italy). So, providing extra funds via the EDF or supporting joint procurement through a VAT waiver may sound attractive for policy-makers, but not for arms producers. Should defence companies have business interests that do not coincide with the priorities pursued through EU projects, they will likely oppose participation in these programmes.

Moreover, in addition to economic actors, the Armed Forces are also a neglected player in EU initiatives designed to foster collaborative investment and procurement. As recognised among others by Daniel Fiott, national defence planners must be engaged more closely in the assessment of capability priorities for joint efforts.[25] In fact, national planning is mostly driven by domestic factors and NATO requirements,[26] with coordination at the level of the EDA or the European Union Military Staff (EUMS) so far playing a rather peripheral role. Fortunately, signs of a growing awareness of the imperatives of cooperation to enhance European military capabilities are surfacing in recent EU efforts. This is shown, among other things, by the renewed emphasis on strategic enablers and next generation systems – a widely shared concern in the defence circles of EU capitals – and in the proposal for a joint procurement and maintenance of equipment.[27] Nonetheless, it would be desirable for national procurement agencies to be given a role (i.e. tasks and responsibilities) in the new EDIP and EDCC initiatives.

---

[25] D. Fiott, "Capability Development", in C. Mölling and T. Schütz (Eds.), *The EU's Strategic Compass and Its Four Baskets Recommendations to Make the Most of It,* DGAP Report No. 13, November 2020, p. 11.

[26] Via the NATO Defence Planning Process (NDPP).

[27] L. Scazzieri, "Beyond European strategic autonomy?", *CER Bulletin*, Issue 145, Centre for European Reform, August/September 2022, p. 2. It should be recalled that the actual cost of a weapon system – as of any good – should be calculated in its whole life-cycle, not just for production. Maintenance costs make up for a conspicuous part of this sum, so joint procurement might bring about additional savings.

Finally, Brexit constitutes a novel obstacle on the road to a stronger EDTIB. As noted by Schütz and Mölling,[28] British companies' defence-related turnover amounts to 38% of the European defence sector. Simply put, players like BAE Systems, Rolls Royce and others are too big to be left out of the EDTIB. Most importantly, BAE Systems is perhaps the only European company that can compete with US producers as a system integrator. And yet, post-Brexit negotiations have not yet led to an agreed procedure on how to let British companies apply for EDF funds.[29] The consequences may be surreal, and are actually already there. For instance, as of today, while France, Germany and Spain are developing an ambitious sixth-generation aircraft (the Future Combat Air System, FCAS), the UK, Italy and Sweden are working on a virtually identical project labelled *Tempest*. Although it is certainly too early to say which project will prove more viable, what is certain is that working on two parallel projects is a missed opportunity to promote defence integration.

Conclusion

The war in Ukraine is facing the EU with a severe challenge: after assuming that security concerns had forsaken the military dimension over the past three decades, defence and deterrence are now back on top of the security agenda. Unsurprisingly, the Union – as well as most of its Member States – found themselves ill equipped to face this dire situation. Little wonder then, that EU institutions have tried to turn a crisis into an opportunity, seizing the newly found consensus to revive old defence initiatives, and to launch new ones.

---

[28] T. Schütz and C. Mölling, "Fostering a Defence-Industrial Base for Europe: The Impact of Brexit", IISS-DGAP, June 2018, p. 4.

[29] S. Besch, "Bridging the Channel: How Europeans and the UK Can Work together on Defence Capability Development", Centre for European Reform, Konrad Adenauer Stiftung, October 2021; J. Mawdsley, "The Impact of Brexit on European Defence Industry", *Defense & Security Analysis*, vol. 36, no. 4, 2020, pp. 460-62.

As we have seen in the previous paragraphs, the intent to consolidate the EDTIB is laudable. All in all, harmonising Member States defence planning, avoiding duplications and increasing EU military capabilities will be beneficial for the Union and its citizens. However, as noted by Italian diplomat Alessandro Azzoni, this will come at a cost for some Member States: loosing "some elements of strategic and operational 'sovereignty' in the military domain".[30] Faced with this prospect, national capitals (or at least some of them) will likely remain reluctant to coordinate their procurement policies. For this reason, unless the Commission goes beyond mere coordination and takes on a leadership role, the most likely outcomes will be lowest common denominator solutions[31] – good to show a façade of unity, but useless to advance the interests of the Union.

[30] Azzoni (2022), p. 2.

[31] Sweeney and Winn (2022), p. 199.

4. The EU's Role in Security and Defence: Still Indispensable

Sven Biscop

The Strategic Compass, the guiding document for the EU's role in security and defence, had been nearly two years in the making and was well-nigh finished, when on 24 February 2022 Russia (again) invaded Ukraine. In such a case, one has three options: to publish the text as it stands, as if nothing happened; to completely rewrite the whole text; or to add a few sentences to the introduction and the conclusion, pretending one has taken everything on board. The drafters of the Strategic Compass basically went for the last option[1] – and rightly so, for a rewrite was unnecessary. On the one hand, the Compass obviously focuses on the competences of the EU, i.e. not on collective defence and military deterrence, on which the war has the most direct impact, but which the Europeans continue to organise through NATO. On the other hand, the issues on which the Compass does focus – notably crisis management, hybrid threats and capability development – have not become any less relevant because of the war – quite the opposite, in fact.

The Strategic Compass, in other words, has the right focus and, as will be argued below, makes important choices.

[1] As did I when confronted with a similar situation, twice: first when I had nearly finished my doctoral dissertation on security relations between the EU and North Africa and the Middle East when "9/11" happened, and again when I had almost finished turning the dissertation into a book and the US invaded Iraq.

Nevertheless, the risk is real that its implementation will suffer as new defence initiatives in the framework of NATO, in response to Russia's invasion, absorb all attention. That would be a mistake: the EU contribution to the security and defence of the European continent remains indispensable.

European Crisis Management

The element of the Compass that caught the most attention is the Rapid Deployment Capacity (RDC) because, as a force capable of undertaking crisis management operations at the level of 5000 troops, it is a very tangible objective.

One thing is certain: the fact of a war on Europe's eastern border has not made Europe's southern flank and the many existing and potential security issues there disappear. To the contrary, both theatres are linked, for Russia has also intervened militarily (directly or hiding behind the façade of the Wagner Group and its mercenaries) in North Africa and the Middle East. Seen from Moscow, this is a single large theatre in which Russian influence must be ensured, in order to maintain access to the Mediterranean, and to establish bases from which European (and American) strategy can be undermined. But Russia's interference is not even the main reason why the southern flank must remain a priority for the EU at the same level as the eastern one. In geopolitical terms, the southern shore of the Mediterranean is an integral part of the security of the European continent: the latter's security simply cannot be guaranteed unless the former is sufficiently stable.[2] Military intervention is definitely not the first instrument to achieve that stability, but situations inevitably will arise again in which it is the only way to safeguard the European interest.[3] Given that the

[2] As argued already by Sir Halford Mackinder, *The Geographical Pivot of History*, London, 1904.

[3] N. Wilén and P.D. Williams, "What Are the International Military Options for the Sahel?", IPI Global Observatory, 12 April 2022.

US is less and less likely to take the lead in stabilising this part of the world, the Europeans will have to assume responsibility themselves. To that end, an effective expeditionary capacity is an essential part of their toolbox. Is the RDC the answer?

The Compass, under the chapter heading "Act", states that the RDC "will consist of substantially modified EU Battlegroups and of pre-identified Member States' military forces and capabilities". The existing Battlegroup scheme provides for Member States to generate two multinational forces (each consisting of a battalion plus enablers such as transport and command & control), on a rotational basis, with new Battlegroups on standby every six months. The main modification seems to be that Battlegroups will henceforth be on stand-by for a year rather than a semester. The Compass also stresses the strategic enablers needed to deploy them, but these were already part of the Battlegroup concept; Member States just had difficulty providing them. The major problems with the Battlegroups remain the same, therefore: a Union of 27 has a stand-by force that at any one time is made up of a handful of Member States, and in the event of a crisis, it is that handful – not the 27 – that decides whether or not to deploy what remain *their* troops. Moreover, a Battlegroup based on a single combat battalion can only intervene in a meaningful way in a very few specific scenarios. And the Battlegroups are temporary formations: after its standby period, a Battlegroup is dissolved, so there is little or no accumulation of experience. In spite of these well-known deficits, which mean that the Battlegroups will likely never be operational, they were not killed off, because many Member States insisted on retaining them. This may prove problematic for the implementation of the RDC, which in reality can only be created on the basis of other, pre-identified national capabilities.

As the EU envisages interventions at a scale of 5000 troops, i.e. a brigade, what the RDC really needs is a pool of brigades, not Battlegroups. A set of Member States ought to each identify a national brigade capable of expeditionary operations, and

permanently constitute these brigades into a multinational division or corps.[4] These brigades should then organise regular manoeuvres together. Over time, doctrine and equipment can be harmonised between brigades, so as to achieve very deep interoperability. Many individual brigades, certainly those of the smaller Member States, no longer comprise all the necessary capabilities for combat support and combat service support capabilities (such as air defence, combat engineers, etc.). A combination of division of labour and pooling of assets between the participating Member States could ensure the full complement of capabilities at the level of the division or corps. Finally, common enablers (such as transport) could be built around the division/corps. Thus a pool of interoperable expeditionary brigades would emerge, which would not be on stand-by but at a high degree of readiness, from which a tailored force could be generated for a specific operation. The higher the number of Member States that commit a brigade to the scheme, the more likely that a coalition of the willing will be ready to act in a given crisis. A similar scheme could easily be applied to naval and air forces, by the way, which the Compass rightly highlights. The national building-blocks would then be frigates and squadrons.

Such a model has actually been on the EU's drawing board for some time: the Crisis Response Operation Core (CROC), one of the projects under Permanent Structured Cooperation (PESCO). But even as this remains a mostly conceptual exercise, it has been watered down already. An RDC built along these lines would be an effective expeditionary force. And Member States could then quietly shelve the Battlegroups.

Even a pool of brigades would be difficult to deploy without standing arrangements for command and control. Unfortunately the EU's own Military Planning and Conduct Capacity (MPCC) is chronically under strength, as Member

[4] S. Biscop, "Battalions to Brigades: The Future of European Defence", *Survival*, vol. 62, no. 5, pp. 105-18.

States do not second sufficient military personnel to fill all the posts. More importantly, the EU does not have its own secure communications infrastructure; that ought to be a priority investment. Even so, as currently configured, the MPCC can run a single Battlegroup-sized operation at most. A serious RDC thus either requires that the MPCC be upgraded, or another headquarters be found. The existing Eurocorps HQ could be suitable, as it has trained for precisely this role: conducting large-scale expeditionary operations. This could, in fact, give the Eurocorps a new sense of purpose, as it has seldom been deployed in its 20-year history.

Command & control is inherently linked to the debate about decision-making and the long-standing proposals to introduce more flexibility, as until now all decisions relative to operations require unanimity. For some time now, Member States have been discussing the application of Article 44 of the Treaty on European Union, which allows the Council to entrust the implementation of an operation to a group of the able and willing Member States.[5] Consensus seems far away, however, as several Member States remain unwilling to abandon unanimity for all but the smallest decisions. In practice, therefore, it seems likely that many operations, in particular those involving combat, will be undertaken outside the EU framework, as has been the trend for two decades now.

[5] Article 44: "§1 Within the framework of the decisions adopted in accordance with Article 43, the Council may entrust the implementation of a task to a group of Member States which are willing and have the necessary capability for such a task. Those Member States, in association with the High Representative of the Union for Foreign Affairs and Security Policy, shall agree among themselves on the management of the task. §2 Member States participating in the task shall keep the Council regularly informed of its progress on their own initiative or at the request of another Member State. Those States shall inform the Council immediately should the completion of the task entail major consequences or require amendment of the objective, scope and conditions determined for the task in the decisions referred to in paragraph 1. In such cases, the Council shall adopt the necessary decisions".

Military Capability Development

Under the chapter heading "Invest", the Compass also addresses capability development in general, setting out priorities for investment. It is not the first time that the EU has produced such a list. The High-Impact Capability Goals of the EU Military Staff, the Capability Development Plan of the European Defence Agency, the Coordinated Annual Review on Defence (CARD), the European Defence Fund (EDF) of the Commission, and now the Compass all produce their own set of priorities. These lists largely overlap, but never quite totally. Member States readily sign up to such lists, with the full intention of not stopping the other 26 from acting upon them – but not necessarily of doing so themselves.

What is necessary now is for Member States to finally take their pick from all these lists and decide not only in which industries and technologies, but also in which capabilities they will invest. To ensure that Compass priorities such as the next generation main battle tank or combat air system take off, a sufficient number of Member States must now finally commit to them, allocate money, and announce how many tanks, aircraft, or drones they eventually intend to procure, in order to constitute which capability. The focus should not only be on conventional "hardware", of course, but also on areas such as space and cyber, as the Compass rightly points out. The resources available through the EDF ought then to be focused on these core priorities. As a form of common funding, the EDF is the best way to ensure that the EU Member States invest in the collective interest, by concentrating funds on the priority capability gaps for the full range of tasks, including collective defence. The EDF is in no way limited, by the way, to the capabilities required for crisis management operations under the EU's Common Security and Defence Policy (CSDP). It can be used to invest in the full range of capabilities, including those required primarily for territorial defence.

The Commission has also proposed a new instrument for joint procurement: European Defence Industry Reinforcement through common Procurement Act (EDIRPA), to be adopted by the end of 2022. In the short term, Member States have to urgently replenish stocks of all kinds, notably because many have passed on a lot of equipment to Ukraine. At the same time, several Member States are strengthening capabilities such as missile defence and UAVs by acquiring systems off the shelf. In the long term, EDIRPA can be used to procure together what has been developed together through the EDF.

The EU's role also consists, therefore, in encouraging Member States that acquire the same equipment – be it in the short term and off the shelf or when the long-term investment projects under the EDF bear fruit – to not simply equip their national forces with it, but to build multinational formations (just as for the RDC). Especially in areas that many Member States have only just entered or are about to, it would be absolutely pointless to once again set up a plethora of separate national capabilities. For after a few years, inevitably one would come to the realisation that they are too small to be significant; yet by then the obstacles to cooperation would already have become too big to be easily overcome. Instead, Member States ought to configure capabilities as national building-blocks of a multinational formation from the start. A European drone command, missile command, cyber command etc.: such multinational capability initiatives could become as many PESCO projects.

Russia's war against Ukraine has definitely increased the urgency of the investment needs. Many Member States have transferred arms and ammunition to Ukraine from stocks that were already depleted in the first place. The longer the war lasts, the larger the risk of escalation beyond Ukraine looms. Giving depth to Europe's armed forces has thus become a most urgent necessity.

A European Pillar of NATO

Like the EU, NATO has also, of course, announced new defence initiatives. At the June 2022 Madrid Summit, NATO leaders adopted a new Strategic Concept. This did not contain any spectacularly new provisions – nor were those expected or necessary. Rather less noticed but probably more important is the green light NATO leaders gave to transition to the so-called New Force Model (NFM) in the course of 2023. The avowed aim is to create a pool of 300,000 troops in a high state of readiness, and to pre-assign these to specific defence plans. This is very ambitious, all the more so because these will mostly be European troops.[6]

The rationale behind the NFM is that to be able to respond to all eventualities, the NATO military commander, SACEUR, requires a better view of the available forces, and their state of readiness, beyond the 40,000 currently on rotation at any one time in the NATO Response Force (NRF). Hence the NFM provides for the organisation of forces in three tiers: 100,000 troops in tier 1 should be available within 10 days; 200,000 more in tier 2 within 10 to 30 days. Adding to the existing scheme of pre-deployed battlegroups in the Baltic states, Hungary, Poland, Romania and Slovakia, some additional tier 1 and 2 forces will be pre-deployed on NATO's eastern flank, on a rotational basis, but probably not substantially so. More importantly, NATO aims for all tier 1 and 2 troops to be assigned to specific geographic defence plans for which they can then train. Tier 3, finally, provides for at least 500,000 troops more within one to six months.

The rationale goes further, however. To prevent any incursion from establishing a foothold on the territory of a NATO ally, which would be difficult to reduce, the response must be immediate and in force. In other words, a counter-attack cannot

[6] This section and the following draw on the paper 'The New Force Model: NATO's European Army', Egmont Policy Brief 285, by the same author.

wait for reinforcements to arrive from across the Atlantic, but must be undertaken with forces present in Europe. That, in turn, means: with mostly European forces. If there are signs of an aggressive military build-up, North American Allies could of course pre-deploy forces preventively. But even since the Russian invasion of Ukraine, although the US has brought its forward presence in Europe to 100,000 troops, the bulk of these are in headquarters and depots, not in combat units.[7] The core of the NFM will be 300,000 European high-readiness troops, therefore, and the first line of conventional deterrence and defence will thus increasingly be European. This de facto Europeanisation of the European theatre is in line with the evolution of the global strategic environment, and of US grand strategy. In practice, if war were to break out in Europe and Asia simultaneously, the US would likely prioritise the latter. The European allies would thus have to hold the line in Europe; reinforcements from North America would arrive later and in smaller numbers than envisaged during the Cold War. That is the real (though usually unspoken) strategic significance of the rise of China: not that it poses a military threat to Europe (it does not), but that the US identifies it as the main military threat, and allocates resources accordingly.

Less conspicuous in NATO's communication about the NFM so far, though potentially very important, is that it encourages Allies to cooperate and organise the tier 1 and 2 forces into large multinational formations. NATO should learn from the EU's experience with the Battlegroups and accept that temporary multinational formations bring little added value. Permanent formations are required, along the lines of the RDC outlined above, but composed of heavy, including armoured units. Several multinational initiatives exist already, with different degrees of integration, such as the three groups led by Germany, Italy and the UK in the context of NATO's

[7] US Department of Defense, *Fact Sheet: US Defense Contributions to Europe*, 29 June 2022.

Framework Nation Concept,[8] and bilateral cooperation such as the German-Netherlands Corps and the Franco-Belgian Motorised Capacity. Rarely are they used, however, to generate deployments, although, arguably, that is exactly what it would take to instil a real sense of purpose into these schemes. The fastest way to an effective NFM would be to deepen some of these existing frameworks, turning them into standing formations with units permanently assigned to them, and linking each to one of the regional defence plans. In a later stage, new formations could be created. Nor should this be limited to land forces: multinational air wings, with national squadrons as building-blocks, are an indispensable complement. Naturally, the larger European Allies could continue to field purely national formations as well.

Eventually every sector of Europe's eastern flank could be covered by a large European (national or multinational) formation, in tiers 1 and 2, from which rotational pre-deployments would be generated, in coordination with the rotational presence of non-European Allies. This would not be a single European army, of course, but it would begin to constitute what in principle is the aim of PESCO (though in reality it is not moving in this direction): a comprehensive, full-spectrum force *package*. That would be a tangible European pillar within NATO, on which conventional deterrence and defence in the European theatre would come to rest, together with the Alliance's military command structure.

EU-NATO: Contentious Cooperation

Such a European military pillar within NATO can only work optimally if underpinned by the EU, notably by the EDF and EDIRPA. They alone can ensure that additional defence budgets are spent in the most cost-effective way, and push

[8] S. Monaghan and E. Arnold, "Indispensable. NATO's Framework Nations Concept Beyond Madrid", CSIS, June 2022.

for the harmonisation of future equipment, without which no really coherent force package is possible. Moreover, they will guarantee that new funds and projects will strengthen the European technological and industrial base, within the framework of the EU's overall economic strategy, which is not an objective, as such, of NATO or its new initiative, the Defence Innovation Accelerator for the North Atlantic (DIANA). Finally, only collectively, through the EDF, can the Europeans field their own enablers, without which the European pillar would not be complete. For as deterrence and defence are being Europeanised, the European role cannot be that of a mere troop provider whose forces can only be put to use when the US deploys its enablers.

However, there is also a high risk of duplication, notably between the RDC and the new multinational Allied Reaction Force (ARF), a lighter (i.e. expeditionary) successor to the NFR that the NFM announced as part of Tier 1. There is obviously no point in creating two (mostly) European rapid reaction formations, nor would it be possible, for there are not enough high-readiness expeditionary forces to go around. It is quite possible that the problem of duplication will not arise, for the simple (and sad) reason that EU Member States will not take the RDC seriously and satisfy themselves with a rebranding of the Battlegroups. Even then, however, the ARF would remain problematic, especially if (as seems to be the intention) it is assigned exclusively to SACEUR. For the reality is that over the last two decades nearly every crisis management operation that entailed combat has been conducted outside the EU and NATO frameworks, by ad hoc coalitions. At the same time, even an ad hoc coalition intervening in Europe's neighbourhood de facto always interacts with EU strategy and its political and economic presence in the countries concerned. Meanwhile, the US appears less and less willing to play a leading role on Europe's southern flank. In this strategic context, it is pointless to "lock up" the bulk of European expeditionary forces in a NATO-only scheme. Instead, the RDC and ARF could be

regarded as a single force – a European Reaction Force (ERF), perhaps – that is available to both NATO and the EU, would be certified by both, and would exercise command & control arrangements with both. Crucially, a coalition of the willing from among the contributing States could also deploy a force generated from the "ERF" outside the formal EU and NATO framework.

In terms of defence planning, finally, experience has shown that when the NATO Defence Planning Process (NDPP) and the EU's Headline Goal Process and Capability Development Plan (CDP) run in parallel, only one (the former) has actual impact on national defence planning. The NDPP has defects, however, because it does not really take into account the need for the European Allies to pool their efforts and create multinational capabilities in many areas, as individually they no longer have the scale to generate significant additional capabilities. Nor does the NDPP integrate the requirements, notably in terms of enablers, of European-only crisis management operations on the southern flank. Only the EU can set the level of ambition for autonomous crisis management operations, because it can only be derived from overall EU foreign policy. But ideally, it would be incorporated into the NDPP instead of being fed into a separate process, so that NATO and the EU effectively co-decide on a balanced mix of forces for the European Allies that are Members of the EU. Similarly, the opportunities for cooperation identified by the EU have to be pushed by the NDPP as well, which must abandon its focus on national capabilities in favour of an approach based on multinational cooperation.

Conclusion

One should be honest in one's assessment: the defence efforts of the EU Member States, and of NATO, will not collapse if the EU terminates its defence efforts. But national and NATO decision-makers should be honest as well, and acknowledge that

without the assistance of the EU's instruments, the European defence effort will never be integrated to a significant degree, and will therefore deliver a sub-optimal output as compared to the input in terms of budget and personnel. EU Member States have made important decisions – now they must show as much resolve for their implementation. Building a real RDC based on a pool of brigades, and linked to a serious headquarters; kick-starting projects to design and build the "big ticket" items from the list of capability priorities, such as fighter aircraft, main battle tanks, military space, and military cyber; moving fast once the new joint procurement instrument has been adopted; and, overall, beginning to integrate Europe's capabilities. If the EU manages to do this, its role in security and defence will indeed be indispensable.

5. The EU-NATO Partnership

Nicolò Fasola, Sonia Lucarelli

Since on the start of the war in Ukraine in 2022, NATO's significance for European security has been reasserted, putting ideas about the Alliance's obsolescence to rest. The rapid deployment of additional troop contingents in the East in the face of Russia's escalatory actions demonstrated, somewhat surprisingly, the solidity of the allied commitment to Art. V, while the US have reclaimed their role as leaders of the Western camp. It is thanks in large part to US political will and military capabilities that NATO has managed to thwart Russian war plans and support the Ukrainian armed forces for so long.

In parallel, the EU has managed to carve out a space of its own by managing the war's consequences for itself and Ukraine. The EU has not yet put together an assistance package comparable to the 'recovery plan' adopted during the pandemic, but this might be premature at the present stage, as the war is far from being over. However, the EU has successfully co-managed, together with Member States, the current energy-related contingencies and successfully brokered eight consecutive sanction packages against Russia. At the same time, the EU has extended to Ukraine generous financial and humanitarian assistance, helping Kyiv to cope at least with its most pressing, short term needs.

So far, the EU and NATO have managed to work jointly (or, at least, in non-contradictory terms), capitalising on the gradual, growing interconnection they have facilitated over the last two decades. The present international context offers

a unique opportunity for stepping up this partnership even more, to the benefit of Europe's security and defence.

The EU-NATO Partnership So Far

The EU and NATO both responded to the US's efforts to stabilise and pacify Europe after WWII. However, the EU-NATO's partnership has developed and strengthened predominantly in the post-Cold War period, mainly as a result of the EU's growing role in the security sector and the consequent acknowledgement of the two organisations' complementarity, the Member States' willingness to contain the costs of duplications and the response to external challenges.

When the EU launched its Common Foreign and Security Policy (CSDP) with the Maastricht Treaty in 1992, and when it opened the way to a Common security and Defence Policy with the Nice Treaty, concerns arose around potential duplications of NATO's functions in Europe that could lead to a "functional or regional decoupling of security".[1] However, the subsequent developments showed that the EU and NATO were actually engaged in a cooperative game. In creating the CSDP's institutional organisation, the EU included a series of mechanisms of consultation with NATO that would be useful in case of crises. Moreover, in 2002 the EU and NATO announced the establishment of a strategic partnership centred around cooperation on crisis management. Furthermore, in order to undertake its autonomous missions, in 2003 the EU signed with NATO the so-called Berlin Plus agreement, which gave the EU access to NATO's operational infrastructure (something already envisaged in the 1999 Washington Community Communiqué). The 2003 arrangements also included the Security of Information Agreement on sharing

[1] J. Sperling and M. Webber, "North Atlantic Treaty Organization (NATO) and the European Union", *Oxford Research Encyclopedia of Politics*, 30 January 2020, p. 3.

of classified information, crucial in crisis management. Later on, at the 2010 Lisbon Summit, NATO counties reiterated their intention of strengthening the EU-NATO partnership. Eventually, they included this aim in the 2010 NATO strategic concept.

Some years passed, however, before further significant progress was made. It was as a response to a series of crises (the economic crisis of 2008 and the Russian annexation of Crimea of 2014 first and foremost) that EU-NATO cooperation was relaunched. In June 2016 the European Council called for further enhancement of the relationship between the EU and NATO, stressing their common aims and values. On 8 July 2016 the EU and NATO issued a Joint Declaration, recognising the two as 'essential partners' in Euro-Atlantic security. The commitments made in the declaration were then translated into a series of common proposals in a wide range of areas such as hybrid threats, operational cooperation, cyber, defence capabilities, defence industry and research, exercises, capacity-building, counter-terrorism, women, peace and security, and military mobility. The EU-NATO Joint Declaration of July 2018 underscored the commitment of the two organisations and mentioned the EU's efforts at strengthening its security and defence capacity.

Limits and Opportunities of Closer EU-NATO Relations

The previous section reviewed the increasingly closer ties that the EU and NATO have developed over the years. Generally speaking, such a trend testifies to the growing relevance of security- and defence-related themes in the agendas of European states, in the face of a more chaotic international environment.

The current Ukraine war bears the potential to push this process further. Not only has the spectre of state-to-state conflict returned to Europe, bringing back memories of the very reason why the EU and NATO were created; the war has

also brought to the fore the deep problems affecting the security and defence systems of European states – made vulnerable by the very network of global interdependencies they based their growth on, and unable to summon enough military power to promptly defend themselves without US support. In light of this, even those European states traditionally reluctant to talk security and defence have agreed (at least rhetorically) to boost collective efforts in those domains. Notably, the goal of achieving greater 'strategic autonomy' has resurfaced across EU constituencies.

But while it is clear that Europe should strive more to secure its security, *how* to do so is open to debate. Continuation along the path of closer EU-NATO ties is not to be taken for granted, as many alternatives are available to European states. Two such alternatives are worth noting.

On the one hand, some European states have shown a preference for intensifying bilateral security relations with the US – a choice that, in times of crisis, gives the illusion of higher reliability than heavily bureaucratised inter-governmental institutions.[2] Greece, Hungary, the Baltic Republics, and Poland did so in 2018-2019, when NATO was heavily criticised by Donald Trump. Today, notwithstanding the seeming consolidation of both NATO and the EU, Poland still shows a relative preference for such a path – as testified to by the ongoing, substantial reorientation of its military procurement in favour of US weapon systems.[3] Other East-Central European states are following Warsaw's example.

The strengthening of bilateral relations with the US can provide a quick fix for short-term security needs but, if it were to become the norm, it would actually compromise the system of European security over the long-term. By bypassing

[2] J. Ringsmose and M. Webber, "No Time to Hedge? Articulating a European Pillar Within the Alliance", *Policy Brief*, no. 5/2020, NATO Defence College (NDC).

[3] "Più truppe, armi, mezzi e spese per la Difesa al 3 per cento del Pil: il riarmo della Polonia", *Analisi Difesa*, 15 June 2022.

NATO and the EU, it would make these institutions irrelevant, fragmenting transatlantic security into a series of disconnected one-to-one agreements wherein the US would necessarily enjoy the upper-hand over individual European counterparts. At a time of increasing great power competition and shifting US interests, bilateral solutions would hardly consolidate Europe's security and defence.

On the other hand, European states might decide to interpret the concept of 'strategic autonomy' integrally, as a synonym for military-strategic self-sufficiency.[4] In that case, we would witness the gradual disengagement from NATO and the US, in favour of a EU-centred approach to European security. To go down such path would require considerable political and organisational efforts, inasmuch as not only a European armed force, but also a proper command structure and a shared security policy should be put in place by the EU. Since 2016 the latter has improved or developed various instruments that point in that direction, including a European Defence Fund (EDF), the establishment of a Co-ordinated Annual Review on Defence, and the strengthening of the Permanent Structured Cooperation.

However, these steps have been rather inconsequential, reflecting the ambitions of the European Commission, rather than those of Member States. These, except France, remain cold to the idea of an EU-centred approach to security – whose set-up would raise considerable functional and political problems. First, it would duplicate many structures or functions already financed and consolidated under NATO, thereby resulting in overlapping institutional responsibilities and a waste of shared resources. Second, and relatedly, such an EU-centred system of security and defence could be completed in the very long-term only. This timeframe is incoherent with the pressing needs imposed by the present international environment. Third, a European security architecture based on the EU only would

[4] Ringsmose and Webber (2020).

imply the loss of irreplaceable, key benefits generated by cooperation with Washington – including cover under the US nuclear umbrella and access to a global network of capillary intelligence.

Overall, neither the bi-lateralisation of European security nor its exclusive re-focussing on the EU appear as optimal courses of action. A more credible, efficient, and concrete way to bolster Europe's security lies in the parallel strengthening of the EU and NATO, while creating deeper synergies between the two. Instead of emphasising individual defence strategies, European states should invest in the improvement of the EU's aggregate profile in the domain of security – not to substitute NATO or become one with it, but to provide for a stronger 'European pillar' within the Alliance, so as to better attend to the latter's core tasks and preserve the transatlantic link. This argument rests on two sets of considerations.

To begin with, NATO remains the key provider of hard security in Europe, mainly because of the US' military might.[5] The ongoing Ukraine war has demonstrated the continued relevance of the Atlantic Alliance for deterrence and defence purposes, proving the reliability of its consensus-based decision-making even in times of crisis. Most importantly, NATO provides a unique platform for projecting US power rapidly across Europe. This continues to be relevant because, among the allied armed forces, the US has the only ones retaining the knowledge, capabilities, and stockpiles to fight a conventional high-intensity war. In the nuclear domain, the UK's and France's arsenals cannot substitute for the US strike and deterrence potential, which NATO helps deliver. Moreover, the degree of interoperability that allied forces enjoy derives primarily from their adherence to NATO standards, structures, and procedures, under American supervision; outside of NATO, European armed forces still find themselves struggling

[5] R. Alcaro, "More Integration, Less Autonomy. The EU in EUrope's New Order." *Commentary*, no. 38/2022, Istituto Affari Internazionali (IAI), 2022.

with relevant incompatibilities and capability gaps that reduce their effectiveness considerably, compared to the performances recorded during allied exercises and operations. All in all, then, European capitals are in no position to reject NATO and US security guarantees.

At the same time, it is only by joining efforts and bringing to bear the EU's aggregate potential that European states can acquire sufficient critical mass to actually shape the security environment according to their own needs, without suffering under the weight of US pre-eminence within NATO or, even worse, competitors' military capabilities. Via the EU, European allies can contribute to NATO's mission – hence to European security and defence – in many ways.

First, the EU can contribute to the transformation of European defence sectors, improving their ability to function both independently and within NATO. To date, EU defence expenditures are uncoordinated: only about 6% of total research and development spending and 11% of equipment orders in Europe pass through Brussels.[6] This results in a host of redundancies, incompatibilities, and capability gaps across European armed forces.[7] Fixing this condition requires greater efforts from the Commission, to coordinate the investment pledges and defence reforms of individual Member States. By ensuring the coherence and complementarity of members' defence strategies, orders, and plans, the EU can help increase the serviceability of European forces, as much as their interoperability as part of NATO's multi-national contingents.

In turn, the fulfilment of this goal depends on the successful implementation of other measures – aimed at supporting the actual increase of European defence spending, the development of a military-industrial base that can deliver in both quantitative and qualitative terms, as well as the alignment of

[6] I. Bond and L. Scazzieri, "How to Boost NATO-EU Cooperation." *Project Syndicate*, August 2022.

[7] A. Azzoni, "European Defence: Time to Act." *Commentary*, no. 32/2022, Istituto Affari Internazionali (IAI), 2022.

the EU's security planning with NATO's. To increase European expenditure and industrial output is a necessary precondition to successful rearmament – an objective delayed for too long under the erroneous impression of the 'obsolescence of war;' as a corollary, it would help the EU silence Washington's standing criticism about Europe's lack of contribution to its own (military) security, thereby demonstrating reliability as a partner. On paper, the establishment of the EDF goes in that direction, but more resources would be needed for it to actually exert any meaningful impact. That is why the EU would be wise to come up with ways to incentivise both defence spending per se and joint ventures between European industries – which are still extremely limited.

These steps might be difficult to legitimise to European constituencies under current economic and financial conditions. However, research shows that populations who are exposed to great, persistent threat perceptions (as it is the case in Europe today) are more willing to accept the redirection of resources towards security and defence than under normal conditions.[8] This might give the EU some short-term room for manoeuvre to accomplish the tasks above. None of those, however, will serve the ultimate goal of reducing capability gaps and redundancies if planning and procurement are conducted in an information void. To avoid this, the EU does not need any innovative solutions, as NATO's Defence Planning Process already provides the near totality of EU members with a precise overview of individual and aggregate security needs, pointing to possible solutions. By fine-tuning the EU's defence coordination efforts in the direction agreed upon in the Alliance's context, Europe will be able to spend its resources more efficiently and effectively, focussing on identified priority areas.[9]

---

[8] F. McGerty, D. Kunertova, M. Sergeant, and M. Webster, "NATO Burden-sharing: Past, Present, Future", *Defence Studies*, vol. 22, no. 3, 2022, pp. 533-40.

[9] L. Simón, "EU-NATO Cooperation in an Era of Great-Power Competition", *Policy Brief*, no. 28/2019, German Marshall Fund (GMF), 2019.

Second, and relatedly, the EU can specialise in select non-military security tasks, thereby sparing NATO of a considerable organisational burden and helping contain the Alliance's tendency to overstretch. Among these tasks, energy security and countering disinformation are areas in which the EU has far greater potential than NATO. With regard to energy in particular – the physical protection of critical infrastructures would likely remain a responsibility of individual governments, with the potential support of allied contingents in the most delicate cases. Yet the EU could take the lead in ensuring the supply, diversification, and sustainability of energy resources from a broader perspective, in both peace and war time. Since February 2022 the Commission has demonstrated sufficient power and credibility to at least influence Member States' energy policies, but the exercise of such agency should not be limited to times of crisis. The Commission should develop a wide-ranging, complete set of contingency plans that allows to react swiftly to any disruptive changes of the energy domain already in the short-term. The parallel deepening of the integration of European energy markets would make this type of reactions easier, while reducing the exposition to external shocks. Overall, in this and other fields the EU has the chance to boost its agency. That would benefit not only the Union's international standing and internal solidity, but also alleviate NATO of tasks that, while supportive of its general mandate, divert personnel and resources from the core tasks of deterrence and defence.

Looking at this from the opposite angle, the EU should instead avoid taking up missions that NATO already accomplishes quite successfully – including security force assistance and military training. Recent proposals to set up such EU-led missions in support of Ukraine do not have much practical value, in that European militaries could not teach partners anything more than what they deliver via NATO's partnership programmes already.[10] It would make more sense if the EU continued

[10] A. Brzozowski, "EU strikes political deal on Ukraine military training mission",

focussing on those activities it has championed for 20 years already and that NATO cannot fulfil to the same level. These include judicial, economic, and democratic reform assistance measures, usually delivered via partnership agreements, and often based on conditionality. By fostering interconnection and sustaining the spread of liberal-democratic standards, these measures have successfully limited conflictual relations with EU partners (excluding Russia), thereby de facto supporting European security – while indirectly contributing to NATO's drive towards securing peace via spreading liberal-democratic values.

While the pursuit of stronger EU-NATO ties can benefit from the aforementioned steps, considerable obstacles lie on the way toward their implementation. Two such obstacles are worth mentioning, in light of their potential magnitude. One problem comes from the other side of the Atlantic, as the gradual reorientation of US interests towards the Asia-Pacific risks severing US commitment to Europe and even making NATO irrelevant. Since Barack Obama's "Pivot to Asia", Washington has shown a long-term desire to reorient its main military-strategic efforts towards the Pacific Ocean, to contain China's rise. The current Ukraine war has not reversed this trend, as demonstrated by the text of the latest US Strategic Concept. Since Europe cannot rest in the illusion that it will lie forever at the centre of American concerns, the strengthening of the EU's ability to attend more independently to its own security and defence acquires the utmost relevance. However, changing US interests should not lead to the rejection of the EU-NATO partnership. Quite the opposite, the growing American interest in the Asia-Pacific provides the EU with a chance to play a greater global role – for example, by co-drafting with Washington a joint China strategy, or attracting more US resources to Europe, so as to fasten the pace of reform of European armed forces.

EURACTIV, 13 October 2022.

The other major obstacles come from within the EU, as there persists a lack of a shared strategic culture among Member States.[11] This precludes the formation of a coherent, EU-level politico-strategic outlook that can be easily translated into mid-to-long term plans and then implemented, without the risk of it being reversed at any given point because of attritions among European capitals. Theoretically, this problem applies to NATO, too; yet US political leadership and the bureaucratic power held by NATO's International Staff limit the dysfunctional effects of such strategic cultural diversity. The European Commission, while considerably stronger than at the origin of the EU experiment, is still far from achieving the same level of influence on the EU's security policy. Until then, the strengthening of EU-NATO relations, as well as the preservation of European security at large, will remain hostage of individual members' self-interest.

Conclusion

2022's Ukraine war shattered the security order Europe had rested upon since 1991, thereby challenging the political relevance of two of its key institutions – the EU and NATO. Yet, opposite to Russian plans, both these Brussels-based organisations have managed not to succumb to the circumstances, reasserting their value and utility as means to protect the security of their Member States. The European Commission and the US have led this process in the cases of the EU and NATO, respectively.

The current situation also provides these two organisations with a unique opportunity to improve their partnership and build new synergies. The pursuit of broader, deeper synergies between the EU and NATO is a better long-term alternative than other options available to European states, including basing their security exclusively on bilateral relations with the

[11] H. Biehl, B. Giegerich, and A. Jonas (Eds.), *Strategic Cultures in Europe. Security and Defence Policies Across the Continent*, Potsdam, Springer, 2013.

US or distancing from NATO to chase the naive idea of a full "strategic autonomy" for the EU. In other words, instead of trying to substitute each other or operate independently, the EU and NATO should compenetrate further.

By strengthening the EU's institutional power in the domains of security and defence, European states will be able to improve their individual safety, while strengthening their collective weight within NATO. In turn, this will allow the Atlantic Alliance to achieve its core tasks more equitably, efficiently, and effectively, further bolstering Europe's stability.

One caveat is worth mentioning. While it is true that Russia's aggression of Ukraine represents the main challenge to the present international situation and, hence, provides the ultimate reason for strengthening the EU and NATO – these institutions should avoid making Russia their only reason of existence. In fact there are many more challenges, in Europe and the world, than Russia. Strategic competition is on the rise, due to the rise of China and the accelerating pace of technological innovation.[12] An excessive focus on Russia compromises the ability of the EU and NATO to face these other challenges. In other words, it would be a strategic mistake.

What's more, after this war and irrespective of its outcomes, Russia's conventional force will largely be unusable. It will take time to rebuild and become a useful tool of coercion again. In the meantime, Russia will likely increase reliance on nuclear forces, as it did already during the 1990s for similar reasons.[13] This requires the EU and NATO not to think about defence and deterrence only in a conventional sense, but to think about nuclear threats, too. This will mean reforming and relaunching their platforms for nuclear deterrence and survival, but also – like it or not – trying to engage with Russia at a diplomatic level to refurbish the regime for nuclear arms control.

---

[12] A. Gilli et al., Strategic Shifts and NATO's new Strategic Concept, NDC Research Paper 24, 2022.

[13] K. Ven Bruusgaard, "Russian nuclear strategy and conventional inferiority", *Journal of Strategic Studies*, vol. 44, no. 1, 2021, pp. 3-35.

6. A *Zeitenwende* in Cyber Security and Defence?

Antonio Missiroli

In a famous speech delivered at the Bundestag in late February, just days after Russia's invasion of Ukraine, German Chancellor Olaf Scholz spoke of a *Zeitenwende* – an epochal turning point – for Europe's security and defence. Ever since, an impressive number of policy measures and military engagements have been undertaken by the members of both the EU and NATO in response to the Russian aggression. In this context, however, the cyber domain occupies a peculiar place, due in part to its unique nature (as an entirely man-made environment that is mostly privately owned and operated), and in part also to the role it is playing in the ongoing conflict.

Cyberwar in Ukraine?

Before the invasion started, and even in the early days of the conflict, most analysts and experts had anticipated that Russia would resort to massive cyberattacks and disruptive actions in the run-up to (and alongside) a kinetic military operation. Moscow had already used (repeatedly and often successfully) cyber "weapons" against Kyiv both before and after 2014 – targeting energy infrastructure, government agencies and communication networks. The general assumption was that it would make the most of its superior assets and capabilities in that domain also in the event of some form of direct confrontation

with Kyiv. Still in late February, Western intelligence services, while providing different assessments of the likelihood of a military aggression by Russia, all agreed on the likelihood of forthcoming hostile cyber operations with a destabilising, disruptive and potentially subversive intent.[1]

In cyberspace, Russian actors – which include the (in) famous Internet Research Agency based in St. Petersburg and a number of so-called Advanced Persistent Threats (APTs) like Fancy Bear, Cozy Bear and Sandworm – tend to operate rather "geopolitically", whether to inflict targeted disruptions or with a broader strategic intent, combining opportunistic and carefully tailored campaigns. Their operations have ranged from the 2017 NotPetya supply chain attack, which inflicted huge financial damage on the world economy, and compromising the networks of the World Anti-Doping Agency (WADA) and of the Organisation for the Prohibition of Chemical Weapons (OPCW), in October 2018, which failed spectacularly and led inter alia to the imposition of cyber sanctions by the EU, to "hack-and-leak" and political interference operations against democratic institutions (e.g. the German Bundestag in 2015) and processes (e.g. the presidential elections in the US in 2016 and in France in 2017) and large-scale disinformation and misinformation campaigns through social media worldwide. Russian "Bears" are widely credited with a high degree of technical sophistication and ingenuity, a focus on strategic targets (including energy infrastructure and military command and control systems), and a remarkable ability to create havoc and engineer new ways of doing old things[2] – albeit still within

[1] See L. Cerulus, "Don't call it warfare. West grapples with response to Ukraine cyber aggressions", *POLITICO*, 18 January 2022, and the interview given by Anne Neuberger, US Deputy National Security Advisor for Cyber and Emerging Technologies, to the *New York Times* ("Are we ready for Putin's cyber war?", 10 March 2022).

[2] T. Rid, *Active Measures: The Secret History of Disinformation and Political Warfare*, New York, Farrar, Straus and Giroux, 2020. For a special focus on cyber operations see A. Greenberg, *Sandworm: A New Era of Cyberwar and the Hunt for the Kremlin's Most Dangerous Hackers*, New York, Doubleday, 2019.

the context of cyberspace as we know it. On top of that, Moscow seems to tolerate (and occasionally use) hackers who operate *from* Russia on condition that they do not act *against* Russia but only (or primarily) against Western or other actors' interests – and it is probably not alone in doing this.

By comparison and in contrast, Chinese state and state-sponsored APTs (often codenamed "Pandas") have long focused on cyber espionage aimed at commercial gain (including through intellectual property theft), later followed by asset acquisition and network control (first along the so-called New Silk Road and then worldwide). Only more recently have they become more assertive also in the global battle of narratives, especially after the COVID-19 outbreak. China, however, is explicitly aiming not only at comprehensive technological predominance in the medium term but also at (re)shaping cyberspace and the Internet. The Chinese "model", as opposed to the still dominant "Californian" model, is centred upon the so-called Great Firewall at home and technological control abroad. It relies on huge manpower resources and close coordination between state authorities and private companies – thus potentially threatening US cyber superiority and fostering a "bipolar" cyberspace or even a "Splinternet".[3]

Turning to the ongoing conflict in Ukraine, it is almost impossible at this stage to make conclusive assessments about what might have gone wrong (or right) from a strictly cyber viewpoint. The very nature of the "weapon" – along with the logic of wartime communications, which tends to conceal or downplay setbacks – makes it hard to determine exactly what

[3] On the main cyber "powers" and their respective strengths see J. Voo et al., *National Power Index 2020*, Belfer Center for Science and International Affairs, Harvard University, September 2020; G. Austin, E. Noor, and G. Baram, *Cyber Capabilities and National Power: A Net Assessment*, London, International Institute of Strategic Studies, June 2021; and A. Missiroli, *Geopolitics and Strategies in Cyberspace: Actors, Actions, Structures and Responses*, Helsinki, Hybrid CoE Paper no. 7, June 2021. Moreover, private cyber security companies like Crowdstrike and FireEye produce regular reports on APTs on their websites.

operations have been launched and what impact they may have had. The few sources of information available to date are Western media reports and statements by experts. On that (limited) basis, it seems legitimate to argue that hostile cyber operations have indeed been carried out by Russia both before and during the conflict but on a smaller scale and with a lesser impact than initially expected or feared.[4]

Already a few hours prior to the invasion and right afterwards, Russian cyber actors apparently deployed destructive malware against various targets in Ukraine, including banking services, civilian communication infrastructure and defence command and control centres. A major cyber-enabled sabotage operation knocked offline the KA-SAT satellite owned by ViaSat – a provider of high-speed broadband services used by Ukrainian military, intelligence and police units but also by others (including many EU and NATO countries) – while numerous website defacements and denial-of-service attacks hampered the immediate response capacity of Ukrainian state agencies. While all these actions did not amount to the overwhelming "shock and awe" cyber offensive some had predicted, they were meticulously prepared in advance – if anything, because they required systematic intrusions and exploitation of existing vulnerabilities – and were planned to coincide with (and support) the initial kinetic effort to seize control of Kyiv in a few days. It is plausible that Moscow envisioned a swift military victory and thus did not see the need for (or the usefulness of) massive disruptions. Moreover, US defensive cyberspace operations prevented further Russian attacks from disrupting the railway networks that were being used to transport military supplies and help millions of Ukrainian citizens to evacuate.[5]

---

[4] "Cyberattacks on Ukraine are conspicuous by their absence", *The Economist*, 1 March 2022; F. Manjoo, "The Ukrainian cyberwar that never materialized", *The New York Times*, 12/13 March 2022.

[5] D. Black and D. Cattler, "The Myth of the Missing Cyberwar", *Foreign Affairs*, vol. 101, no. 2, March-April 2022. The Geneva-based CyberPeace Institute has developed a quantitative database of all types and targets of cyberattack linked

When the failure of the initial *Blitzkrieg* became apparent, Russia embraced a different military strategy based on attrition, systematic shelling and more conventional land operations. Its cyberattacks did not stop, however, and even started having spill-over effects on (or directly targeting) EU and NATO countries that were supporting Ukraine. Of course, attribution of those takes time (and may not become public anyway), but European cyber security and defence agencies have been very active and on permanent red alert since March.

The fairly modest impact of Russia's cyber-warriors – at least so far – may be due to a number of distinct yet ultimately converging reasons. The first is Ukraine's increased preparedness: as its weaknesses and vulnerabilities had been well known for a long time even before 2014, both Western governments (on a bilateral basis) and collective organisations (NATO and the EU) had provided technical assistance and training to Kyiv, fostering its resilience and response capacity. The second reason is Russia's likely reluctance to disrupt or destroy critical infrastructure and networks it expected to use (and has indeed used) during the conflict. The third reason is the peculiar configuration of the Ukrainian TLC networks, based upon a large number of Internet service providers, which reduced possible choke points and resulting vulnerabilities[6]. And lastly, there is the mobilisation and intervention against the Russian invasion by both the international hacker community (starting with Anonymous), which put Moscow's own cyber defences under strain, and the West's Big Tech giants (from GAFAM to Elon Musk), which provided extra support to Ukrainian forces.[7]

---

to the ongoing war: "Cyberattacks in Times of Conflict - Platform Ukraine" https://cyberconflicts.cyberpeaceinstitute.org .

[6] "Dealing with degradation", *The Economist*, 26 March 2022; M. Srivastava, "Russian hacking warriors fail to land heavy blows", *Financial Times*, 29 March 2022.

[7] M. Srivastava, "Pro-Ukrainian hackers launch 'unprecedented' attack on Russia", *Financial Times*, 7/8 May 2022; G. Tett, "Inside Ukraine's open-source

All these factors are likely to have contributed to mitigating the effects of Russia's hostile cyber activity in and around Ukraine, to such an extent that some have started wondering whether Russia's cyber "power" had been overrated.[8] Yet Russia's cyber-warriors have indeed played their part in the "special military operation" carried out by the Kremlin, and have done so in the framework of an initial "hybrid" war plan whose apparent flaws were probably not their fault. Actually, the scale and intensity of their efforts has been significant (albeit all in the shadows) and may still intensify and diversify as the conflict drags on.

That said, the expectations and predictions about the potential scope and impact of standalone cyber operations in warfare may have been somewhat exaggerated in the first place, as digital weapons still serve mainly as auxiliary tactical tools within a broader political strategy and military campaign.[9] On the other hand, cyberattacks and malicious activities (also of a "hybrid" nature) against the countries and governments supporting Ukraine have escalated since last February and are severely testing the resilience of Europe's economic and political structures – in what is now evidently a long game and a systemic challenge.

Europe's Cyber Security and Defence(S)

When President of the European Commission Ursula von der Leyen, during her 2021 State of the Union address at the European Parliament, announced the EU's intention to develop a cyber *defence* policy as part of its Digital Agenda, officials

war", *Financial Times*, 23/24 July 2022; M. Scott, "How Ukraine used Russia's digital playbook against the Kremlin", *POLITICO*, 24 August 2022.

[8] M. Srivastava, "Kremlin's cyber abilities may be overhyped, says UK spy chief", *Financial Times*, 11 May 2022.

[9] T. Rid, "Why you haven't heard about the secret cyberwar in Ukraine", *New York Times* (International edition), 21 March, 2022.

in the European External Action Service (EEAS) panicked, wondering what she had in mind. It soon became clear that she was referring to a broader cyber *resilience* posture for the European Union.

Such confusion between cyber *defence* and cyber *security,* however, is not unusual. While there is no universally accepted definition, cyber *security* encompasses – broadly speaking – measures to protect cyberspace from hostile actions. Nowadays, every business, public institution and international body has specialised staff responsible for protecting their networks against unauthorised intrusion from outside of the organisation.

Cyber *defence* refers rather to those measures and authorities that are within the remit of the military or impinge on military capabilities (starting with signal intelligence). Yet cyber *defence* may also be used more generally to convey an action rather than involving a specific actor. At any rate, different definitions reflect different mandates, with many variations across governments and countries: as a result, strengthening cyber "defence(s)" does not necessarily entail involving (only) the military.[10] Most importantly, such responses need not be limited to the cyber domain: on the contrary, several national strategies now make reference to diplomatic, information, military, economic, financial, intelligence and legal (DIMEFIL) measures as part of a comprehensive, "cross-domain" toolbox.

At regional level, both the EU and NATO have equipped themselves to prevent, mitigate and respond to hostile cyber activities against their members by building on their respective strengths and mandates. The EU has boosted its cyber resilience by resorting to its regulatory powers and agreeing new legislation aimed at strengthening the resilience of critical entities and information infrastructure, starting with the Network and Information Systems (NIS) Directive and the EU Cyber

[10] For an overview of the all the main issues related to "cyber" and the nature of cyber conflict, see A. Missiroli, "The Dark Side of the Web: Cyber as a Threat", *European Foreign Affairs Review*, vol. 24. no. 2, May 2019, pp.135-52 (a special thematic issue focused also on the EU, NATO and other multilateral bodies).

Security Strategy, both updated in 2020. It also enhanced its foreign policy response thanks to a dedicated Cyber Diplomatic Toolbox (launched in 2019), which allows the imposition of sanctions against individuals and entities in cases of significant attacks – an option that has already been used on a couple of occasions – and the Cyber Diplomacy initiative (Cyber Direct, funded since 2018 by the Foreign Policy Instrument of the European Commission), which provides policy support, research and outreach at global level.

For its part, NATO has adopted stricter technical criteria for military networks and beefed up its Baseline Requirements to ensure the resilience of critical national infrastructure. The Alliance has also agreed (2019) a Guide for Strategic Response Options to Significant Malicious Cyber Activities (those lying below the level of armed conflict); it has created a mechanism for integrating some offensive cyber tools – the so-called Sovereign Cyber Effects Provided Voluntarily by Allies (SCEPVA) – into its missions and operations,[11] and in 2021 it adopted a new Comprehensive Cyber Defence Policy, updating its 2014 Enhanced Cyber Defence Policy.[12]

Last but not least, besides and beyond EU regulation and NATO standardisation, the computer emergency/incident response teams of the two organisations (CERT-EU and N-CIRC, respectively) signed a bilateral Technical Agreement on the exchange of information about threat actors and techniques in February 2016, cyber elements have regularly been incorporated in crisis management exercises involving the Union and the Alliance, and training platforms have

[11] Since 2018, several Allies have already made their national "effects" available, in principle, to Supreme Allied Commander Europe (SACEUR), while a Cyber Operations Center (CyOC) - though not a Cyber Command proper - has been set up at NATO Military Headquarters (SHAPE) in Mons. NATO had declared cyber as a domain of military operations - alongside land, sea and air - in 2016.

[12] Most NATO and some EU documents are classified, but much information can still be extracted from their respective websites: www.nato.int, www.ec.europa.eu and www.eeas.europa.eu.

been developed through specialised agencies and centres of excellence. Cyber-related intelligence sharing and capacity building with partner countries (including Ukraine) have also increased significantly and take place more or less informally between government agencies.

Russia's invasion of Ukraine has added extra urgency to all this. Both the Strategic Compass approved by the EU in late March and the Strategic Concept agreed by NATO in late June 2022 emphasise the increasingly "contested" nature of cyberspace – "at all times" – and the intrusion of strategic competition in the digital sphere, with Russia acting as a direct "threat" and China as a growing "challenge". And both documents insist on the need for all their members to enhance "secure communication", preparedness and resilience as well as their posture against attacks.

More specifically, the EU Compass frames cyberattacks by state and non-state actors as part of a broader assessment of unconventional threats that also includes hybrid strategies, disinformation campaigns, political interference, economic coercion and the instrumentalisation of migration by state and non-state actors. In terms of response, it commits to reinforcing cyber *security* (among other things through a Cyber Resilience Act) and to further develop a cyber *defence* policy by increasing cooperation between EU and national cyber defence actors (including military ones) – as well as with "like-minded partners […], notably NATO" – and by strengthening cyber intelligence capacities. The NATO Concept, in turn, acknowledges that "the European Union is a unique and essential partner for NATO" and that the two organisations "play complementary, coherent and mutually reinforcing roles" also in "countering cyber and hybrid threats" – both of which, incidentally, could lead to the invocation of Article 5 of the Washington Treaty.

The measures taken so far by individual European countries as well as the EU and NATO in response to hostile cyber activities directed against their respective networks, missions and operations may not amount to *strategic* deterrence as we

know it, i.e. the classical combination of denial and punishment (if anything, because in the nuclear domain weapons are *not* meant to be used, while in the cyber domain they are constantly used). Yet they may contribute to *tailored* deterrence by: a) appropriately combining a higher degree of denial (resilience), propensity to expose and stigmatise hostile activity (attribution), and readiness for punishment (not necessarily in kind, i.e. only "intra-domain"); b) constantly adapting "defences" to one's own vulnerabilities and the type of threat actors involved; and c) calibrating responses accordingly and acting jointly.

Conclusion

In sum, cyber security and cyber defence encompass a whole range of civilian and military concepts, authorities and resources which, in turn, require a high degree of coordination, convergence and consistency at both domestic and transnational level. Neither the EU nor NATO, in themselves, have all the necessary tools and competencies, which forces them to collaborate with each other as well as with the indispensable private sector and to complement one another. All the joint declarations released by the leaders of the two organisations since 2016 make that very explicit, and have also been echoed in the G-7 framework.

It must also be clear, however, that both cyber security and cyber defence remain primarily and predominantly *national* prerogatives, with minimal and conditional delegation of powers to transnational or multilateral bodies even in comparison with other (civilian and even military) domains. At the same time, both are also quintessential team sports, so to speak, where all players are only as strong as their weakest link (and some are definitely more vulnerable than others) and where consultation and cooperation across borders and across jurisdictions are vital.

Actually, so far, transnational consultation and cooperation in this domain have mostly occurred multi-bilaterally, i.e. between, on the one hand, individual EU members and, on

the other, the US, in part the UK (especially after Brexit) and other third countries (e.g. Israel). The asymmetry in capabilities – especially in terms of intelligence, situational awareness and response tools – is such that the need for partnering with key Western cyber "powers" against hostile ones has often trumped expectations and demands for more cooperation at EU level proper.

Still, it is precisely among EU members that more needs to be done – for instance, in the framework of Permanent Structured Cooperation (PeSCo), where cyber-relevant projects are few and of limited scope – in order to upgrade the bloc's own collective ability to operate and collaborate credibly with more capable partners. In this domain even more than others, the call for more EU "strategic autonomy" needs to be understood rather as a stronger contribution by Team Europe to joint efforts with like-minded partners – which must also include the private sector, where EU companies are in short supply – than as an aspiration and ambition to go it alone. And it is perhaps not by accident that the only sentence devoted to that notion in the new Strategic Compass directly links "strategic autonomy" with "the EU's ability to work with partners to safeguard its values and interests".

After all, policy cooperation and convergence among like-minded actors are also necessary to support and facilitate global efforts – especially at UN level and with developing countries – to preserve a free, open, secure and stable cyberspace and to deter (or at least discourage and contain) operations that go well beyond what is considered acceptable by the international community. In the specific cyber domain, in other words, Russia's invasion of Ukraine may not have produced a wide-ranging *Zeitenwende*. However, it has provided additional momentum for policy coordination – at EU level and beyond – and further highlighted the strategic relevance of the digital sphere for Europe's security and defence.

7. Rethinking the EU's Approach to Space: The Case of Security and Defence

Daniel Fiott

Space quite literally looms over all aspects of the European Union's (EU) security and defence. From road and maritime traffic management to monitoring the weather and the climate, outer space essentially enables economic life in the Union. This is a fact that in itself warrants a profound and sustained investment in space by the EU. Yet, space is also critical for the Union's security and defence. Not only do satellite constellations and ground installations enable communication between armed forces, but the timing and navigation of military units such as tanks and aircraft would be nearly impossible without satellites. The ability to gather and utilise intelligence would also be severely undermined without space-based infrastructure, especially should there be an absence of satellite imagery and geospatial sensoring and data.

Put quite simply, then, one cannot think of EU strategic autonomy or sovereignty without first achieving autonomy in space.[1] Should Europe's space-based capabilities be undermined, then the EU's ability to provide security and defence for its citizens would be severely tested. It is for this reason that space has arguably witnessed the clearest material

[1] D. Fiott, "The European Space Sector as an Enabler of EU Strategic Autonomy", In-Depth Analysis, European Parliament, 16 December 2020 (last retrieved 7 September 2022).

realisation of the concept of strategic autonomy. Indeed, today the EU can boast of autonomous space capacities that help enable global positioning (*Galileo*) and monitoring (*Copernicus*). Through the European Defence Fund (EDF) and Permanent Structured Cooperation (PESCO), the EU is also working to fill gaps in its space-defence capabilities. Lastly, bodies such as the EU Satellite Centre (SatCen) continue to provide valuable geospatial intelligence for the EU and its partners, including to Ukraine.[2]

Despite the steps already taken by the EU in space policy, there is a need to better understand what role "defence" can play in the Union's space efforts. In a context where other strategic actors are rapidly increasing their presence in space, we should investigate how the EU will meet this challenge through its space-defence outlook and the capabilities it is developing. To this end, in this contribution we look at the forthcoming EU Space and Defence Strategy and the relevant defence capabilities required to make it a reality. Additionally, we analyse the overall strategic context in space and touch upon the relevance of Russia's war on Ukraine for the EU's space and defence efforts. Unsurprisingly perhaps, the contribution concludes that the war and the looming era of strategic competition will make space an indispensable part of the EU's overall defence strategy. However, we need to also look at the challenges and obstacles facing the Union as it seeks to craft an EU Space and Defence Strategy.

Space as a Critical Strategic Domain

Even though the EU has been developing its space policy since the 1990s, outer space is set to establish itself increasingly as a critical strategic domain. Russia's war on Ukraine, for example, underlines the vital role of space as the Kremlin has disrupted internet services in Ukraine to hinder communication between

[2] "EU to help Ukraine with intelligence from own satellite centre-EU's Borrell", *Euronews*, 1 March 2022.

Kyiv's armed forces and to plunge the civilian population into information darkness by disrupting the ViaSat system. There is also no telling if and how Russia may use space to retaliate against the EU or NATO in the future, even if the November 2021 destruction of an old Russian satellite by Moscow and the resulting debris gives a worrying indication of where events could turn.[3] We already know that the United States and France have complained in the past that Russia has engaged in particularly harmful behaviour in space, with one such incident relating to how Russia loitered close to US and French military satellites.[4]

Yet even beyond Russia's war on Ukraine, outer space is increasingly viewed as a critical component of strategic competition. Such competition appears to be premised on the general idea that the US is in relative decline and that China is becoming a great power. China's space-defence programme is advancing at a rapid pace. In October 2021, it was reported that China had tested a nuclear-capable hypersonic missile that circled the globe before making its way towards a target at high-speed. While some scholars wonder what major difference the introduction of such technology would make to existing deterrence strategies, especially considering that China already has some 100 Intercontinental Ballistic Missiles (ICBMs),[5] officials from the US government went on record as stating that they were surprised by the ambition and speed at which such technologies were used.[6] Such instances form part of a widespread fear in the West that strategic competitors may more deeply align nuclear and space technologies.[7] At present,

[3] See, for example, J. Suess, "Jamming and Cyber Attacks: How Space is Being Targeted in Ukraine", RUSI Commentary, 5 April 2022.

[4] L. Grego, "The Case for Space Arms Control", in M. de Zwart and S. Henderson (Eds.), *Commercial and Military Use of Outer Space*, Singapore, Springer, 2021, p. 82.

[5] T. Wright, "Is China Gliding Toward a FOBS Capability?", IISS Analysis, 22 October 2021.

[6] D. Sevastopulo and K. Hille, "China tests new space capability with hypersonic missile", *The Financial Times*, 16 October 2021.

[7] For example, see R. Vincent, "Getting Serious about the Threat of high Altitude

Europeans lack the capability to track and repel Fractional Orbital Bombardment Systems (FOBS), in other words, nuclear warheads that can be placed into low-earth orbit.

In addition to such threats, however, strategic competition relates to the security and free access of the global commons. A symptom of this trend is that Western countries such as the US, France, Germany and Italy have set up space commands and/or forces, and organisations such as NATO have also invested in a space centre. In March 2022 France also conducted its first-ever military space exercise called "AsterX", which saw crisis response exercises focus on what would happen if key EU space infrastructure were to be knocked offline. Such an event is not the stuff of science fiction, as on 10 July 2019 Galileo's initial timing and navigation services were interrupted for six days. While the board of inquiry into this incident concluded that the interruption was an accident,[8] it does not take an active imagination to see how a cyberattack on Galileo's satellites or ground installations could lead to major disruptions. In particular, such a disruption would have proved even more worrying in the context of Galileo's public Regulated Service (PRS).[9]

Finally, greater congestion in space is also a worrying development for the EU that has strategic implications. While little can be done to avert space weather events such as electromagnetic bursts or solar flares, increased satellite congestion risks increasing the chances of space collisions and space debris. At present, Argentina, Canada, China, EU states, India, Japan, Russia, the UK and the US account for

---

Nuclear Detonations", *War on the Rocks*, 23 September 2022.

[8] European Commission, "Galileo Incident of July 2019: Independent Inquiry Board provides final recommendations", 19 November 2019.

[9] The Galileo system is based on an open and commercial Global Navigation Satellite System (GNSS), but it also has an encrypted and secure signal known as PRS. With PRS, Galileo is able to provide governmental actors with a far more secure communications and navigation signal that is better protected from jamming and/or spoofing risks.

83% of total satellites currently in orbit (or 3,772 satellites). This can be broken down into the following: 2,664 (or 70.6%) are owned by the US, 320 by the UK (8.5%), 303 by China (8%), 155 by Russia (4.1%), 47 by India (1.2%), 44 by Japan (1.2%), 42 by EU states (1.1%), 28 by Canada (0.7%) and 21 by Argentina (0.6%). 148 are considered multinational satellites and account for approximately 4% of the total 3,772 satellites. Of this amount, we also know that approximately 13% are directly owned by ministries of defence in China (129 satellites), Russia (125) and the US (233).[10] We also know that commercial operators under the label "new space" are still heavily dependent on public financing, and this blurs the line between the commercial and strategic rationales for space. For example, in January 2022 SpaceX – largely viewed as a commercial firm – won a contract to help transport military supplies around the world via space transportation.[11]

Space and Commerce, Space and Defence

The EU developed its first Space Strategy in 2016 but, since the coming into force of the Treaty of Lisbon in 2009, space has featured as a core EU policy. This Strategy largely framed EU space policy in commercial terms. This is understandable given that the European space industry was worth €8.6 billion in sales in 2021.[12] Nevertheless, even in the 2016 Strategy there was an attempt to identify the linkages between security and commerce in space. In this respect, the Strategy made it clear that the EU needed to invest in space situational awareness (SSA) and government satellite communication (GOVSATCOM)

[10] "Every Satellite Orbiting Earth and Who Owns Them", *Dewesoft*, 18 January 2022.

[11] C. Gohd, "SpaceX snags $102 million contract to rocket military supplies and humanitarian aid around the world: report", *Space.com*, 28 January 2022.

[12] P. Lionnet, "Eurospace facts and figures – key 2021 facts, Press release", *Eurospace,* July 2022.

capabilities, as well as to ensure the protection of space infrastructure.[13]

In 2021, the Union put in place its Space Programme which built on the Space Strategy by investing in the modernisation of Copernicus, Galileo and EGNOS,[14] as well as setting aside financial resources for GOVSATCOM and SSA up to 2027. Furthermore, in February 2022 the European Commission introduced legislation to create a new secure mega constellation of satellites to enhance the digital connectivity of the EU single market and it published a Joint Communication on Space Traffic Management (STM) to ensure that the EU has the legal framework and capacities to deal with greater congestion in space.[15]

Although these measures speak to the security and defence policy needs of the Union, it was felt by Member States that the EU's space efforts were not fully reflective of the changing strategic circumstances. This is why in March 2022 the EU published its first-ever security and defence strategy called the Strategic Compass, which, among its 47 pages, included important elements about the Union's approach to space and defence. In general terms, the Strategic Compass seeks to prepare the EU for an era of strategic competition while also ensuring that the Union thinks in broader and deeper terms about security and defence, i.e. beyond the specific operational confines of the Common Security and Defence Policy (CSDP). In seeking to ready the Union for strategic competition, the Compass emphasised the need for capabilities in areas such as space, cyber and maritime.

---

[13] European Commission, "Communication on a Space Strategy for Europe", Brussels, COM(2016) 705 final, Brussels, 26 October 2016.

[14] EGNOS is the European Geostationary Navigation Overlay Service and it serves to improve the security, reliability and accuracy of the Union's Galileo system.

[15] European Commission, "Space: EU initiates a satellite-based connectivity system and boosts action on management of space traffic for a more digital and resilient Europe", Strasbourg, 15 February 2022.

The Strategic Compass and Space

The Compass makes clear that the EU cannot expect outer space to remain free and secure without investments in intelligence and defence capabilities. While the Compass links together space with the air, cyber and maritime domains, the document also acknowledges that such domains can be exploited through hybrid tactics by adversaries and rivals. In this respect, the Strategic Compass emphasises the need for the EU to ensure the resilience of space-based systems from space events (debris or weather) or hostile attacks (jamming or spoofing) and to develop space tracking and surveillance capabilities accordingly. However, the Strategic Compass arguably only touches on space and defence in general terms. This is to be expected in a document that seeks to cover every issue linked to the Union's security and defence, and this also explains why one of the key deliverables of the Compass is the publication of a dedicated EU Space Strategy for Security and Defence.

While this new Strategy should be prepared no later than the end of 2023, therefore likely falling under the programme of the Spanish Presidency of the Council of the EU, work on the space and defence strategy is already underway. For example, the Compass states that the EU will analyse the space-relevant aspects of the Union's solidarity and mutual assistance clauses by the end of 2022. In this regard, exercises should be held to test the principle of solidarity during crises that emanate from or involve the space domain.[16] Such exercises will be important in raising awareness among Member States, especially for those countries that do not have sizeable space programmes but are overwhelmingly dependent on space for security and commerce.

Such a Space and Defence Strategy will be useful from the perspective of framing the Union's strategic approach to outer space. As with most recent EU strategies, we should expect the

[16] Council of the EU, "A Strategic Compass for Security and Defence – For a European Union that protects its citizens, values and interests and contributes to international peace and security", Brussels, 7371/22, 21 March 2022, p. 28.

Strategy to represent a mix of political framing and deliverables. The framing of the strategic dimensions of outer space will be a politically interesting endeavour, especially as EU Member States have different approaches to securing global commons such as outer space. Some governments will surely find it difficult to look at space as a strategic domain, for fear that this may move away the emphasis on the EU's traditionally commercial focus on space. Other governments, however, will want to use the EU Space and Defence Strategy to mirror national space-military and -industrial preferences and approaches.

Either way, any sound Defence and Space Strategy will need to reflect on how the EU will approach three general threats, risks and challenges in outer space. First, is how the Union will tackle the increasing weaponisation of space. There is already evidence that states like China, India, Russia and the US possess anti-satellite weapons (ASATs). While the EU may not want to develop its own, it will certainly have to think about how it can protect its space-based assets from ASAT attacks. This is not a simple task, not least because ASATs can be dual-use technologies that do not have any obvious military application at first glance. Second, is how the EU will help manage and avoid congestion in space as more commercial operators and countries use space. Greater congestion in space can lead to more frequent collisions of space infrastructure, which can, in turn, create debris that could be fatal to satellites. Finally, is how the EU can deal with disruption through attacks on space- and ground-based infrastructure such as satellites by jamming and spoofing technologies.

Dealing with each of these three broad areas of space and defence has technological and policy implications. Obviously, any defensive strategy against ASATs will have to be based on investments in space tracking and surveillance capacities, but this also applies to dealing with congestion in space. Developing EU capacities to track and survey space is not just a technological process though, because there is a need to understand which institutional and political bodies will be responsible for handing

any future deluge of the data and information that derives from SSA and STM capabilities. The EU already has bodies that could be developed further to handle such a task, including EU SatCen, which already serves as the "front desk" for the Union's Space Surveillance and Tracking (SST) services.[17]

Where dealing with disruption is concerned, a major task for the EU will be to join-up existing initiatives and capacities in domains that support or are dependent on outer space. Cyberdefence and security initiatives are a case in point. The EU has already developed a substantial body of regulation and policy to deal with network and information security. The Union is also in the process of revising its critical infrastructure protection policy, and a large part of this will entail secure space systems. What is more, the EU will need to use these existing policy frameworks for cybersecurity and critical infrastructure to help protect ground-based space infrastructure such as sensors and launch sites. Finally, an essential element of this comprehensive approach will include security of supply chains and raw materials. In this respect, there is a need to ensure that existing resource and supply policies take into consideration the specificities of the space sector.

The EU Space and Defence Strategy will also surely be drafted with one eye on future investments in space under PESCO and the EDF. Indeed, there are already five specific space projects underway in PESCO that focus on early warning and interception capabilities for space-based threats, satellite imagery, SSA, radio navigation and the protection of space assets. Likewise, under the EDF the European Commission has been able to invest €163.8 million in 2022 for 7 projects that specifically relate to space. These projects will help finance capabilities in the areas of air and missile defence, a secure waveform for satellite communications, the protection of Galileo's PRS and other military space systems, the development

[17] EU Satellite Centre, "EU Space Surveillance and Tracking (SST) Service Portfolio now Available".

of Artificial Intelligence-enabled space imagery intelligence and microsatellites for military space surveillance.[18] These investments built on the approximately €85 million invested by the EU in space-defence capabilities and research over the 2017-22 period.[19]

The Challenges and Opportunities Ahead

Forging an EU Space and Defence Strategy is not problem free. Agreeing on a joint understanding of the threats in and from outer space should not cause too much of a dilemma. In fact, by preparing for the Strategy through scenario-based discussions and exercises on space, a deeper and common understanding of the threats, risks and challenges associated with space should take root. In this sense, we should not discount the relevance of exercises and scenario-based discussions on space and defence. Nevertheless, the EU still faces the reality that space and defence fails to capture the interest of senior European politicians, and some Member States, while acknowledging the importance of space, may not have a space industry of sufficient size to warrant sustained political attention. In this respect, any Space and Defence Strategy should create some sort of mechanism or framework in which Member States are encouraged to discuss space and defence issues on a more frequent basis. Otherwise, the risk is that the new Strategy is produced and then swiftly forgotten.

Another challenge associated with any EU Space and Defence Strategy will be ensuring sufficient buy-in from national capitals. For one thing, any effective EU Strategy must rest on political coherence at the Member State level. The issue of "space" in

[18] European Commission, "Summary of EDF 2021 Selected Projects - Factsheet", 12 September 2022.

[19] European Commission, "European Defence Industrial Development Programme"; and D. Fiott, "Securing the Heavens: How can Space Support the EU's Strategic Compass?", Policy Brief, no. 9, EU Institute for Security Studies, April 2021.

many Member States is split between different ministries and government agencies, and attaining an inter-ministerial agreement on space and defence can be challenging. Indeed, in many Member States space policy encompasses the transport, science, defence and economic portfolios. In countries with coalition governments and where individual political portfolios are split between different political parties, coherence can be even more difficult to achieve. Therefore, while there is a sense of urgency in agreeing to an EU Space and Defence Strategy, political sensitivities must be managed appropriately.

Yet, we should also not be naïve about potential institutional overlap at the EU level. While the Strategic Compass falls within the political remit of the Council of the EU and the European External Action Service, the EU Space Programme and the EDF fall under the control of the European Commission. Thus far, there has been a commendable working spirit on space and defence between EU bodies. However, inevitably, the Space and Defence Strategy will lead to questions about which institution or body ultimately leads on space and defence in the EU. In this sense, while the EU certainly needs a dedicated space-defence strategy, greater efforts are needed to avoid a 'silo-isation' of space-relevant EU policy. For example, to date the EU has developed policy in the areas of cyberdefence, critical infrastructure protection and maritime security, each of which heavily relates to and relies on space. Each of these policies, however, is split across different EU bodies and so the Space and Defence Strategy should be conceived as a way to reinforce and tie together the Union's wider initiatives.

However, an EU Space and Defence Strategy can be an extremely important element in developing further EU-NATO cooperation in space. We should keep in mind that space does not feature in the current EU-NATO Joint Declarations. As far as NATO is concerned, its 2019 Space Policy recognised space as an operational domain, and Alliance leaders even went as far as stating that attacks to, from or within space could lead to the invocation of Article 5 – NATO's collective defence clause. For

the EU, however, it is unclear how space should be treated in the context of the Union's own mutual assistance clause, which calls for a response in case of an act of armed aggression on the territory of an EU Member State. In this sense, the EU Space and Defence Strategy could allow the Union to clarify how it would react in case of an invocation of either NATO's or the EU's defence clauses. Ensuring information exchange between the two organisations on outer space will be increasingly important.

Finally, a dedicated EU Space and Defence Strategy can help deepen and accelerate how the Union engages with and thinks about space, especially in the industrial domain. We have already seen how the issue of defence and space touches upon issues such as security of supply or raw material security. We should also recognise that any meaningful EU strategic presence in space will rely on technological innovation and a political commitment to financially sustaining the space sector. In particular, the EU needs to use its reflection on space and defence to better understand the space sector. Today, media houses and companies are engaging in a substantial effort to promote "new space" with the underlying idea that commercial firms are the future of space exploration and use.

While one cannot deny the importance of space start-ups, the "new space" doctrine overlooks the simple fact that it is still largely government money that supports space launches and activities. Therefore, when reflecting on the interplay between space and defence, the EU should recognise that most facets of space use have a geopolitical and strategic dimension. In this respect, if the EU Space and Defence Strategy helps the Union further leverage its financial and political resources to support the European space industry, this can be considered a success. This point is particularly important because Europe is lagging behind other great space powers when it comes to the number of launches undertaken or a more permanent presence in outer space. If we agree that the coming era of strategic competition will also spill over into outer space, then the EU has no option but to maintain and extend its ambition for space. The European economy and its security depends on it.

Conclusion

This contribution has shown how space is increasingly becoming a strategic domain for the EU. Space is a location where accidents can occur and space weather or debris can affect the proper functioning of space infrastructure such as satellites. Malicious activities are on the rise, however, with jamming and spoofing becoming a normalised aspect of warfare, and cyber threats and nuclear weapons complicating how space is being used. Space is also becoming increasingly congested with satellites, but commercial operators occupy a grey area where they can conduct services on behalf of military and government actors. For the EU, this means a need to invest in space-defence capabilities, which it is doing through the EDF and PESCO in areas such as space tracking, secure communications and cyberdefence. Since the adoption of the Strategic Compass in March 2022, the EU has also pledged to develop a specific Space and Defence Strategy.

This contribution has welcomed such as Strategy as a way for the Union to balance its focus on space: from a largely commercial policy domain to one that includes defence too. It has been argued that the exercises that will feed into the Strategy will be a way for the EU to attain a higher political appreciation for the relationship between space and defence. The Strategy can be used to enhance the interest of Member States that do not have their own space programme, and it may even lead to a reflection at the domestic level about how best to manage space-defence issues across various ministries. Even for EU institutions and bodies, the Strategy can help streamline decision-making and bring added coherence to the EDF, the Space Programme, PESCO and other EU policies. Such a Strategy may even pave the way for EU-NATO cooperation on space. Overall, such a Strategy – combined with the space-defence capabilities being invested in – reflects a coming of age for an already well-established space actor such as the EU.

Conclusions. European Defence: Quantum Leap or Limbo?

Giovanni Grevi

As the opening of this Report illustrated, Russia's attack on Ukraine has sent shockwaves across Europe and the world. The war has shaken Europeans out of the complacency that had long surrounded and stifled their approach to European security and defence. Despite recurrent security crises and conflicts in the EU's neighbourhood, the incremental weaponisation of interdependence and intensifying competition among the great powers, most Europeans did not believe that a direct, conventional military threat confronted Europe. Russia's aggression has shattered Europe's comfort zone, forcing Europeans to reconsider what it takes to provide for their security in a deeply destabilised strategic context.

In the immediate aftermath of Russia's invasion, EU and national leaders stressed the gravity of the hour and committed to a firm response to deny Moscow the achievement of its goals in Ukraine. Within days and weeks from the outbreak of the war, Europeans took unprecedented action to support Ukraine militarily, on top of taking harsh punitive measures against Russia, which have since been expanded by eight packages of sanctions. Furthermore, most EU Member States have committed to significant increases in defence spending over the coming years, with Chancellor Scholz unveiling a massive €100 bn defence package to restore Germany's military – a major breakthrough for a country that has long been wary of military power.

This flurry of ambitious statements and commitments, after years of severe underinvestment, invites the question whether European defence is undergoing a shift in rhetoric or a real shift of paradigm. This assessment is influenced by three main benchmarks of change – culture, capabilities and responsibility. In other words, whether or not a paradigm shift is emerging for European defence depends on the extent to which European strategic cultures are converging, on collaboration among Europeans in generating new military capabilities, and on the role that Europeans will be willing to play to uphold their own security. Implementation of the Strategic Compass (SC) over the coming months and years will offer decisive evidence of actual progress, or of the lack of it.

The experts who contributed to this report sense a moment of opportunity to foster cooperation on security and defence issues within the EU and make important recommendations to that end. However, they underscore the enduring systemic challenges facing the EU defence agenda and withhold their judgment on prospects for the "quantum leap forward" advocated by the SC.[1]

Culture Matters

A more consistent, coordinated and effective approach to EU defence policy is predicated on the convergence of the strategic cultures of EU Member States, in other words on the shift from strategic "cacophony" to a more homogeneous assessment of the threats facing Europe, of the means by which to respond to them, and of the role of the military instrument within Europe's toolbox. While Russia's attack on Ukraine constituted a shock for Europeans, and spurred them into action, the question is whether this shock has been deep enough to reshape threat

[1] Council of the European Union, *A Strategic Compass for Security and Defence. For a European Union that protects its citizens, values and interests and contributes to international peace and security*, 21 March 2022.

assessments and the consequent priorities of national defence policies across Europe. Efforts to enhance the convergence of national strategic cultures predate the war in Ukraine. Most recently, EU Member States engaged in the definition of a shared threat assessment in 2020, in the run up to the drafting of the SC in 2021-22. That was regarded as a useful exercise to better appreciate respective priorities and build trust among EU countries. At the same time, following the outbreak of the war only a few weeks before the publication of the SC, the drafters of the document swiftly acknowledged that their threat analysis was already outdated, and needed to be reviewed by the end of 2022.

On one level, the war in Ukraine has arguably triggered significant convergence among strategic cultures across the EU. Regarded before the war as a potential threat, a problematic neighbour or a transactional partner on some issues (such as energy supplies), depending on the assessment prevalent in different EU capitals, Russia is today considered by all Member States a critical threat to Europe's security. Countries such as Germany and Italy, traditionally seeking some degree of engagement with Russia, have perhaps covered the longest distance in this shift of perceptions.

On another level, however, as Coticchia points out in this report, the ongoing war has not bridged the differences among national strategic cultures that continue to affect Europe's foreign, security and defence policies. For example, he observes, the "enlarged Mediterranean" remains the priority theatre for Italy's national defence planning. On top of that, if Russia is currently regarded as a threat by all Member States (though the perception of the severity of this threat varies depending on national vantage points), the latter do not necessarily share the same views on how to cope with this threat, as demonstrated by different attitudes to delivering military support to Ukraine.

At the same time, as Biscop notes, it is increasingly difficult to draw a neat distinction between the challenges facing Europe along its eastern and southern flanks, given Russia's military

presence in the Middle East and Africa as well as Europe's increasing dependence on energy supplies from countries to the south. The geopolitical fracture determined by Russia's attack in the east therefore entails potential threats for flow security and for the stability of fragile countries and regions in Europe's southern neighbourhood.

A related question raised by Biscop, and relevant to the evolution of a shared strategic culture in Europe, concerns the balance between the requirements for collective defence and deterrence on the one hand and crisis management on the other, in shaping the European defence debate and cooperation. The author rightly argues that both dimensions are pivotal to Europe's security, while territorial defence remains chiefly the responsibility of NATO. It is difficult, however, to anticipate the impact of the war in Ukraine on the readiness of Europeans to deploy sizeable expeditionary forces in unstable regions away from their continent. That will depend both on their political will and on their actual ability to do so, in short, on the further convergence of their threat assessments as the basis for joint decisions, and on the capabilities required to effectively implement decisions through military means, when needed.

Capability Blues

Military capability shortfalls have long hampered Europe's capacity to act and undermined the aspiration of enhancing Europe's strategic autonomy or sovereignty. Since the end of the Cold War and even more seriously in the aftermath of the 2008 financial crisis, under-investment has hollowed out the armed forces of EU Member States. By some estimates, over the last two decades Europeans have lost over a third of their capabilities.[2] Based on data from the European Defence Agency

[2] C. Mölling, T. Schütz, and S. Becker, "Deterrence and Defence in Times of COVID-19: Europe's Political Choices", German Council on Foreign Relations, 9 April 2020.

(EDA), aggregated underinvestment over the 2009-18 period, compared to 2008 spending levels, stands at a staggering €160 billion.[3]

Defence spending by EU countries bottomed in 2014, rising to about €200 bn in 2020 – only a modest increase in real terms compared to 2008.[4] In the first part of 2022, the "return of war in Europe", as the SC put it, drove Member States to pledge rises in defence spending for an overall amount of above €200 bn over the next few years. In the Versailles Declaration in March 2022, EU leaders committed to "resolutely invest more and better in defence capabilities and innovative technologies".[5] While increasing defence spending is necessary, the key to achieving a quantum leap in capability development will be the quality of such spending and whether that will result into closer cooperation among EU countries.

In his contribution to this report, Locatelli stresses how fragmentation of the European defence market and disjointed national defence planning cycles have severely affected the output of European defence investment, weakening the European defence technology and industrial base (EDTIB), leading to duplications and impairing the interoperability of European forces. The author notes that the war in Ukraine has amplified the debates and exposed the problems that have shaped and constrained European defence policies for decades.

In recent years, somewhat contradictory developments have taken place. On the one hand, new arrangements to frame and encourage collaborative defence research and capability development have been established since 2016 – the "package" including Permanent Structured Cooperation (PESCO), the

[3] European Commission, Joint Communication to The European Parliament, the European Council, the Council, the European Economic and Social Committee and The Committee of the Regions *on the Defence Investment Gaps Analysis and Way Forward*, Brussels, 18 May 2022.

[4] European Defence Agency, "Defence Data 2019-2020", 2021.

[5] Informal meeting of the Heads of State and Government, Versailles Declaration, 10 and 11 March 2022.

Coordinated Annual Review of Defence and the European Defence Fund. On the other hand, over the same timeframe, the share of collaborative research and procurement among EU Member States actually fell far below the agreed targets.

Various reports by EU institutions point to several challenges hampering the recently established cooperative frameworks, notably concerning the limited commitment of Member States to joint projects and goals. It may, of course, be premature to draw conclusions on the performance of these arrangements, which may need a longer timeframe to nudge Member States towards deeper cooperation and to deliver major results. However, as Locatelli argues, decreasing levels of joint research and procurement point to the fact that (modest) economic incentives, and a bottom-up approach that leaves full discretion to Member States on their respective defence planning priorities, are inadequate levers to make a real difference to the development and procurement of military capabilities at EU level. Against this background, it has been noted that European defence risks facing a "reverse 2008 scenario", moving from the uncoordinated spending cuts of 2008 to equally disjointed increases in defence expenditure today.[6]

The SC expressed a new sense of urgency for Europeans to "spend more and better", outlined a set of priority areas for investment and tasked the European Commission and the EDA to submit (yet another) analysis of defence gaps, including proposals on how to fill them. The resulting Communication of May 2022 points to some interesting innovations to sustain joint procurement through a new short-term financial instrument, which is expected to be adopted by the end of 2022, and broader frameworks to sustain collaborative procurement over the long term.[7]

---

[6] N. Koenig, "Putin's war and the Strategic Compass. A quantum leap for the EU's security and defence policy?", Policy Brief, Hertie School Jacques Delors Centre, 2022.

[7] Joint Communication to The European Parliament, the European Council, the Council, the European Economic and Social Committee and The Committee of

The EU can play a pivotal role in ensuring more effective and better targeted defence investment across Europe. Whether it will succeed, Locatelli argues, will depend, however, on a much larger range of factors than financial incentives, such as the better engagement of national defence planners in EU processes, the actual priorities of major national defence companies, and the scope for cooperation with pivotal British industrial defence players in the aftermath of Brexit. At a time of looming economic recession in Europe, broader debates on financial solidarity and on possible new arrangements for joint borrowing to help EU countries withstand high energy costs without curtailing critical investment will help define the space for "more and better" spending in the defence sector.[8] Overall, Locatelli concludes that much stronger political steering at EU level is necessary to escape the trap of the lowest common denominator among Member States that remain reluctant to join forces on a suitable scale. Besides, as Coticchia points out, much more effort should be put in engaging the public in a truly strategic debate about European defence. Such debate would help achieve convergence around, and stronger political backing for, joint priorities.

Taking Responsibility?

Setting the right priorities will be crucial for larger collaborative investments to actually equip European armed forces with the capabilities they need to operate. Capability gaps in strategic enablers and in intelligence, surveillance and reconnaissance (ISR) have long been recognised. Successive EU documents, including the SC, point to largely overlapping priority areas for joint defence investment. At the same time, various authors in this report have observed that, following Russia's attack on

---

the Regions *on the Defence Investment Gaps Analysis and Way Forward*..., cit.

[8] I. Bond and L. Scazzieri, "The EU, NATO and European Security in a Time of War", Centre for European Reform, 5 August 2022.

Ukraine, issues of deterrence and collective defence have become much more prominent in the European defence agenda, beyond the traditional EU focus on (the low-end of) crisis management operations. European armies need to be prepared for much more demanding tasks, in much less permissive environments, up to conventional warfare against large state powers. It is therefore important to follow up the SC commitment to revise the Headline Goals process and adapt planning scenarios, as a basis for a sharper focus on priority capability goals that match Europe's increasingly destabilised strategic environment.

This process cannot be de-linked from addressing the fundamental question of Europe's responsibility for its own security – what Europeans aim to be able to do through their military forces, on their own or alongside allies. Over and above a mostly artificial political controversy that poses supposed Atlanticism (sometimes used as code for just delegating any serious defence matter to the US) against an alleged Europe-first approach (which would neglect the obvious importance of NATO for European defence), this is the question at the core of a reasonable debate on European strategic autonomy in defence matters. As noted by Coticchia, Fasola and Lucarelli, the war in Ukraine has undoubtedly reaffirmed the centrality of NATO as the primary framework for organising deterrence and collective defence in Europe. That said, the role of Europeans both within and without the Alliance, when they may need to operate on their own, is to be assessed against deeper changes in Europe's strategic context, and in NATO's own force posture.

Russia's aggression in Ukraine, while refocusing Washington on Europe, does not appear to have fundamentally altered the structural transition in America's grand strategy towards prioritising the Indo-Pacific and the multi-dimensional challenge posed by China. This is not, and has never been, an either/or question. Making the Indo-Pacific the area of maximum strategic investment for the US does not mean that Washington will neglect other important theatres. It does mean, however, that the US will expect much more heavy

lifting from their allies to cope with security threats in their respective regions. This is of course not a new demand, but the war in Ukraine and the shockwaves it has generated across the EU's neighbourhood underscore two additional issues: first, the question of whether Europeans need to be prepared to carry out high-intensity operations, in or outside the context of NATO, can no longer be eluded; second, there is a need to explore the implications for Europeans of their growing dependence on supply routes for energy and critical materials that pass through unstable or geopolitically contested spaces, from the Mediterranean to the Middle East and the Indian Ocean. This relates to the implementation of the EU Rapid Deployment Capacity (RDC) envisaged by the SC, and to the development of larger European integrated force packages that Biscop tackles in his contribution.

The EU and NATO: What Way Forward?

The partnership between the EU and NATO is, as ever, work in progress, and it is likely to remain so for the foreseeable future. Progress has certainly been achieved at working level through successive joint declarations since 2016, including several areas for cooperation such as hybrid threats, cyber security and defence, strategic communication and the maritime domain. Consultations between the EU Political and Security Committee and the North Atlantic Council take place regularly and dialogue between the leaderships of the two organisations has intensified. However, the long-standing political problems that have constrained mutual cooperation, such as those concerning the relations between Turkey, other allies and EU member Cyprus, have not been overcome.[9] That said, Russia's attack on Ukraine has revamped NATO's core business of deterrence and defence, underscored the vital role played by the US in supporting Ukraine and guaranteeing the security of

[9] Ibid.

European allies, and driven Finland and Sweden to apply for membership of the Alliance.

Various authors in this report feel that the war in Ukraine marks a turning point in the relationship between the EU and NATO and offers an opportunity to strengthen their partnership. The current debate, however, encompasses different views on what deeper cooperation between the two organisations should look like and, more particularly, what the role of the EU should be in this context. The contributions by Fasola and Lucarelli, for one, and Biscop, for another, call for the EU to play a pivotal role in establishing some sort of "European pillar" within NATO. However, these authors appear to hold different interpretations of what this means and entails.

Fasola and Lucarelli stress that the parallel deepening of both the EU and NATO is a much preferable option to the alternatives, namely the pursuit of bilateral defence deals between individual countries and the US or the vain pursuit of complete military self-sufficiency by Europeans. They argue that the EU could bring a major contribution to NATO by enhancing the coordination of national defence planning and by scaling up incentives to increase defence spending and expand industrial cooperation among European nations. At the same time, they argue that the EU should focus on non-military security tasks, such as those related to energy security, and refrain from engaging in military tasks that NATO would be better placed to carry out.

In his contribution, Biscop assesses the implications for Europe of the so-called New Force Model adopted alongside NATO's new Strategic Concept at the Madrid Summit in June 2022. He argues that, under NATO's new military posture, the bulk of the high-readiness forces responsible for sustaining and repelling a potential attack along the eastern flank would have to be provided by Europeans. For this task to be carried out effectively, Europeans would need to establish permanent multinational formations that would provide the backbone of conventional deterrence and defence in Europe – the "European

pillar" of NATO. The author maintains that cooperating through the EU would be essential to generate the capabilities that would empower such European multinational force packages. At the same time, the latter would be available not only to NATO, but also for deployment through ad hoc coalitions or EU operations, providing EU foreign policy with an operational arm.

These two contributions aptly illustrate the variety of approaches within the protracted debate on the role of Europeans in Europe's security and defence – positions that date back decades and were already reflected in the landmark 1998 Franco-British Saint Malo Declaration, where different perspectives converged without being truly reconciled. Some essentially regard EU defence cooperation as directed to delivering capabilities for use by Member States in the context of NATO or ad hoc coalitions, while the EU deals with mainly civilian tasks. Others call for Europeans to develop not only their capabilities but also their capacity to take action through integrated force packages that would be available to NATO but also provide the EU with the means to uphold its own interests, when necessary. These positions are not necessarily mutually exclusive but much more work is required to leverage them under a consistent strategic vision, which the SC contributes to shaping, with the aim of making Europeans more responsible for their security and less dependent on others without challenging NATO's centrality for collective defence.

As this debate unfolds, it is important to extend the analysis of the prospects for EU defence policy to those domains that, on the one hand, are crucial to enabling all functions of society and, on the other, are increasingly weaponised – namely cyber space and outer space.

Defending Connectivity: Cyber and Space

The war in Ukraine both reflects and exacerbates underlying trends indicative of a revival of great power competition across multiple domains. The global commons are becoming

increasingly contested spaces and all sorts of flows can be manipulated for strategic purposes. In this report, Missiroli and Fiott share important insights on the EU's approach to securing connectivity in cyber space and in outer space. These two domains are of course closely interlinked in that, for example, space-based assets are critical to the provision of a vast range of digital services. Both threats to digital and space infrastructures and the malign use of cyberspace by hostile actors carry cross-cutting implications affecting all aspect of life in contemporary societies, on top of potentially harming the viability of highly networked armed forces.

Within the cyber domain, hyper-connectivity dramatically expands the so-called "attack surface" in a virtual space populated by billions of users and connected devices, whereas the capabilities to defend against major attacks (from deterrence to attribution and response) are asymmetrically distributed. Missiroli argues that this calls for a high degree of cooperation among like-minded cyber-powers, advancing the experience of "multi-bilateral" cooperation between EU members states, the US, the UK and other partners. The EU has a significant track record of regulations and other measures aimed at enhancing the resilience of cyber infrastructures and, in 2019, launched the Cyber Diplomacy Toolbox – a mechanism to impose sanctions in response to cyber-attacks. The SC outlines various commitments to enhance Europe's resilience against hybrid and cyber threats including, with regard to cyber defence, the adoption of a new Cyber Resilience Act, strengthening cyber intelligence capabilities and enhancing cooperation between military computer emergency response teams. While these initiatives go in the right direction, Missiroli notes that cyber-security and cyber-defence remain chiefly national prerogatives. Against this background, the author calls for deeper cooperation among EU Member States not to pursue an unviable go-it-alone approach but to scale up the contribution of "Team Europe" to joint efforts with partners in the public or private sectors.

The space domain is, Fiott maintains, central to any ambition to advance Europe's strategic autonomy or sovereignty. While space infrastructure enables connectivity, risks and threats are proliferating in this domain, whether related to space congestion, malicious activities or the development of anti-satellite weapons. This is a domain where the EU holds significant autonomous assets, such as the Galileo positioning system and the Copernicus monitoring system. However, major powers are scaling up their presence and capabilities in space, and this requires heightened attention and sustained investment by the EU and its Member States.

The SC includes a pledge to adopt an EU Space Strategy for security and defence by the end of 2023. As with other "strategy-making" experiences at EU level, both the process and the output will be important. As Fiott notes, the former, in particular if leading to a framework for regular dialogue on space and defence issues, will be useful for engendering a shared understanding of the security challenges in space, and of the approach required to deal with them, among Member States and various bureaucratic actors. This can be an important contribution to shaping a shared strategic culture with regard to a relatively new strategic domain. Concerning the focus of the envisaged Strategy, there is a need to counter threats, devise a joined-up approach encompassing broader measures related to security in space (such as critical infrastructure protection) and ensure that Europe maintains an adequate industrial basis to sustain its presence, role and security in space. In addition, the author argues that the Strategy can pave the way to cooperation between the EU and NATO in space – an area that has not yet been mentioned in EU-NATO joint declarations.

A Moment of Truth for European Defence

A review of the main findings of this report suggests that Russia's attack on Ukraine has been a painful wake-up call for Europeans, exposing glaring gaps in European capabilities,

challenges for the European defence industrial base to scale up production to respond to pressing needs, and the lack of an overarching plan to ensure that investment is well coordinated and therefore better targeted over the short as well as the long term. Renewed evidence of the centrality of NATO in defending Europe may furthermore detract political attention and Member States' engagement from EU-level cooperation in defence matters.

The Strategic Compass adopted in March 2021, just a few days after the powerful statement of the Versailles Declaration about building "European sovereignty", sketches out a cogent set of priorities for turning the new sense of urgency into concrete deliverables over a clear timeframe. The SC, of course, does not provide definitive solutions to the deep-rooted problems and ambiguities that have long affected EU security and defence policies, and that the war in Ukraine has magnified. However, it is an important milestone, whose timely implementation would go a long way to demonstrating how serious EU Member States are about taking a "quantum leap forward to develop a stronger and more capable European Union that acts as a security provider", to quote the SC again.

Overall, the contributions to this report suggest that the European defence policy may not be on the threshold of a critical juncture – a moment of drastic policy change. But the EU and its Member States are surely facing a critical juncture in the strategic environment that Europe needs to deal with – a moment of truth concerning the credibility of the EU as an actor in security and defence. The consistent, sustained and coordinated pursuit of the set of agreed priority measures outlined in the SC would be the minimum requirement to show that Europeans have not just shifted their rhetoric, but are also entering a new paradigm to empower European defence.

About the Authors

Sven Biscop is director of the Europe in the World programme at the Egmont - Royal Institute for International Relations in Brussels and a professor at Ghent University. He is an associate member of the Royal Academy for Overseas Sciences of Belgium and an honorary fellow of the European Security and Defence College. Sven is a regular speaker at the Royal Military Academy in Brussels and at the People's University of China in Beijing, where he is a senior associate fellow. He has been honoured with the cross of officer of the Order of the Crown (Belgium) and the Grand Decoration of Honour (Austria).

Fabrizio Coticchia is Associate Professor of Political Science at the University of Genoa. He has been Jean Monnet Fellow at the European University Institute. His fields of research are foreign policy analysis, contemporary warfare, strategic culture, Italian and European defense, party politics and security issues, active learning. His articles have appeared, among others, on *International Relations Government & Opposition*, *Foreign Policy Analysis*, *International Peacekeeping*, *Comparative european Politics*, *Mediterranean Politics*, *Armed Forces & Society*. Among his books: *Adapt, Improvise, Overcome? The Transformation of Italian Armed Forces in Comparative Perspective*, with F.N. Moro (2015); *Italian Foreign Policy under Matteo Renzi: A Domestically-Focused Outsider and the World*, with J.Davidson (2019), and *Reluctant Remilitarisation: Transforming Defence*

and the Armed Forces in Germany, Italy and Japan After the Cold War, with M. Dian, and F.N. Moro (forthcoming).

Nicolò Fasola is Adjunct Professor of IR at the University of Bologna. His main research areas are Russia's military-strategic thought, NATO, and security sector reform in formerly Communist countries. Prior to his current role, Nicolò held research and teaching posts at the Universities of Birmingham, Salford, Saint Petersburg, and Jena, as well as at the NATO Defense College. He also served with NATO Supreme Headquarters Allied Powers Europe (SHAPE).

Daniel Fiott is Head of the Defence and Statecraft programme and Assistant Professor at the Centre for Security, Diplomacy and Strategy (CSDS), Brussels School of Governance-VUB. He is also a Non-Resident Fellow at the Real Instituto Elcano. At CSDS he is responsible for analysis of European defence with a focus on military capabilities, the defence industry, space and hybrid threats. Before joining CSDS, Daniel was based at the EU Institute for Security Studies and University of Kent.

Serena Giusti is lecturer of International Relations at Sant'Anna School of Advanced Studies and Senior Associate Research Fellow at the Institute for International Studies (ISPI) in Milan. She sits in the Advisory board of Women in International Security (WIIS) – Italy. She holds a Ph.D. in Political and Social Sciences from the European University Institute in Florence and a Master degree from the College of Europe (Natolin). She has extensively published on the EU's external relations, Russia foreign policy, international security and disinformation, securitization of cultural heritage. Among her latest publications: *The Fall and Rise of National Interest: A Contemporary Approach* (2022); *Democracy and Fake News: Information Manipulation and Post-Truth Politics* (2021).

Giovanni Grevi is a Senior Fellow at the Centre for Security, Diplomacy and Strategy (CSDS) of the Brussels School of Governance (BSoG-VUB), where he is teaching international relations and European foreign policy. Giovanni has worked and published extensively on EU foreign and security policy, global order, US foreign policy, foresight and EU politics and institutions. Previous positions include Head of the Europe in the world programme at the European Policy Centre (EPC), Director of the Foundation for International Relations and External Dialogue (FRIDE), Senior Research Fellow at the EU Institute for Security Studies (EUISS) and Associate Director of Studies at the EPC. Giovanni also teaches at the College of Europe, Bruges, and at Sciences Po, Paris, and is a Senior Associate Fellow with ISPI and the EPC. He holds an MSc in European Studies from the London School of Economics and Political Science and a PhD in International Relations from the Université Libre de Bruxelles.

Andrea Locatelli is Associate Professor of Strategic Studies and Political Science at the Catholic University in Milan. Prior to joining the Catholic University he has been scholar-in-residence at Carleton University (Ottawa, Canada), and post-doc fellow at the University of Bologna. His research interests include European Security, Defence Policy and Italian Foreign Policy. His work has been published, among others, on Contemporary Security Policy, European Security, Global Policy, International Peacekeeping, and Political Science Quarterly.

Sonia Lucarelli is Professor of International Relations and Pan-European Security at the University of Bologna, member of the Board of Directors of the Institute of International Affairs, Co-Director of the Italian Standing Group of International Relations and member of the Board of the European International Studies Association (EISA). Her areas of expertise include the EU foreign policy and external image, European security, European identity and Foreign Policy, Migration

and Global Justice. Recently, she has been Team Leader in the project GLOBUS: *Reconsidering European Contributions to Global Justice* (Horizon 2020). Her latest monograph is: *Cala il sipario sull'ordine liberale? Crisi di un sistema che ha cambiato il mondo* (2020).

Antonio Missiroli served as NATO Assistant-Secretary General for Emerging Security Challenges from 2017 to 2020. Previously, he was Director of the EUISS (2012-17), worked at the Bureau of European Policy Advisers of the European Commission (2010-2012), as Director of Studies at the European Policy Centre in Brussels (2005-2010), and as Senior Research Fellow at the W/EU ISS (1998-2005). He has taught at SAIS Europe in Bologna, the College of Europe in Bruges and Sciences Po in Paris. He holds a PhD in Contemporary History from the Scuola Normale Superiore (Pisa) and a Master's degree in International Public Policy from SAIS/Johns Hopkins.

Policy Paper

EU Economy: Fit for the Future?

Carlo Altomonte, Antonio Villafranca

Contributions by

Alicia García-Herrero
Daniel Gros
Antonio Missiroli
Georg Zachmann

ISPI

Carlo Altomonte, Professor of Economics of European Integration at the Social and Political Sciences Department of Bocconi University, he is Senior Researcher at ISPI.
Antonio Villafranca, ISPI Director of Studies and Co-Head of the Europe and Global Governance Centre.

EU Economy: Fit for Future?
by Carlo Altomonte, Antonio Villafranca
First edition: February 2023
Image cover Shutterstock Photo

ISBN 9788894469455

Ministry of Foreign Affairs
and International Cooperation

This Report is realized with the support of the Policy Planning Unit of the Ministry of Foreign Affairs and International Cooperation pursuant to art. 23-bis of Presidential Decree 18/1967.

Table of Contents

In Brief

The **European economy** has held up well in the last two years because of strong expansionary **fiscal and monetary policies** and because international trade has proved more resilient than expected. After all, the **EU growth model** is based on free trade and globalisation. However, this same EU model, built over the past decades, is increasingly being tested by trends that originated before 2019, but which have accelerated and become more pervasive with the Covid pandemic and then the war. As a result, this European growth model is now facing both **global and internal challenges** that could undermine its success in the future.

With a view to proposing policy options for (re) building the EU growth model and making it fit the new global context, this Paper initially analyses the pillars of the EU growth model over the last decades. These include the **"devolution" of defence/security to NATO**, while focusing on growth and competitiveness. The latter is largely based on well-deserved German leadership, which has made a considerable contribution to the EU's export-led growth economy. This model has also required the building of **strong supply chains inside and outside the EU** costs of intermediate goods, wages and energy prices (which also translated into overdependence on Russia). From the last enlargement of the EU to the measures taken to overcome the eurozone crisis, key EU events and very recent EU integration can be read through the lens of this EU growth model.

But long before **Covid and the war in Ukraine**, the shift of the world's economic **barycentre from the Atlantic to the Pacific**, the global race for technological leadership (and the related US-China "trade wars") and the growing **economic tensions between the EU and the US**, coupled with the decreasing rule-setting power of international and multilateral institutions (including the WTO stalemate), have all contributed to the redefinition of global political and economic relations.

So, re-shoring, near-shoring and friend-shoring became the new mantra of international relations before Covid and the war in Ukraine. The latter have further fuelled divisions and rivalries around the world and accelerated trends already underway.

Against such a backdrop, the EU needs to rebuild its growth model on solid – and partially – new foundations. As such, this Paper presents the following policy recommendations for the EU:

1. Bridging the **investment gap for more sustainable and resilient growth**, partly by exploring new avenues for EU public and private funds.
2. Enhancing the European economic governance, also by reforming the **Stability and Growth Pact** and exploring the possibility of providing EU public goods (including defence and security).
3. Rethinking the decision-making system to truly scale-up the **EU's "strategic**

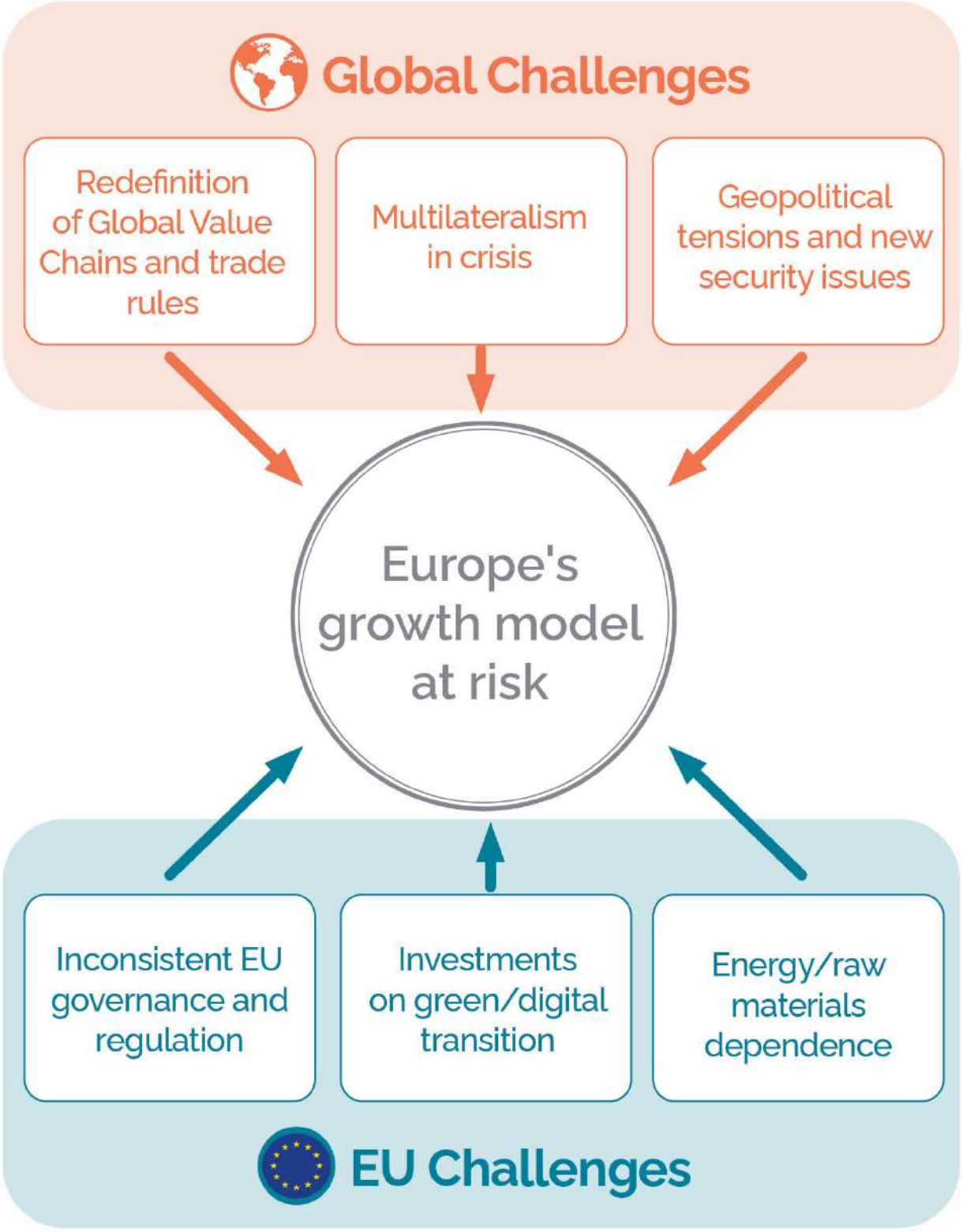
autonomy" and overcome "veto-power" in key areas such as defence/security, fiscal and energy policy.

4. Striking a delicate balance between the partial revision of its policy on state aids and the risk of further fuelling **"nationalistic approaches"** (which could nurture deglobalisation processes).
5. Assessing the risk of the EU dependence on **foreign states in strategic areas beyond energy** (e.g. semiconductors, green technologies, raw materials/rare earths etc.).

Needless to say, all this should be part of a broader strategy which tests the availability of current member states to go down the road of improved EU integration and the attraction of neighbouring countries through revised **EU Association/Confederation** agreements.

This Paper is divided into two parts: the first – "What's at stake" – analyses the foundations of the EU growth model and the internal and international challenges that undermine it today; the second part – "Exploring options" – provides an overview of the policies and institutional changes needed to revitalise the EU growth model and make it fit for the future.

The EU Growth Model: Think Again



What's at Stake

+3.6%
EU GDP growth in 2022

1. EUROPE'S GROWTH MODEL AT RISK

After two black swans in a row, the European Union has proved capable of acting (relatively) swiftly and of taking unprecedented decisions, from fiscal to monetary policies and from energy to defence. Specifically in the economic field, all the new measures (Next Generation EU, ESM healthcare credit line, SURE, renewed suspensions of the Stability and Growth Pact, ECB's emergency pandemic purchase of national bonds, etc.) were key to making the EU economy grow fast in 2021 (5.4% for the EU and 5.3% for the Eurozone) and moderately fast in 2022 despite Russia's invasion of Ukraine (**3.6% for the EU and 3.5% for the Eurozone**; Eurostat estimate). However, it is worth recalling that these expansionary measures have also contributed to **higher public debt and skyrocketing** inflation (of course with the leading role played by energy prices and the trickledown effect on the price of other goods and services). The inevitable decisions by the ECB to raise interest rates in order to keep inflation at bay are casting a dark shadow on the prospects for the EU economy in 2023. While the pandemic taught economists the hard lesson of making predictions in a context of unprecedented global challenges, the economic prospects for the EU economy in the months and years to come appear increasingly gloomy. The pandemic and the Ukraine war have further underscored how some global challenges put to the test the very resilience of the EU growth model as we know it. The latter, and EU integration itself, are rooted in **globalisation and free international trade.** Multilateral and international institutions have made globalisation possible by setting the rules and softening frictions. But multilateralism and international cooperation have been in crisis for some time now, while fragmentation and nationalism seem to be the new mantras of international relations. Reshoring, friend-shoring and near-shoring simply add to the complexity of a global trade that is profoundly changing, while the recent US Inflation Reduction Act (IRA) is a warning to Europe of the possibility of drifting further apart even from an ally and friendly country. Today's crystal clear risks of energy dependency are also raising doubts about any other forms of foreign dependence (from chips to solar panels and rare earths) in the path towards tomorrow's

green and digital economy. Strategic autonomy seems to be the new reality where new national investments, state aids and subsidies are increasingly seen as a "necessary evil" but, at the same time, their further push towards deglobalisation should not be underestimated. Against this background, the EU growth model – built around free-trade and the export-led German model of the last decades may turn out to be unfit for the future – needs a careful health check.

1.1 The EU integration in the 90s: Hand in hand with globalisation

February 24, 2022, the day of the **Russian invasion of Ukraine**, represents for Europe a structural sea-change akin to that of the **fall of the Berlin Wall** in November 1989.

The fall of the Berlin Wall marked the end of the Cold War in Europe, and the beginning of a new phase in international relations that culminated with the creation of the WTO in 1995 and the acceleration in the process of the globalisation process of economic activities.

European states thus had to adapt to this new global context. As it was in the new post-war order of the 1950s, in the 1990s the process also featured greater political and economic integration. After the integration of coal and steel (1951) and of markets (1957), the answer to the new global context called for the integration of financial assets thanks to the **Maastricht Treaty**, which was negotiated between 1990 and 1991 and laid the foundations for the creation of a single European currency and the enlargement of the Community (it was not yet called a Union). The latter included ten Eastern European countries and was completed in the early 2000s.

1995
Creation of the WTO

The new European institutional arrangement was gradually fine-tuned within the **"Pax Americana"** that the Old Continent enjoyed after the fall of the Berlin Wall and the resolution of the Serbian-Bosnian conflict (see Box 1 on the evolution of the EU security). In this context, domestic reforms in the member states improved flexibility in labour markets and pension systems, overcoming the rigidities of the 1970s and 1980s ("Eurosclerosis") that had slowed down growth in Europe and adapted the EU social model to the new context of international fragmentation of production. Beside, the various Treaties that were approved (Amsterdam, Nice, Lisbon) brought forward a gradual institutional adaptation that made the Community model central and predominant in decision-making processes, limiting the veto power of individual Member States to the fiscal, foreign policy, and security spheres.

BOX 1

THE TWO BOXES OF EUROPE'S SECURITY

Antonio Missiroli

When the Cold War's bipolar system reached a stable configuration, in the mid-1950s, Europe appeared neatly divided in two opposite camps, East and West. **Western Europe**, for its part, found itself organised in two distinct policy and institutional "boxes", albeit partially overlapping (in terms of membership) and complementary rather than competitive (in terms of mandate). The **NATO "box"** included the US and Canada (plus bilateral arrangements between Washington and individual European states) and was essentially in charge of security and defence. Conversely, what might be called the **EC+ "box"** (the fledgling European Communities plus the EFTA countries) dealt primarily with economic and social issues, starting with energy and trade. Yet the key impulses for liberalising internal trade and even integrating West German forces into a 'European army' (the European Defence Community blueprint that collapsed in 1954) all initially came from US administrations.

The two organisations (and the corresponding 'boxes') would coexist and thrive in parallel for three decades, adding a few new members each but without developing direct bilateral relations: as the saying went back then, NATO and the EC (later EU) were based in the same city – Brussels – but lived on different planets. Still, the security provided by NATO and the **US nuclear "umbrella"** made it not just possible but much easier for EC members to focus on domestic growth and external trade, thus expanding their share of world GDP while implementing an unrivalled model of regional integration and reconciliation. In return, individual European NATO members devoted a significant chunk of their public expenditure to defence, mostly in order to acquire, develop and maintain military assets and capabilities to man and defend the physical territory of the Alliance in Europe. This core transatlantic bargain was occasionally disturbed by **recurrent discussions over "burden-sharing"** – i.e. the various ways (not only financial and not only NATO-related) in which European countries were expected to contribute to and compensate for their defence by the Americans – but it worked quite well until the end of the Cold War. In 1989 still, each European ally devoted more than **2%** of its GDP to defence.

With the dissolution of the Warsaw Pact and the USSR itself, both Europe and the wider world turned temporarily "unipolar". While NATO redefined its posture and devoted itself to (non-art.5) peace support operations as well as security sector reform in Central and Eastern Europe, the EU launched its own foreign and security policy framework and,

later on, even a specific security and defence policy, albeit with a limited scope. The two 'boxes' remained formally separate but became increasingly intertwined, also in terms of growing common membership (especially after their parallel 'big bang' enlargements). At the same time, the two organisations began to operate in contiguous policy and geographical areas, and (for the countries belonging to both) with the same set of military capabilities and resources.

On the one hand, Europeans in particular quickly reaped the so-called **post-Cold War 'peace dividend'**: average expenditure on defence across NATO (including the US and Turkey) declined from 2.7% in 1990 to 1.9 in 2000, and almost halved among EU members. On the other, the changing strategic landscape required more expeditionary missions and more professional and better equipped forces, thus accelerating the transition from conscript to professional armies in most European countries. As a result, ever-lower defence budgets – also in part as an unintended consequence of the fiscal requirements of the fledgling European Monetary Union – were confronted with rising operational and personnel costs, often leading to a net reduction in overall European capabilities that contrasted starkly with the spectacular military transformation under way in the US. The traditional 'burden-sharing' disputes were thus bound to re-emerge - with Republican and Democratic administrations alike - but coupled, this time, with the **rising capability gap** highlighted by the common military operations carried out in Kosovo, Afghanistan, Iraq and Libya. Besides, bilateral relations between NATO and the EU would be increasingly conditioned by Turkey's attitude: for good, when Erdogan's AKP party first came to power in late 2002, leading to the famous 'Berlin-plus' agreement between the two organisations, their direct cooperation in the Balkans, and formal EU accession negotiations for Ankara; but for ill (and ever worse) since the Cyprus issue, inter alia, started souring relations.

The onset of **sequential external and internal shocks since the late 2000s** - the Russia-Georgia war, the financial/eurozone crisis, the Arab Spring, Russia's annexation of Crimea, the terrorist attacks in France and elsewhere, the rise and fall of ISIL/Daesh, the migrants crisis, the Brexit vote and Donald Trump's election – would lead to some policy adjustments. First, in 2014 all NATO allies pledged to raise national defence spending to 2% of GDP within a decade. Secondly, NATO and the EU released two Joint Declarations (in 2016 and 2018, respectively) in which they committed to closely cooperate on a number of issues of common interest – starting with 'hybrid' and cyber threats – and agreed on a catalogue of more than 70 action points to be regularly monitored. Thirdly, the joint impact of the UK's imminent exit from the EU and President Trump's controversial rhetoric generated **fresh momentum for EU defence proper**, including the launch of Permanent Structured Cooperation (PeSCo) among 25 member states and new funding schemes for defence-related initiatives, such as the European Defence Fund (EDF) for industrial and technological projects and the European Peace Facility (EPF) for external military support. The combination of Russia's aggressiveness, China's assertiveness, Brexit and a possible American disengagement from Europe, in other words, prompted the EU to consider more pooling and sharing of resources in this domain – well beyond the modest results achieved until then – in order to be better equipped to protect its interests in an increasingly multipolar world.

Although Joe Biden's election in late 2020 was welcomed with relief in most of Europe, only Russia's invasion of Ukraine in early 2022 triggered a more fundamental review of defence postures and priorities across the Atlantic. After its chaotic withdrawal from Afghanistan in 2021,

in fact, NATO took front stage again by providing direct military support (including deployment of special forces) to those allies who found themselves particularly threatened by the war, while many of its members (starting with the US and the UK) also delivered military aid to Kyiv. For its part, the EU agreed on eight successive waves of sanctions against Russian individuals and entities and mobilised up to 3 billion EUR from the EPF to fund the supply of military equipment to Ukraine by some member states. Non-allied Sweden and Finland applied to join NATO, Denmark voted in a referendum to join EU defence efforts (from which it was previously exempted), and Germany allocated extra 100 billion EUR over a few years to modernise its military and reach the 2% threshold, while all European allies swiftly raised defence spending. **Finally, in early January 2023, NATO and the EU released their long-awaited third Joint Declaration in which they committed i.a. to enhance their cooperation on resilience and the protection of critical infrastructure, disruptive technologies, space and foreign interference.**

The sustainability and adequacy of all these measures and engagements will be tested by the future course and final outcome of the conflict in Ukraine. Clearly, Europeans still count on the US (also via NATO) as a sort of "deterrent of last resort". However, they definitely need to upgrade defence cooperation among themselves in innovative ways, also as an insurance policy (the so-called "hedging") against possible future priority shifts in Washington. Improving governance at EU level and incentivising joint investment in and procurement of military capabilities "made in the EU" – e.g. through VAT waivers and ad hoc budgetary arrangements - would indeed contribute to fairer 'burden-sharing' (across the Atlantic and within Europe itself), a more balanced NATO and, of course, a more appropriate and desirable level of **EU "strategic autonomy".**

Antonio MISSIROLI, NATO Assistant Secretary-General for Emerging Security Challenges. Previously (2012-17), he was Director of the EU Institute for Security Studies. He teaches at SciencesPo (Paris) and at Johns Hopkins University Sais Europe (Bologna).

1.2 German leadership, global view

Germany deservedly earned a position of leadership in the new EU institutional arrangement of the 1990s, through a coherent strategy developed since the fall of the Wall: initial (and politically costly) domestic labour market reforms, which streamlined the productive model of German companies; strong support for the Eastern enlargement process, which provided ample opportunities to partially outsource production, exploiting the a new domestic flexibility in labour market; and a pervasive presence in all of the nerve centres of the Union decision-making process, with German officials often in key administrative positions within Community institutions (cabinets of Commissioners, and General Secretariat of the Parliament and Commission).

The outcome of this process was the emergence of an **"export-led" growth model in the EU**, generated through an efficient continent-wide value chain (see L. Tajoli, D. Tentori, *Global Economy Falling into Pieces. What Role for the EU*, ISPI Policy Paper, January 2023), with Germany at the top as the main point of origin of exports. Access to markets was guaranteed by the globalisation process and by WTO rules, which were strenuously defended by the EU, thus preventing to a large extent the adoption of protectionist policies. The key inputs for production were guaranteed, outside the EU, by a European energy policy centred on the access to low-cost energy from Russia, and within the EU by fixed exchange rates that prevented unfair competition and competitive devaluations in the Single Market. Finally, the security of markets was guaranteed, once again at low cost, by the American protection under the NATO umbrella.

It is no coincidence that in such a context, since the early 2000s Germany began to record significant and growing current account surpluses, contributing to the gradual growth of net exports in the Eurozone, which in turn was a major driver in the economic growth of the Old Continent as a whole.

As an example, data (Altomonte & Colantone, 2017) show that the foreign value added share of German exports rose from 17% in 1995 to 28% in 2011, just before the European debt crisis. Thus, **Germany coherently used an increasingly high share of foreign inputs (especially European ones) to fuel its exports to the rest of the world**. For example, looking at Italian exports, in 1995 both Germany and France conveyed about 14% of Italian exports to third countries; over time, this share remained about

the same for France, but by 2011 about 25% of the value added share of Italian exports to Germany was then re-exported to third countries. The **Appendix** at the end of the paper looks in detail at the evolution of the European supply chain over time, and its response to external shocks.

Indeed, EU institutions were very effective in defending this growth model from potential crises. When the sub-prime crisis hit in 2008-9, European banks – which financed this growth model in the Eurozone's peripheral countries (as current account surpluses in the centre translate into capital exports abroad) – were protected by strong state guarantees, with exemptions being made to rules governing state aids.

When the credit crisis turned into the sovereign debt crisis, the solution, with Germany's backing, saw the establishment of the European Stability Mechanism (which in turn created the legal basis for the ECB's "whatever it takes") and at the same time the imposition of austerity policies on the peripheral countries of the Eurozone. The latter generated wage compression in those areas where some of the EU intermediates were produced, and thus a surreptitious improvement, through the reduction of costs, of the competitiveness of the entire European value chain.

Finally, when the Covid-19 crisis led to the lockdown of March 2020, it shut down sub-supply chains in France, Italy, and Spain. Data show that Germany's productive output began to collapse roughly a month later. This led Germany – initially with France, and then with the other European countries – to support the historical Next Generation EU agreement. The latter, for the first (and only, according to Germany) time generated a federal **common debt**, with the express purpose of facilitating the "recovery and resilience" of the EU productive model, ultimately preserving the productive capacity of the continental value chain.

To sum up, since te mid-1990s Germany has built – and consistently defended – an export-led growth model which has also significantly shaped the growth model of the EU as a whole, with record current account surpluses recorded vs. the rest of the world. In general, it is well known the **excessive surpluses give rise to distributional "conflicts"** across countries both within the EU – with member states asking for higher domestic consumption in Germany – and outside the EU as shown by the growing US criticism of German manufacturing. Besides, it is crucial to note that current account imbalances cause negative distributional "conflicts" not only across countries but domestically as well. This holds particularly true for Germany as the remarkable performance of its

exports has been coupled with weak domestic spending (Behringer et al. 2020a), growing inequalities, low wages, and a large public and private investment gap in both physical and digital infrastructures (with the latter decreasing the potential for future competitiveness).

However, negative domestic distributional effects have not led to a policy change in Germany, mostly due to a systematic under-representation of the domestic losers of surpluses in the German socio-political discourse (Palma Polyak "The silent losers of Germany's export surpluses. How current imbalances are exacerbated by the misrepresentation of their domestic costs", March 2022). The pros and cons of these imbalances have been more widely debate at the European level. The Macroeconomic Imbalance Procedure (MIP) in fact was introduced in 2011 as a surveillance tool with a corrective arm. MIP includes both excessive trade deficits and surpluses with different weights (4% and 6% of GDP respectively). However, over the years the credibility of the surplus rule has proven poor as no major measure has been imposed to Germany despite its high surpluses. In a nutshell, over the last twenty years the German export-led model has never been seriously challenged at either the domestic or European level. The Ukraine war and today's growing international tensions are however putting this model to test, touching upon the raw nerves of surplus-dependent countries.

1.3 The EU economy today: Giant with feet of clay?

On February 24, 2022 the premises for this scrupulously planned growth model, carefully tended to over the years, have been put into question.

Indeed, some of the root causes of this potential crisis should be traced in the recent dynamics concerning globalisation. The success of the EU growth model is closely tied to the success of globalisation. The EU's trade policies have always relied on free trade and widespread international value chains. However, well before Covid and the Ukraine war, 'deglobalisation' and 'slowbalisation' emerged as new buzzwords. There is no doubt that these processes are indeed taking place and they are partually reshaping globalisation, but not to an extent suggesting an end of globalisation, and the return to a clear-cut separation of the world in two spheres (i.e. "The West and the Rest"). The latter scenario would be in any case detrimental for the EU, even in the new geo-political context. To that extent, according to the WTO, world merchandise trade volume is expected to have grown by 3.5% in 2022. This rise might be

1.2 million

EU importing firms in 2020

below the long term trend (and the previously expected 4.7%) but it is still a significant rise. The use of another key indicator – the declining share of trade in global GDP – may also turn out to be misleading. This decline is better explained by a decrease in trade values and product variety, rather than by weaker goods and services exchanges. Countries do not really trade between each other, while firms do. So, a firm-level analysis can draw a clearer picture of the current status of globalisation. Despite the unprecedented shocks suffered by global value chains and the decline of trade due to lockdowns, the number of EU importing firms keeps growing, reaching a new record of more than 1.2 million firms in 2020. In addition, many of the over 9,000 products (8-digit product codes) imported to the EU comes from over 100 extra-EU countries (Lucian Cernat "Between deglobalisation and slowbalisation: where Europe stands", Nov. 2022). Hence a micro-level analysis does not seem to support the idea of the end of globalisation, rather **that changes in international trade patterns are taking place, with globalisation taking on a different, likely more regional, nature over the next years** (the Appendix offers a deep analysis of the EU supply chains and the EU response to external shocks).

The invasion of Ukraine and the risk of further Russian expansionism in Europe should its aggression fail to be contained have done away with the geo-political stability that the Old Continent had enjoyed after the fall of the Berlin Wall.

Clearly, the Ukraine war is taking its toll on this trend. On top of the overall evolution of globalisation, the risk of further Russian expansionism in Europe have dented the geo-political stability that the Old Continent had enjoyed after the fall of the Berlin Wall. Moreover, the political necessity of not falling victim to blackmail over gas supplies forced Europe to move away from guaranteed, l**ow-cost energy supplies from Russia** (see Box 2 on the prospects for the EU energy sector), towards other available but more costly alternatives. Finally, the enduring evident tension between the United States and China, and the possibility of an alliance between the latter and Russia, are putting into question the access to global markets that has been at the heart of the European growth model over the last twenty years (see Box 3 on **prospects for China's export and implications for the EU**).

All these trends thus open a number of fundamental questions on the centrality of globalization in the future EU growth model. It is thus no surprise that in recent months Europe has appeared hesitant in its management of the Ukraine crisis. Germany itself has often oscillated between positions consistent with a 'strategic European autonomy' stance on the various issues at hand, and gambits that attempt to preserve, whenever possible, the original growth model that has been pursued over the last twenty years, in particular in trying to preserve some relations with Russia and China and, to same extent, Russia.

This ambiguous stance has its costs, which are potentially high, both in terms of current relations between partners and in light of the future choices that the EU will have to make in the coming months, starting with the new rules on European public finance (see F. Bruni, D. Tentori and A. Villafranca, *New Fiscal Rules: The EU Beyond Covid and the War*, ISPI Policy Paper, May 2022), new continent-wide energy arrangements, and the management of trade rules in the new post-global context.

In what follows we present some of the options for a **growth model** that, while **preserving as much as possible global market access for European firms**, and thus the current set of multilateral trade rules, adds a number of policy changes needed to preserve the EU sources of competitiveness in the new geo-political context.

BOX 2

EUROPE'S ENERGY SYSTEM AFTER UKRAINE

Georg Zachman

The year 2022 exposed both dramatic structural weaknesses and the astonishing adaptability of Europe's energy sector. With Russia's invasion in Ukraine it became clear that Europe's dependency on gas, oil, coal and uranium imports from Russia were not a theoretical issue – but a dramatic strategic liability. Russia tried to exploit Europe's dependency on gas imports by dramatically reducing its exports and conditioning the remaining flows on political concessions (e.g., Ruble payments, exempting Gazprombank from financial sanctions) at the same time forcing Europe to accept very high prices. Moreover, Russia tried to use selective/ preferential flows to individual European partners to divide the EU. **By the end of 2022 Russian flows were down to about 500 million cubic meters per week** – which is only 15% of the previously normal 3,500 million cubic meters per week. Hence, Russia has lost its gamble to extort strategic benefits from closing the taps.

At the same time, Europe introduced an import **embargo** on Russian coal (August), crude oil (December) and oil products (February 2023). Hence, by 2023 the previous dependence on Russian gas (40% of consumption), oil (25%), oil products (15%) and coal (60%) has largely disappeared.

This major strategic success was hard-won. Energy prices in the EU skyrocketed and finding compromises among member states was politically painful – as the impacts of vanishing energy imports from Russia were very unevenly distributed among Member States. This was not eased by coinciding problems with (1) domestic electricity production – most notably the failure of half of the French nuclear fleet and a historic draught reducing hydro output and (2) unusually tight global energy supply conditions after economic catch-up after Covid exposed a decade of low energy supply investments.

But **Europe managed this energy supply crisis** through a combination of (1) letting the internal market re-organise energy flows and rebalance energy demand and supply based on painfully high prices and (2) aggressively overcoming financial and regulatory barriers to storage filling and (LNG) infrastructure development.

Defending the European market for gas, electricity and emission allowances is a great achievement – not only for the short- but also for the long-term – as it is also crucial for efficient coordination of operation and investments in a decarbonising EU. **But it came at a very high price**. The energy cost for households and industry in many European countries increased

drastically. And those countries that were willing and able to support consumers experienced fiscal cost in the order of several percentage points of GDP (overall hundreds of billions of Euros in the EU). The described impacts have certainly not been equitably distributed across income levels, sectors and between countries.

One crucial short-term question is whether the necessary industrial demand reduction to rebalance demand-and-supply in the short term will lead to permanent losses in economic value-added. Gas and electricity prices in the EU are substantially higher than before the crisis in absolute terms, but also relative to energy prices in other parts of the world (notably the United States). All else equal, this implies a drastic loss in competitiveness of European energy-intensive companies/sectors. To address this challenge, several approaches can be considered: the first is to defend existing industry by bridging the high-cost period with subsidies/tariffs until new cheap energy arrives. This not only implies substantial fiscal cost, but likely also lower energy consumption/higher energy prices for all non-supported sectors. Alternatively European energy-intensive industry can use the crisis to boost the transition to domestically produced clean electricity. Or Europe might shift to import energy-intensive pre-products instead of energy. In the most extreme, entire energy-intensive sectors might leave the EU.

National and European energy and industrial policy in the coming year(s) will play a significant role in determining which approach will dominate. There is a risk that the fiscal room available at the national level to support their industry leads to inefficient outcomes, for example, with richer member states outcompeting poorer member states in shielding their (possibly less competitive sectors) against high prices. A strategic use of European leverage, such as state-aid rules, European energy, and industry policies or carbon border adjustments might allow European industry to adapt to the changed energy cost environment more efficiently.

The long-term challenge remains ensuring sufficiently fast decarbonisation. The direction of travel is partially uncontroversial: In the electricity sector this will imply (1) phasing out coal quickly (without the bridge of Russian gas in the 2020s) and (2) phasing out unabated gas use in power plants towards the 2040s. At the same time electricity demand will drastically increase as electric vehicles and electric heat pumps will have to drive out fossil fuelled vehicles and heating systems. But current policies are not yet consistent with this widely shared vision. Hence, shifts in wholesale market design, network regulation and support frameworks will still need to be developed at the European and/or national level to enable the needed private investments.

However, some key features of Europe's future energy system are yet to be determined. For example, the technology-mix in the electricity system, the role of large-scale electricity transmission, the share of electricity in energy consumption, the role of imports of energy and energy-intensive goods, are not yet set. For instance, **a key question is the role of "green molecules"**, i.e., hydrogen, ammonia and methane that are produced in a climate neutral way. These molecules are currently much more expensive than the same amount of green electricity – but their advantage is that they can be more easily stored and transported, even across continents. Hence, some member states such as Germany plan that green molecule imports might first replace fossil-based feedstock (especially natural gas) to industry but later also contribute to an affordable and sustainable energy supply to Europe. The result of such strategic questions will be determined by a complex interaction of market actors, technology developments, national and European rules.

It might well be, that government decisions, for example, supporting local generation and discouraging transmission lines, lock in lasting path dependencies.

As the EU does not perform a consistent energy sector planning exercise and member states plannings (if they exist) are not coordinated, there is not even a clear benchmark against which to evaluate if existing incentives bring about the needed investments within the internal market.

Hence, **the energy system development is top-down driven by a relatively complex governance system** consisting of (1) European level emission, renewables and energy efficiency targets for 2030/2050, (2) the emission trading system that entails a continuously tightening emission cap on industry and the power sector, and (3) the effort sharing regulation that attributes some of the targets to member states, (4) a large amount of European level regulatory policies and (5) national policies that either transpose European targets and rules or implement own policy targets. On top, an additional emission trading system for transport and buildings will be established from 2027. This complex web of policy tools means that translating the strategic and emergency decisions taken in 2022 into energy system results is not straightforward. The plethora of decarbonisation tools continue to function in the background, pushing Europe's system toward carbon neutrality.

Georg ZACHMANN is a Senior Fellow at Bruegel.

BOX 3

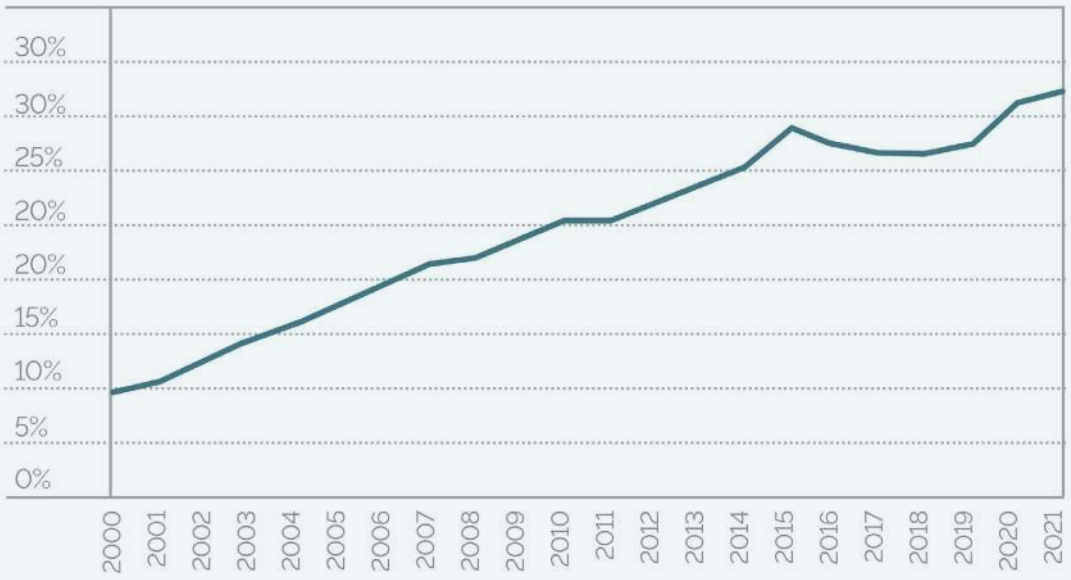
WILL CHINA CONTINUE TO DOMINATE TRADE FLOWS IN 2023? SOME REFLECTIONS FOR EUROPE

Alicia García Herrero

China's export performance is clearly important for the world, and certainly Europe. To start, global inflation not only depends on commodity prices but also on China's export prices and its own cost dynamics. Secondly, the European Union is the other major export machine, together with China, so developments in China's export capacity and competitiveness, are bound to affect the European economy.

China's global export share had been on the rise for years until it first plateaued in 2015 and even came down with the US-led trade war against China. However, the trend changed radically after the first months of Covid, as China suffered lockdowns in the first quarter of 2020 but reopened much faster than the rest of the world. During 2020-21, until Omicron came to hunt China with renewed lockdowns, Chinese exports experienced an annualize growth of 7%, and its

FIGURE 1 - CHINA'S MERCHANISE EXPORT SHARE IN THE WORLD (%)



export share in the world increased further to an astounding 15%.

At the same time, **China's increasingly central role in the global supply chain** is another important point to take into account to understand China's stellar export performance since the pandemic started. In fact, China's even larger export share for intermediate goods points to the rising dependence of other countries' supply chains on Chinese imports. This is clearly also the case of the European Union. A very clear example is solar panels where China already has more than 80% of global export share but also batteries for electric vehicles and even more so for their components and critical materials.

Having said that, Omicron and, thereafter, the global slowdown have brought shockwaves to the Chinese economy. First, the extremely contagious nature of Omicron, coupled with the Chinese government decision to maintain zero Covid policies until very recently, has resulted in a number of supply chain disruptions, during the most aggressive lockdowns, such as that of Shanghai. One of the consequences of the production and logistics problems linked to zero covid policies was that prices of imported goods from China shot up, contributing to the boost in inflation globally and certainly in Europe. The other consequence was delays in the delivery of goods imported from China with the obvious negative consequences on the functioning of supply chains. Since then, the rapid increase in interest rates by the FED, but also in most other countries in the world, coupled with the war in Ukraine and the related surge in energy prices have brought the US and European economies much closer to a recession. The cyclical downturn has pushed Chinese exports down to -9.9% growth in December. Such negative export growth can be considered mostly cyclical but not only. **The global supply chains are in the midst of a reshuffling as companies are moving out of China**, first because of cost reasons but also geopolitical factors and, until recently, mobility restrictions related to Zero covid policies.

Finally, the new year has started on a positive tone thanks to China's rapid reopening from zero Covid policies but that has not changed the trend of Chinese exports which remain very negative. The question is whether it will change the mood of investors, not only domestic but also international. So far, portfolio flows are clearly returning to China but there are still big doubts about foreign direct investment. Most surveys from European Chambers do not really capture the reopening yet so it is very hard to gauge the mood from foreign companies either present in China or thinking of investing for the first time. In fact, across Asia, ASEAN and India surpassed China by a wide margin in the value of mergers and acquisition deals in the first half of 2022, with China's share of total Asia completed deals collapsed to 13% to smallest in Asia.

All in all, 2023 will certainly be a better year for China than 2022 thanks to the reopening but that does not mean that export performance will keep on with the current momentum. On the contrary, one could imagine that China will step up imports, as domestic consumption returns, but not exports as global demand is waning. In addition, host countries – certainly the European Union – are becoming increasingly uncomfortable with what is perceived as excessive dependence on Chinese imports, especially as concerns critical inputs. This is clearly the case of solar panels or critical materials for electric batteries. As countries react by looking to other sources of imports or reshoring of production, China's exports might be hurt in the medium run. As for foreign direct investment, one can expect headwinds after the positive impact of reopening given the expectations of China's structural deceleration but also increasing lack of policy predictability in China.

FIGURE 2 - COMPLETED M&A DEALS BY RECIPIENT (USDBN)

Source: Natixis, Mergermarket

Alicia GARCÍA HERRERO, is a Senior Fellow at Bruegel. She is also the Chief Economist for Asia Pacific at Natixis, and a non-resident Senior Follow at the East Asian Institute (EAI) of the National University Singapore (NUS).

Exploring Options

High energy prices are today the main concern of continental policymakers, both across EU capitals and at the European Central Bank, but they are just the symptoms of a deeper disease which calls into question the EU growth model itself, and the foundations of its competitiveness.

It is immediately worth noting that the old export-led growth model that emerged from the "Washington consensus" risks being outdated with **the new global (dis)order requiring a revision of the EU strategy**. The latter should be based on the ability **to invest more in the Single Market**, which remains the largest in the world, and in technology for the green and digital transitions, including combining the two in certain key value chains, such as electric vehicles. The National Recovery and Resilience Plans of all European countries already reflect this common strategy, and must serve as a starting point around which to coordinate all future policy choices, beginning with fiscal and energy ones.

9.11.22

The European Commission outlines the contours of a reformed Stability and Growth Pact

Of course, for all this to be possible, **European economic governance should be revised profoundly**. The European Commission has tried to do its part by submitting a proposal to reform the Stability and Growth Pact that is an inevitable compromise between the demands of the various member states. The proposal has a number of interesting aspects, starting with the emphasis placed on reforms and on the investments that can help make the adjustment process to deal with massive national public debts less stringent (especially in southern European countries). In practice, the Commission is trying to replicate the success of the Next Generation EU (NGEU) recovery package, in which the disbursement of EU funds is contingent on controls on the investments and reforms made. But it should be kept in mind that NGEU has both a stick (monitoring) and a carrot (grants and loans). In the case of the new Pact, the carrot would merely consist of extending the adjustment period by 3 years. The negotiations that will take place over the coming months provide an opportunity to be more ambitious: if the EU Member states remain within the agreed-upon adjustment process and adopt the necessary reforms to re-launch growth, why not plan a new NGEU after the current one is over? Especially since it is evident that in spite of their fiscal adjustment efforts, the countries most heavily in debt will struggle to make the

investments that the EU itself considers necessary for security and for the green and digital transitions (even if the investment gap may turn out to be much smaller than expected: see Box 4 on green investment gap). A new shared debt would also make the adjustment process less stringent (and thus more acceptable for national governments), so that as the Commission itself foresees with the new Pact, all of the new investments and reforms may indeed achieve these goals.

BOX 4

A EUROPEAN GREEN INVESTMENT GAP?

Daniel Gros

Alarm over a green investment gap follows from the expectation that the investments needed to **reduce CO2 emissions in energy**, industry, housing and industry in line with the EU's climate policy targets appear very large. In the impact assessment of the **"Fit for 55"** package, the European Commission has presented a comprehensive picture of what would be needed in order to achieve the ambitious 55% reduction target. The term "investment gap" simply refers to the difference between what is needed and what is currently happening. However, if one looks more closely, one finds that the size of the gap can be very different depending on the baseline one chooses.

This impact assessment by the Commission provides rich background material because it also shows how much was invested historically in the relevant CO2 intensive sectors, what the previous **30% reduction target required** and what additional effort would be needed for Fit for 55.[1]

One baseline could be the fact that during the last decade overall **energy investment amounted to €683.3 billion annually** (in constant 2015 prices). To achieve the 30% reduction target for 2030, energy systems investment would have had to increase by €260 billon or almost 40% to an average of €946.5 billion per year. Few have noticed that with GDP about 15% higher in the 2020s than in the 2010s, the required increase would not be 40%, but only 25% if one considered a larger economy which would require higher investments even without any green policies.

The greater ambition of the Fit for 55 package requires a further increase of about €90 billion to €1039.7 billion annually, assuming that European legislation uses regulation and fiscal incentives to achieve the reduction target (MIX scenario). These are large figures. But the time periods stretch over decades, during which the value of money changes. However, the

overall effort remains large relative to the entire economy. Even the "baseline" from 2011-20 is equivalent to **5.3% of GDP**, which would increase to 6.4% of GDP (on average for the 2020s) under the "old" 30% reduction target and to 6.7% of GDP under Fit for 55. This simple comparison thus shows that a focus on the absolute amounts is misleading. If the baseline is the last decade, energy investments would have to increase by 1.1% of GDP to reach the 30% reduction targets, and Fit for 55 only requires an additional 0.3% of GDP. The Commission-JRC also implies that the investment effort would not need to increase after 2030.

A focus on the absolute amount has led Pisani-Ferry (2021) to argue that "**Climate policy is macroeconomic policy**, and the implications will be significant".[2] The key point he raises is that the resources needed for green investment will not be available for consumption. This is correct, but one needs to focus on the change required by more ambitious policy targets, and a reduction in the consumption possibilities of around 1.4% of GDP should be acceptable given that the importance of climate change is now apparent to everyone.

Others have concentrated on the impact on public finances, doubting whether the required public investments are politically feasible within the current fiscal framework of the EU.[3] Here again, the focus on absolute amounts is misleading. The proper question to ask is what the additional **public finance** effort would be. However, it is not straightforward **to translate the €250 billion or 1.4% of EU GDP of increased investments** into fiscal costs because the Commission's estimates of investment needs (as those of most others) refer to total amounts of investment by the public and private sectors together.

MOST OF THE INVESTMENT WILL BE FROM THE PRIVATE SECTOR

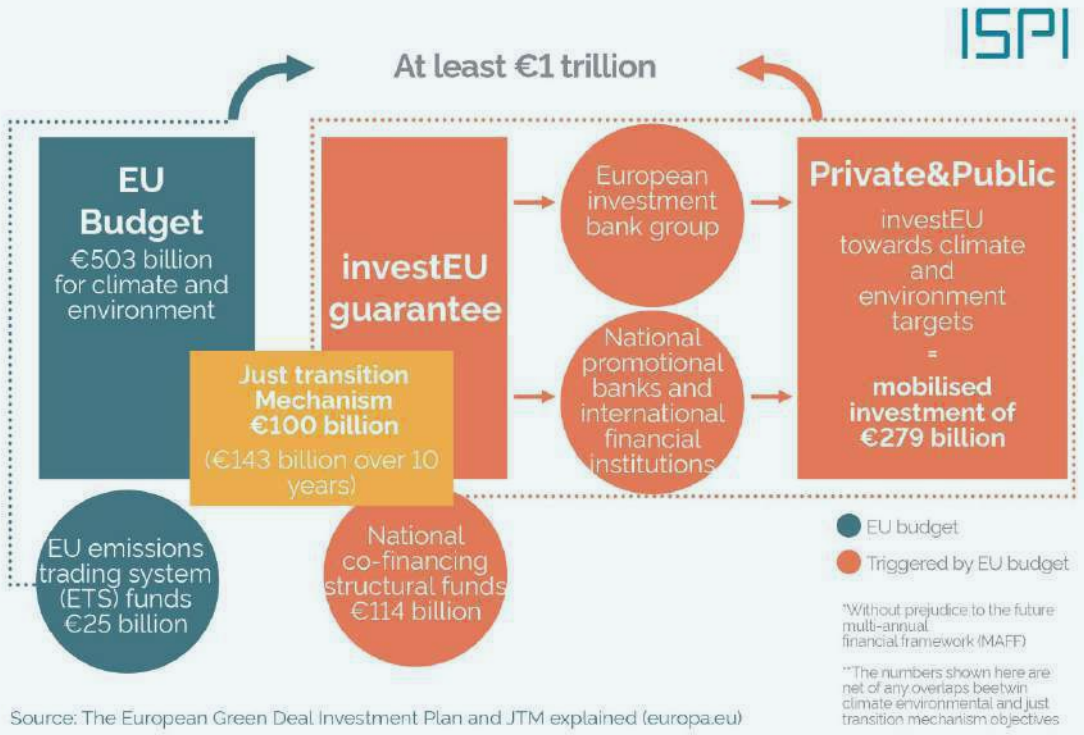
Applying estimates of global green public investment shares in total capital formation[4] or using standard coefficients for green shares in overall sectoral investment (with the shares of the private sector around 80%), **the average green public EU investment needs for 2021 to 2030 are estimated to be between €100 and €146 billion per year**.[5] However, these estimates refer to the total investment effort and not to the additional effort required. If one applies a share of public investment of one fifth to the increase of €250 billion, one arrives at additional public finance needs of around €50 billion (annually), which should be compared to annual public investments of around **€450 billion for the EU-27 in the current year (2023)**, implying an increase of less than 10%. Prognos (2022) arrives at a proportionally similar figure with an increase in the need for public sector green investment of about €10 billion per annum for Germany.[6]

EVEN €50 BILLION PER ANNUM WOULD AMOUNT TO €500 BILLION OVER A DECADE

The European Commission proposes to finance large part of the investment needs through the **European Green Deal Investment Plan and Just Transition Mechanism**.

The EU budget, InvestEU Guarantee, revenues from the European Emissions Trading System and national co-financing are projected to cover the green investment needs. Whether they really do depends on whether what is classified as "green" contributes effectively to the objectives of climate and environmental policies. InvestEU serves four investment windows, of which only one is the Sustainable Infrastructure Window. About 38% of the guarantee volume is dedicated to this window. In evaluating these figures, one has to take into account the qualifier "mobilised". This

FIGURE 1 - FINANCE FOR GREEN PUBLIC FINANCE NEEDS



Source: The European Green Deal Investment Plan and JTM explained (europa.eu)

means that the official estimates of EU financing for green investment often present investment figures as being "mobilised" even if the EU financing contribution was only a fraction of the total (often only 10%).

A closer look at the sectoral distribution of investment needs presented in the **JRC impact assessment confirms the importance of the distinction between absolute amounts and the change required**. Moreover, this sectoral view also confirms that most of the investment would be done by households and private companies.

Figure 2 shows the total green investment needs as well as the baseline for eight different sectors.

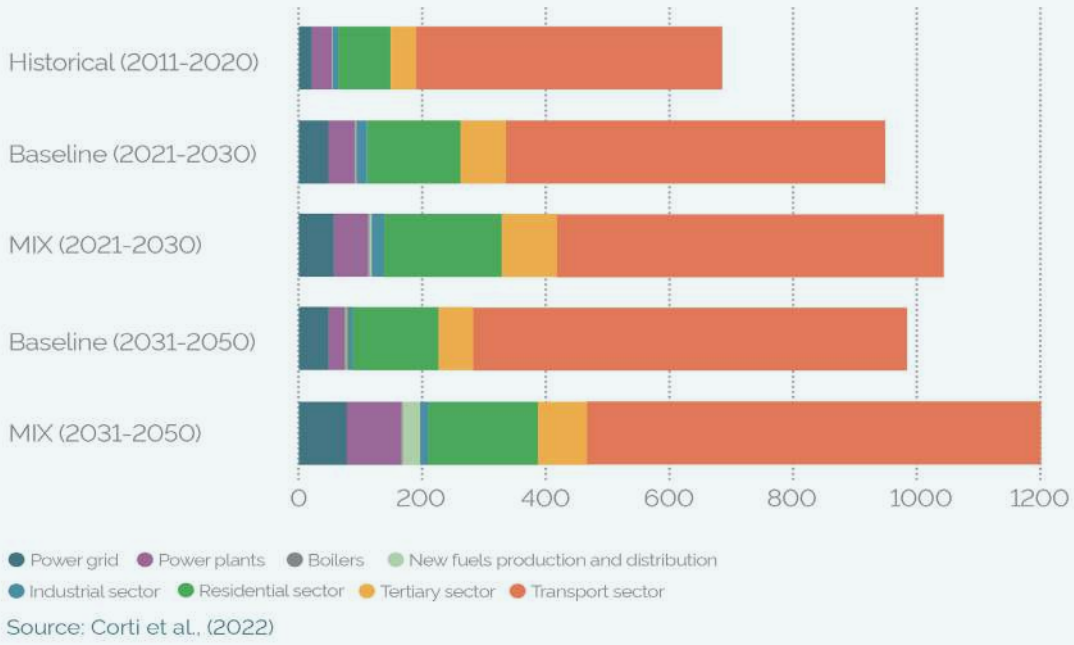
What stands out from Figure 2 are the high average annual investments for the **residential and transport sectors** under all scenarios and in all time periods. Transport alone accounts for over one half of the total, and residential investments for a further 20-25%. The bulk of the investment is thus not needed in order to build **more renewables or reinforce the grid**, but to reduce energy demand for heating and transport. **Total investment needs are dominated by the residential and transport sectors**. This is also the case if one looks at the increase (comparing actual 2011-20 to the mix scenario for 2021-30). Figure 3 below shows that the increased investments required in the residential and transport sectors amount to about €122 billion (€70 billion for the residential sector and €52 billion for transport). This is equivalent to about 61% of the total increase, which is €200 billion per annum if one takes into account GDP growth between these two decades.

All of the supply side investments (power, grid, boilers, etc.) require only about 20% of the total increase needed. In the EU the electric power sector is mostly private and the residential sector is fully private: one can thus immediately see that an overwhelming proportion of the additional investment needs will be borne by the private sector. Transport is the main sector where the share of the public sector is higher.

One key issue here is the increased investment in railway infrastructure, which in some countries (notably Italy) absorbs a large share of the NGEU funds which might not be included in the Commission-JRC study. According to the European Investment Bank (EIB), about **€40 billion per annum are being spent to promote the shift from road to rail**.[7] Krebs and Steitz (2021) argue that Germany alone needs over €100 billion in additional railway infrastructure.[8] A major issue that still needs to be resolved is whether such **a large increase in rail investment is needed** given that the advantage of rail travel over road transport is likely to diminish with the coming combination of zero-emission power and electric vehicles.

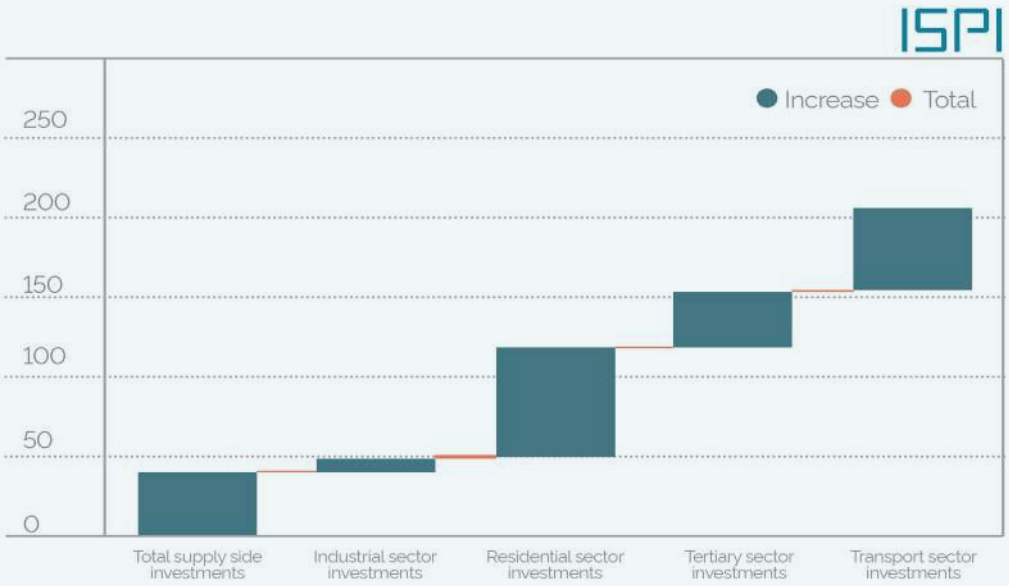
The overall conclusion that emerges from this cursory examination of the available estimates of green investment needs for the coming decades is that the required effort looks much more manageable if one looks at the additional investments required for more ambitious targets and takes into account the fact that even modest growth distributes the burden across a large economy.

FIGURE 2 - AVERAGE ANNUAL GREEN INVESTMENT NEEDS IN THE EU BY SECTOR



Source: Corti et al., (2022)

FIGURE 3 - INCREASED INVESTMENT NEEDS (ANNUAL EURO BILLIONS, ADJ. FOR GDP GROWTH)



Source: Own calculations based on European Commission (2020), Impact Assessment, EUR-Lex - 52020SC0176 - EN - EUR-Lex (europa.eu), Link 2, p. 105 ff.

1. EUR-Lex - 52020SC0176 - EN - EUR-Lex (europa.eu)
2. Pisani-Ferry, J. (2021). Climate policy is macroeconomic policy, and the implications will be significant (No. PB21-20).
3. Claeys, G. and Tagliapietra, S. (2020) 'A trillion reasons to scrutinise the Green Deal Investment Plan', Blog [Preprint]; Darvas, Z. and Wolff, G. (2021) 'A Green Fiscal Pact: Climate investment in times of budget consolidation.', Policy Contribution 18/2021, Bruegel; Bertram et al., 2022 Bertram, L. et al. (2022) New Fiscal Rules for the EU - Design. Choices Matter. Cologne; Corti, F. et al. (2022) A qualified treatment for green and social investment within a revised EU framework. CEPS Research Report RR 2022-02. Brussels
4. International Energy Agency (2021) Net Zero by 2050. A Roadmap for the Global Energy Sector. Paris; International Renewable Energy Agency (2021) World Energy Transitions Outlook: 1.5°C Pathway. Abu Dhabi.
5. Corti et al. (2022); Lenaerts, K., Tagliapietra, S. and Wolff, G.B. (2022) '7. Europe's Green Investment Requirements and the Role of Next Generation EU', in F. Cerniglia and F. Saraceno (eds) Greening Europe. Cambridge, UK: Open Book Publishers, pp. 97–106. Available at: https://doi.org/10.11647/OBP.0328.07.
6. Prognos (2022) Beitrag von Green Finance zum Erreichen von Klimaneutralität in Deutschland - Öffentlicher Anteil an Klimaschutzinvestitionen, https://www.kfw.de/PDF/Download-Center/Konzernthemen/Research/PDF-Dokumente-Studien-und-Materialien/Prognos_Kurzstudie_Green_Finance_AnteilOeffentlich.pdf
7. EIB 2022, p. 92 European Investment Bank (2022) Investment Report 2021/2022 Recovery as a springboard for change. Luxembourg.
8. Krebs, Tom and Janek Steitz (2021) Öffentliche Finanzbedarfe für Klimainvestitionen im Zeitraum 2021-2030, New Forum Working Paper no. 3, 2021, https://newforum.org/wp-content/uploads/2022/01/FNE-WP03-2021.pdf

Daniel GROS is a Member of the Board and Distinguished Fellow at the Centre for European Policy Studies (CEPS).

The hope is that in the coming months, a new Pact will be approved that can combine debt sustainability and growth, leveraging the opportunities provided by the Commission's proposals, on a more ambitious level.

Additionally, the **European economic governance should be strengthened to prevent a replay of the Eurozone crisis of 10 years ago**. Indeed, a lot has already been done over the last years especially in terms of banking regulation (e.g. on banks' capital buffers) and a more effective supervision by the ECB. This turned out to be particularly useful during the pandemic when financial institutions showed a relatively good performance. However, further steps need to be taken, especially in a time of rising interest rates, high energy and commodity prices which may start a new wave of corporate insolvencies and loan defaults hampering banks' stability. To avoid these risks, **the banking and financial Union should be completed**. In particular, despite the (limited) backstop provided by the **European Stability Mechanism (ESM),** the single resolution mechanism should be further strengthened by increasing its current firepower. In addition, **the European Deposit Insurance Scheme (EDIS)** should be fully implemented to escape the fate of bank runs in the face of possible banks' defaults (and the related bail-in).

On the geo-political front, there is an evident need to reshape the previous growth model by inserting elements of the EU's (open) strategic autonomy. In addition to the economic competitiveness ensured by investments in the green and digital transitions, such a model should also **secure energy supplies and a defence capacity that can project itself into nearby allies**, in coordination with – but being functionally autonomous from – the United States and NATO.

The problem is that with regards to the **energy and military spheres**, the EU's institutional arrangement still has limited scope and depth, is all-too-often paralysed by the requirement of unanimity, and has to reconcile highly divergent interests, especially between western and eastern Europe.

Some progress has been made in the field of energy policy, for instance with the rapid abandonment of Russian fossil fuels through the Commission's RePowerEU plan (see Box 2 on options for the EU energy system). A broader vision is however needed, supported by adequate decision-making processes leading to specific choices on

key technologies, energy mix, and integrated value chains on which stimulating a convergence of public and private investments. Lacking this approach, **there is a risk of shifting from depending on Russian gas to depending on Chinese rare earth minerals**. The demand pressure generated on certain raw materials used for renewable energy (especially lithium), if not adequately tackled by policymakers through investments in Europe-based integrated value chains, **also by the defence industry**, for instance, could in fact easily translate into a new "tax" on European citizens, via higher prices.

Concerning defence policy, it should be pointed out that after the United States, the EU is the world's second-largest manufacturer and exporter of arms, with annual sales of about US$8 billion (versus the United States' US$10.2 billion), far more than Russia (US$2.7 billion) or China (US$1 billion). In particular, France, Germany and Italy combined account for 80% of the European weapons industry, with annual exports amounting to about US$6.5 billion (excluding domestic production).

80%

Combined share of France, Germany and Italy in the European weapons industry

Against this background, **it would be key for the three core founders of the Union – France, Germany and Italy, as a nucleus of federated countries – to steer European strategic choices in light of common demands and shared international interests**. During this phase, the relevant institutional instrument could lie in closing the triangle of bilateral agreements between the three founders: France and Germany are historically bound by the Treaty of Versailles; Italy and France are now tied by the Quirinal Treat; but a wide-ranging treaty between Italy and Germany, in coherence with the principles of the other two, is still missing.

Building upon such a wide-ranging political agreement between the three great founders, the Commission could then make proposals for a new institutional governance coherent with the reform programme proposed by the Conference on the Future of Europe. Some of these proposals do not imply modifications to the Treaties, while others do; nevertheless, they could be achieved through strengthened cooperation, especially as regards foreign policy and common defence.

OUR TAKE

The evidence discussed insofar points at the fact that the export-led model of the European Union is in jeopardy, with the new global (dis) order requiring the design of a revised growth model. A whole range of indicators, some of which presented in this report, hint at a model that

should capitalize more on the EU internal market, which remains the richest in the world; and on technologies related to the energy and digital transitions, including their combination in some key value chains (such as, for example, the electric car) in which European industries maintain a world technological leadership. All this should be done, while at the same time preserving and adapting the role of global market access as one source of economic growth for the Union.

The **National Recovery and Resilience Plans** under implementation by the European countries already consistently steer EU industrial policies in this direction, and as such represent a valid initial point around which coordinate future policy choices, starting with fiscal and energy ones.

On the fiscal side, the possible financing needs of this new EU model have already been highlighted in this Paper. Obviously, as already noted, they will not all be bearing on public resources, and they might entail a better use and rationalization of the existing EU funding opportunities, but clearly, to be consistent with the new growth model, the new set of rules has to guarantee enough fiscal space for key investments in the various transitions (green, energy, digital, security). The latter can be achieved (not exclusively) through some flexibility in the **new set of national public finance rules** (see the previous comments in this Paper on this topic, and through the setup of **new EU funding provisions**. To that extent, the idea of a **European Sovereignty Fund** is certainly worth exploring, although at this stage of the debate is still unclear whether the latter should bear on the **EU budget through the emission of EU public debt**, backed by a further revision of the Own Resource Decision (i.e. following the same model of NGEU); or through a more widespread use of a structured finance architecture, in which public funding provides a guarantee of first loss absorption, that is following the model of the European Fund for Strategic Investment already developed under the European Investment Bank.

Concerning the front of energy, a renovated EU growth model has to rely on two key premises: **the security of energy inputs, and their cost-competitiveness**. These two conditions point at the rapid abandonment of the supply of fossil fuels from Russia, and their swift substitution with renewables, guaranteeing at the same time access at reasonably priced fossil energy sources during the transition phase, and as buffers for the final EU energy mix (as renewables are not completely predictable in their availability). To that extent, the Commission's RePowerEU strategy, combined with the **Fit for 55 reduction of CO2 emissions by**

2030, both go in the right direction. However, a **more structured and comprehensive strategic framework is needed for an integrated EU energy policy**. The latter entails the development of an integrated and smart energy grid, the provision of adequate storage capacity (through both redundant renewables/hydro capacity, battery farms, and integrated gas storages), and the capability to strategically diversify gas suppliers (Norway, South Mediterranean and LNG) through joint purchase platforms. All this supported by an adequate financing of the necessary investment, as already discussed in this Paper, and effective decision-making tools.

As the new growth model will be developed within a more fractured political scenario at the international level, it also implies **the capacity to project European interests beyond the EU 27 to include the entire Balkans, the countries of the Caucasus from Ukraine to Turkey, and the southern Mediterranean,** with which the issue of immigration should be managed jointly. This implies the setup of a broad Confederation of countries with geographic ties to Europe that can participate in an economically integrated area. This approach may also help re-engage the United Kingdom after Brexit. Several proposals have already been made in this regard, and the European Council has launched to that extent the project of the **European Political Community**, who has seen a first meeting last October in Prague. Moreover, the EU could capitalize better on the network of bilateral Association agreements already existing with our neighbours, through the network of Association Councils setup between the EU and the governments of the countries that have signed Association agreements.

Without these additional steps, on both the internal and external fronts, there is a real risk that the European growth model will not find a place in the new, conflict-driven geopolitical context. With its 27 Member States, the EU may end up being both **too big**, in terms of its political heterogeneity, and **too small**, in terms of its geographic extension. Too big, because different needs of Member States risk watering down the key developments required in the area of fiscal and energy policy. And too small, because limiting the new policies to 27 Member States does not ensure the capability to protect their developments from negative external shocks.

It follows that a **re-definition of the European architecture**, both in terms of growth model and the design of institutions coherent with such a model, can no longer be delayed.

Appendix

Carlo Altomonte, Martina Di Sano

1.1 The European supply chain and its response to external shocks: Towards an era of de-globalisation?

Over the last four decades, the world has become increasingly interconnected: countries already at the centre of the global arena widened the size of their exports and imports, while previously closed economies started opening up to international trade. Initially, this process has been favoured by the series of reforms that emerging regions undertook **starting from the 80s, reforms that allowed countries like Brazil and China to enter the international market and to join the WTO.** At the same time, profound transformations within the production processes have played a parallel role in further spurring global connections. Indeed, while geographical distance has usually discouraged countries from trading with remote areas in the world, the combination of technological improvements, falling transportation costs, and increasing complexity of production, induced a strong specialisation and fragmentation along the supply chain, while leading several economies to switch their policies from locally oriented to more global ones. Rather than reverting this trend, the new century has seen a surge in global trade, with world exports rising by more than 85% in less than 20 years (Figure 1).

80

Economies whose top trading partner is the EU

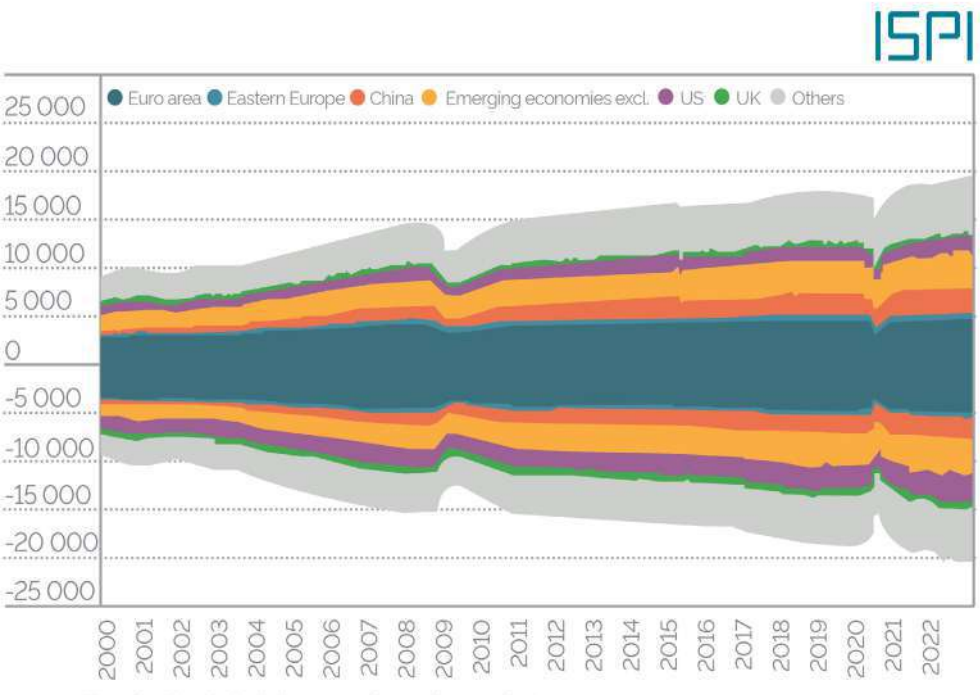
Within this increasingly globalised picture, where does the European Union (EU) stand in terms of integration into the world market? Interestingly, the EU is by far the main trading partner for around 80 economies, reporting the highest global market shares for both exports and imports since its foundation. Though never challenging its leading role, **the EU has nonetheless recently experienced a sizeable reduction of its international relevance**, fuelling nowadays less than 30% of global exports. Is this loss entirely attributable to external factors, like the emergence of new producers and exporters? Or can it be partly ascribed to a recent European tendency towards de-globalisation? It is hard to provide a priori an answer to these questions. Indeed, while economies like the US have openly adopted policies that inaugurate a phase of de-globalisation (or at least de-coupling from China), European attitudes towards an eventual strategic autonomy are less clear.

This Appendix, by examining structural and short-term features of European integration into global and regional value chains, aims at assessing the dependency of the European competitiveness on foreign inputs. In addition, by discussing the response of its supply system to recent external shocks, the box provides insights on the robustness and resilience of European global and regional integration and on the advantages and disadvantages of this model.

1.2 The fragility of the European production system in the current international scenario

As mentioned in section 1.3, exports lie at the heart of the European growth model, representing an essential source of income for most Member States. Given the high integration of the EU into global and regional supply chains, the production of these final exported goods is usually fragmented into numerous stages that take place outside of the EU, making **European exports largely dependent on the availability of raw materials and intermediate goods imported from elsewhere**.

FIGURE 1 - WORLD EXPORTS AND IMPORTS OF GOODS BY REGION (VOLUMES, BILLION USD, SA)
EDS (ANNUAL EURO BILLIONS, ADJ. FOR GDP GROWTH)



Source: CPB and authors' calculations. Last observation: October 2022

China

Zero Covid policy worsened supply chain disruptions in 2022

Until recently, such a system of production has been welcomed as a promising way to increase efficiency and reduce production costs, while the negative repercussions of this simultaneously fragmented and integrated process have been discarded. However, recent adverse events, starting with the financial crisis and culminating with the pandemic, the blockage of the Suez Canal, and the war in Ukraine, have shed a light on the fragility of a production system that relies on the provision of foreign inputs for its smooth functioning. In this context, it is not hard to see why **the desirability of such an economic structure has been recently questioned**. Indeed, the rapid transmission of upstream disruptions along the production chain and the long-lasting supply bottlenecks have revealed the weaknesses inherent to the current global supply system, thus eliciting a heated debate around the topic of globalisation. More specifically, widespread lockdowns and the related shutdown of numerous factories have triggered a chain of events that resulted in extended delivery times, shortage of essential materials, skyrocketing shipping costs, and interruptions to the production of final goods, which unleashed their negative consequences on the European supply and export system. The war in Ukraine and the related cuts in the provision of gas, raw materials, and food commodities contributed to worsen this dreadful scenario. Even more, the extended Chinese lockdowns of 2022 exacerbated an already devasted macroeconomic outlook. In this context, the public discourse is increasingly permeated by concerns around the consequences of globalisation. Therefore, while the myth of rapid and efficient supply chains largely contributed to the popularity of GVCs at the end of the XX century, the preference for robust and resilient production lines is now taking ground. But **how can robust and resilient supply chains be guaranteed?** Two are the possible solutions. On one side of the debate there are those who argue that more local supply chains should provide greater security to the production process, by shielding the latter from shocks that hit geographically distant economies; on the other side, the supporters of an even stronger vertical integration stress the fact that global supply linkages widen the opportunities of facing domestic disruptions via foreign production. Both sides of the debate have their own validity, which is rooted in past experiences. Indeed, while most recent pandemic-related events have shown how depending on the provision of Chinese inputs caused a series of supply bottlenecks among otherwise unaffected European countries, geopolitical tensions and Russian economic retaliations have demonstrated that the same EU economies would not have been able

to compensate for the lack of intermediate goods without resorting to countries geographically distant from the conflict.

Thus, it is hard to judge a priori whether one or the other solution is more desirable, and numerous are the questions that need to be answered before determining which of the two sides of the debate is going in the right direction. For this reason, leaving aside any ambition to forecast future trends, the rest of the Appendix attempts at providing a comprehensive picture of the historical evolution of European integration into global and regional value chains and of its response to recent shocks. In this way, we hope to provide insights on the advantages and weaknesses of the current European model.

1.3 Structural EU integration into global and regional supply chains[1]

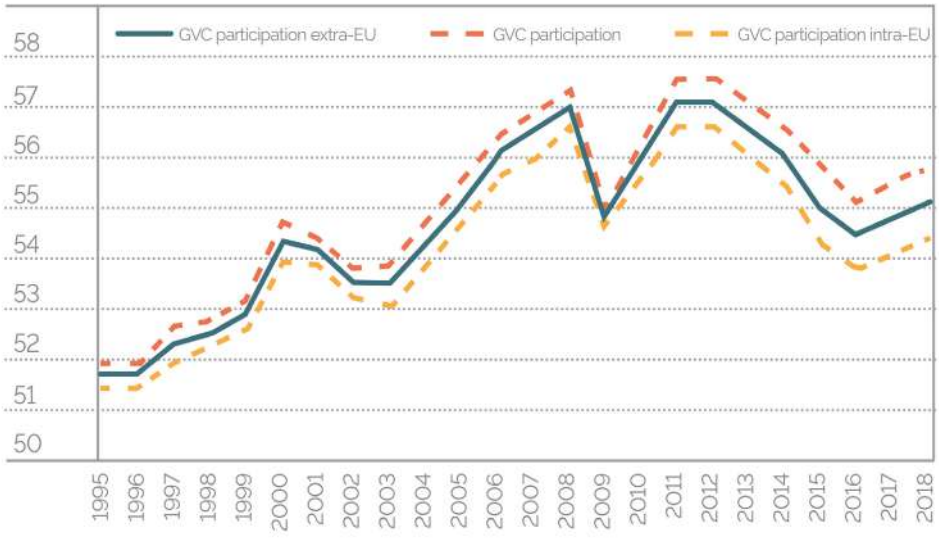
14.7%

Share of EU in world exports in 2021

While the beginning of the XXI century was still permeated by the race towards globalisation, the great financial crisis (GFC) and the European debt crisis resulted in a slowing down of this global tendency and in the promotion of practices like near-shoring, friend-shoring, and re-shoring aimed at reducing the dependency of the European production chain on factories located in remote areas of the world. **This process of regionalisation is exemplified by the stabilisation of the intra-EU export market share at levels above 60% and a simultaneous decline of the extra-EU one below 20%**.

Despite providing interesting insights, looking solely at the magnitude of exports and at market shares is not enough to fully capture the essence of the EU production and trading system, which has been increasingly reliant on international supply chains. Rather, switching the attention from the size of exports to the amount of value added embedded into such exports represents a first step towards the construction of a more comprehensive picture of the European integration in the global market. Interestingly, up to the GFC, the dependency on both regional and global production linkages has been strengthened over time, with intra-EU and extra-EU GVC participation following parallel upward trends (Figure 2). As with the case of gross exports, this historical development was temporarily interrupted by the advent of the GFC, eventually signalling the lack of robustness of the European participation to international value chains. On the other hand, the subsequent strong rebound demonstrates the resilience of this production system, while the recent slowing down seems to provide further ground to the original hypothesis concerning the new tendency towards de-globalisation.

FIGURE 2 – GVC PARTICIPATION OF THE EUROPEAN UNION (%, SHARE OF GROSS EXPORTS)



Source: OECD TiVA and authors' calculations.

Note: GVC participation is calculated as the sum of foreign value added (FVA) in gross exports and of indirect domestic value added (DVA/IV) in gross exports, following the definition provided in ECB OP n. 221. Last observation: 2018

1.4 Robustness and resilience of the European supply chain

Given the strong integration into value chains that characterises the European Union since the end of last century, we now move on to study the robustness and resilience of this model to more recent shocks. Before undertaking such an analysis, it is worth noting that from now on we will use a different set of data. Indeed, since data on trade in value added are provided solely at annual frequency and with a significant delay of time, they are not useful for evaluating the response of supply chains to most recent shocks. Thus, for the sake of the present analysis, we construct a proxy of backward GVC integration based on imports of intermediate goods.[2] The focus on backward linkages relates to the peculiar scope of this Appendix, which aims at studying how the European supply chain, largely dependent on foreign inputs for its downstream competitiveness, responds to delays and interruptions in the delivery of such products. According to this GVC tracker, **the EU has become more (backward) integrated over time both at the global and at the continental level**, with the size of total imports of intermediate goods more than triplicating in twenty years (from slightly more than 100 billion of euros in January 2002 to almost 400 in September 2022). As already seen, such

€400 billion

Total intra- and extra-EU imports of intermediate goods in September 2022

a race towards globalisation experienced a first strong slowing down during the financial and European debt crisis, and a second one with the outbreak of Covid-19 in March 2020 (Figure 3). Two are the elements that should be noticed here. First, though not robust, both regional and global integration proved to be extremely resilient, especially during the recovery phase after the recent health emergency, when intermediate imports reached an all-time peak (Figure 3). Second, the rapid rebound after both crises has been significantly stronger at the regional rather than at the global level, suggesting that the EU tends to react to external shocks by shifting away from globalisation in favour of regionalisation. Nonetheless, such a general pattern has been challenged by the Russian invasion of Ukraine on 24 February 2022, when shortages of raw materials, gas, and food commodities from geographically proximate areas caused serious disruptions to the European production chain. In a context of worsening geopolitical tensions, globalisation seems to have played an essential role in cushioning the short-term economic repercussions of the war, as it allowed European countries to import more intermediate products from (friendly) extra-EU regions in order to cope with local supply disruptions (Figure 3, Panel b).

From this evidence, it is possible to draw two main conclusions: **first, neither regional nor global integration are robust to external shocks, but they are both resilient**; second, **contrary to the historical trend of a widening gap between regional and global integration (in favour of the former), global vertical linkages gained momentum in the EU after the shock caused by the war**. Thus, on the one hand, **the pandemic has shown the dark side of global interconnectedness**, demonstrating how such long-distant trade relationships allow the rapid transmission of shocks and cause widespread disruption to supply chains. On the other hand, **the war in Ukraine suggests that strong vertical linkages with (friendly) extra-EU partners can be exploited to overcome temporary regional supply disruptions**.

FIGURE 3 – IMPORTS OF INTERMEDIATE GOODS BY PARTNER REGION
PANEL A) VALUES, BILLIONS OF EUROS, SEASONALLY AND CALENDAR ADJUSTED DATA

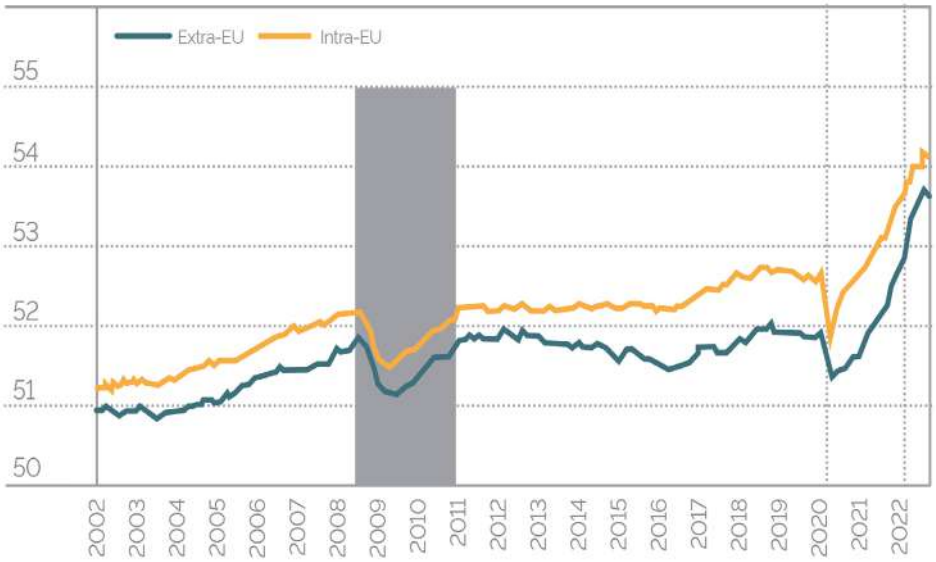
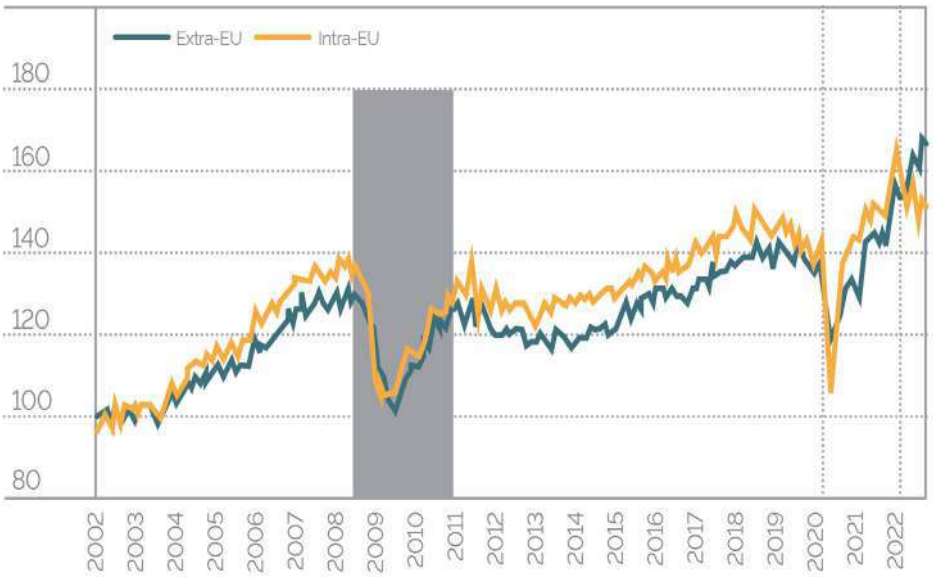


FIGURE 3 – IMPORTS OF INTERMEDIATE GOODS BY PARTNER REGION
PANEL B) VOLUMES, 2002 = 100, SEASONALLY AND CALENDAR ADJUSTED DATA



Sources: Eurostat and authors' calculations.
Note: Grey bars indicate crises, including the financial and sovereign debt crisis, the outbreak of Covid-19, the Russian invasion of Ukraine. EU includes all EU 27 countries in fixed composition. The definition of intermediate goods is taken from BEC classification.
Last observation: September 2022.

1.5 Does the EU export competitiveness really depend on backward integration into value chains?

Having established the role of global integration in compensating for local shortages of intermediate inputs, another question arises: **are imports of intermediate goods fundamental for the European production chain?** In other words, we are asking whether there is a correlation between the provision of these inputs and the European exporting capacity of final products, since so far we have just assumed (without proving) that upstream disruptions in other EU countries can freeze the European production system. According to most recent available data, **such a correlation is actually very high (of the order of 0.95)**, suggesting that the opportunity of freely exchanging intermediate products within EU countries could be a strong driver of EU exports of final goods. Given this structural feature of the European supply chain, once again it is interesting to analyse the evolution and the short-term response of this system to external shocks. From an historical perspective (Figure 4, Panel a), the strongly positive correlation between intra-EU imports of intermediate goods and exports of final goods intensified over time, with each Member state strengthening its backward linkages at the regional level and forward linkages at the global one. In this context, **the magnitude of the two types of integration (namely backward regional and forward global) contemporaneously rose for all countries from 1999 to 2021**, leaving Germany as the most integrated area, and the Netherlands and Spain as the most disconnected ones. An exception to this stable pattern is represented by Central Eastern European countries, which experienced an impressive rise in the imports of intermediate goods over the period considered. Indeed, since productivity of CEE economies largely depends on foreign value added,[3] their entrance into the Single Market allowed them to access inputs under more favourable conditions, thus boosting their production and exports. Numerically speaking, intra-EU imports of these goods rose from approximately 50 billion of euros in 1999 to almost 400 billion of euros in 2021, making CEE countries among the first destinations of European intermediate products. At the same time, their exports of final goods significantly increased as well, passing from less than 10 to almost 80 billion, together with the share of value added embedded in these traded goods (size of the bubble in Figure 4, panel a and b). When it comes to the analysis of robustness and resilience of global and regional supply chains, a comparison between pre- and post-pandemic levels (2019 vs 2021) can

€400 billion

Intra EU-imports of intermediate goods by CEE countries in 2021

provide useful insights on the topic (Figure 4, Panel b). Interestingly, the post-Covid era reports a complete rebound of the exporting capacity of the countries in question and an even strengthened regional backward integration, confirming the high resilience of continental supply chains.

FIGURE 4 - EU IMPORT OF INTERMEDIATE GOODS FROM EU COUNTRIES AND EU EXPORT OF FINAL GOODS TO EXTRA-EU COUNTRIES (BILLIONS OF EUROS) PANEL A) HISTORICAL EVOLUTION

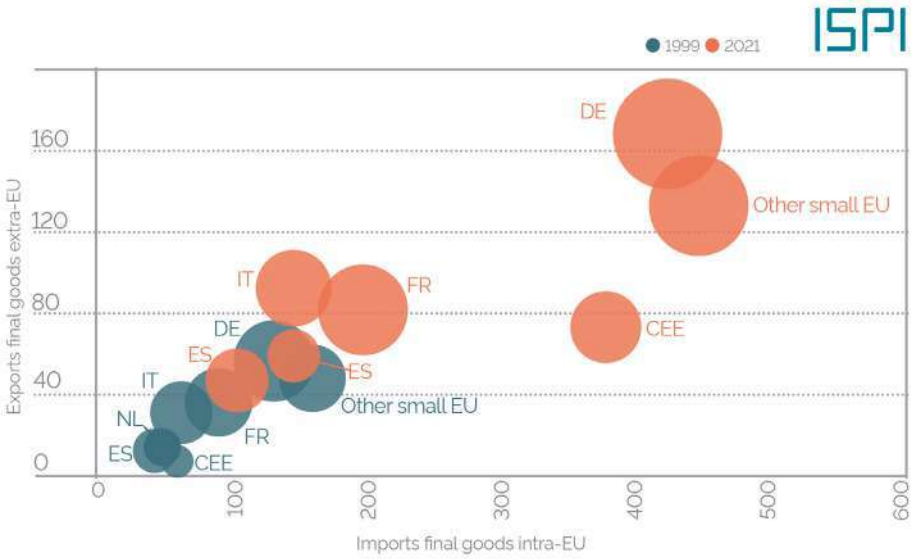
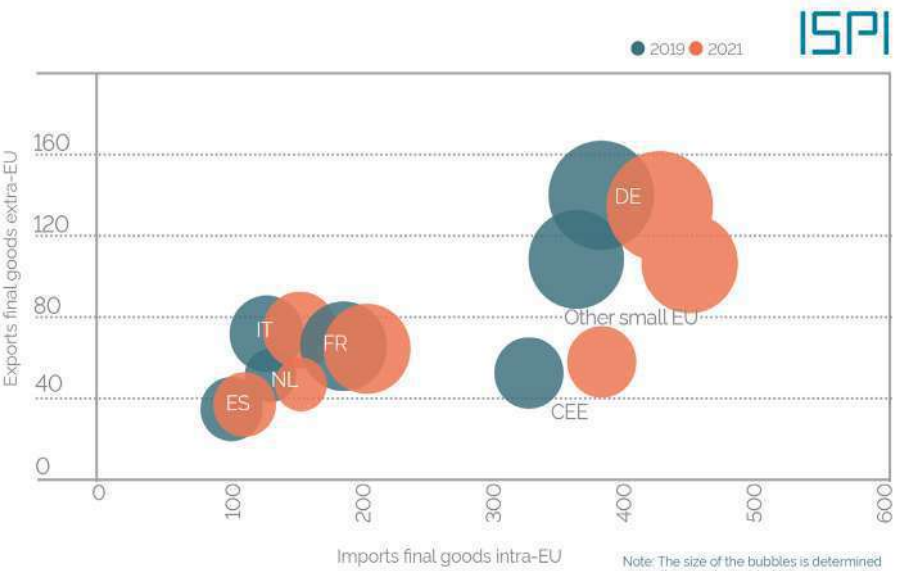


FIGURE 4 - EU IMPORT OF INTERMEDIATE GOODS FROM EU COUNTRIES AND EU EXPORT OF FINAL GOODS TO EXTRA-EU COUNTRIES (BILLIONS OF EUROS) PANEL B) PRE AND POST SHOCK

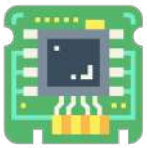


Source: Eurostat, OECD TiVA 2021, and authors' calculations.

Note: The size of the bubbles is determined according to value added in gross exports for the same year. The category of intermediate and final products is constructed using BEC classification Rev. 4.

Overall, **the descriptive analyses presented so far suggest that regional integration could have played an essential role in guaranteeing the functionality of the EU supply system**. Indeed, the productivity of European hubs and their exporting capacity is strongly correlated with a smooth provision of intermediate goods from other Member States located upstream along the supply chain. At the same time, the war in Ukraine has shown how vertical linkages between geographically distant countries (globalisation) are fundamental to avoid that local supply disruptions can result in widespread interruptions to the European production chain.

1.6 The case of semiconductors



chips

The EU largely depends on Asia and the US for their provision

Within the European context, the importance of global integration is not solely restricted to the opportunity of rapidly sourcing a replacement to temporarily unavailable goods. Quite the opposite, **GVCs also function as important channels for the provision of essential intermediate parts,** whose production, because of its high-technological intensity, is limited to few countries. This is the case, for instance, of semiconductors, whose shortage has been at the core of recent supply bottlenecks and heated public debates. Semiconductors are electronic devices, commonly known as chips. Though very small in size, their availability is essential for the realisation of almost all electronic products, not only in the ICT industry, but also in the automotive, military, and medical sectors, making them the backbone of European exports. **The EU largely depends on Asia and the US** for the provision of these devices. Starting with the outbreak of the pandemic, then followed by the blockage to the Suez Canal and the subsequent waves of Covid-19, shortages of semiconductors have negatively impacted European productivity, its exporting capacity, and its GDP, thus revealing the fragility of a production system that strongly relies on the uninterrupted provision of foreign inputs for its proper functioning. Most importantly, even after managing to control the spread of Covid-19 thanks to successful vaccination campaigns, the EU has seen its production chain threatened by Chinese lockdowns. Therefore, while the war in Ukraine has shown how global integration is fundamental for European countries in order to overcome regional disruptions, the case of semiconductors demonstrates that the same type of integration is extremely dangerous when it comes to the propagation of shocks that, in the absence of tight economic connections, could have been restricted to areas geographically far from Europe. In

8.2.22

The European Commission announces the EU Chips Act

this context of high uncertainty and exposure to foreign disruptions, it is possible to insert the **European Chips Act**, a provision adopted by the European Commission on 8 February 2022 and aimed at reducing the European dependency on external providers of semiconductors. Despite the purpose of boosting the autonomy of the region in this sector and despite the recent successful increase in intra-EU imports of semiconductors, flows of chips from China to the EU starkly rose during 2022, suggesting that the region is still far from reaching a de-coupling from China and further proving that, **at least in the short run, the EU cannot survive by breaking these global supply linkages** (Figure 5, panel a and b). Since semiconductors fuel the production and export of core European sectors, the trend just described demonstrates that, as of now, the EU seems to have boosted its dependency from the Asian country instead of receding from its connections. Therefore, while the US are showing initial signs of de-globalisation or at least of a decoupling from China, the evidence just presented prevents us from drawing a similar conclusion for the European case.

FIGURE 5 – EU IMPORT OF SEMICONDUCTORS BY PARTNER
PANEL A) VALUES, BILLIONS OF EUROS

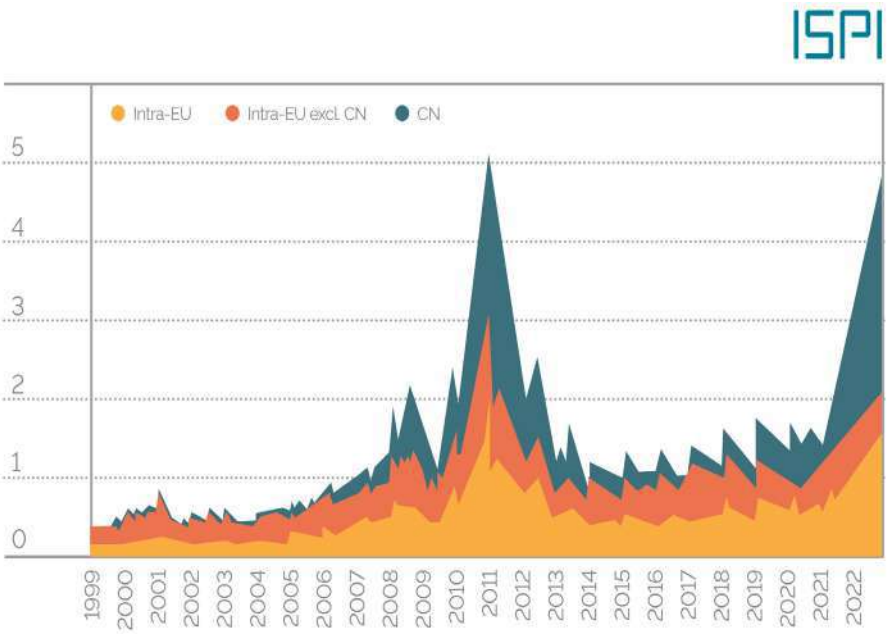
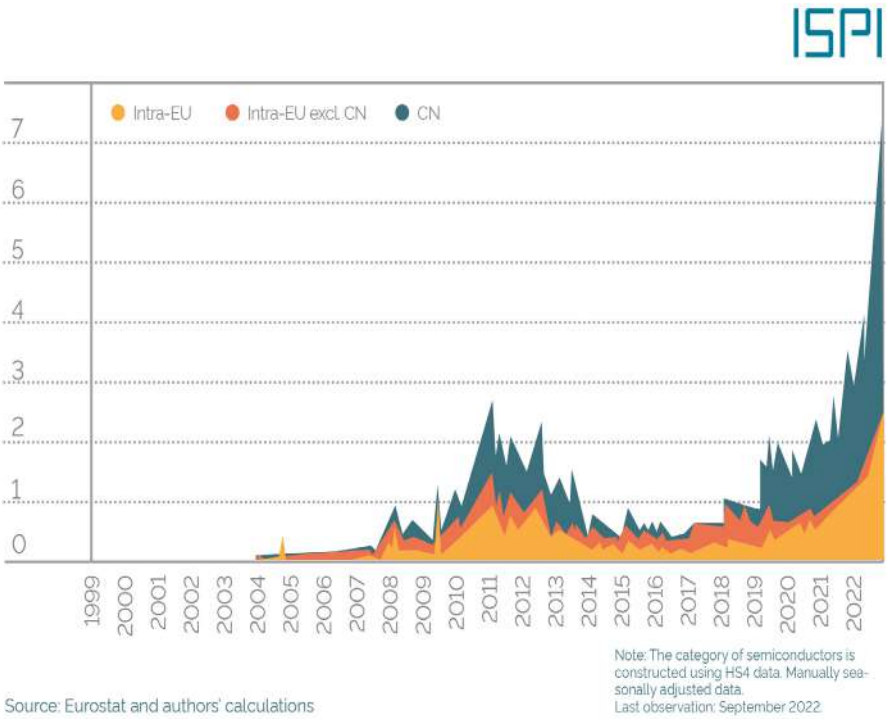


FIGURE 5 – EU IMPORT OF SEMICONDUCTORS BY PARTNER
PANEL B) QUANTITIES, MILLIONS KG



1. It is worth clarifying that by regional integration we mean trade linkages within EU Member States (intra-EU trade hereafter). On the contrary, when talking about global integration, we refer to the EU vis-à-vis extra-EU countries.
2. The category of intermediate goods is constructed using BEC classification Rev.4.
3. According to calculations based on OECD TiVA 2021, the share of foreign value added (FVA) in gross exports was highest among CEE countries, reaching (in 2018) 42% in CZ, 35% in EE, 46% in HU, 48% in SK, and 37% in SI and BG.

Concluding remarks

This Appendix has shown that EU Member States are structurally integrated into both global and regional value chains. In particular, their production lines and exporting capacity largely depend on the availability of intermediate goods imported from elsewhere (backward integration). **This network of vertical linkages has proven to be, if not robust, at least resilient to external shocks**.

From an historical perspective, the strong race towards globalisation, that has characterised the EU since the end of last century, has been first interrupted by the outbreak of the financial crisis and then it has slowed down in favour of a **more rapid process of regionalisation**. The active effort of the EU to become autonomous from external providers is exemplified by the European Chips Act, a provision adopted by the European Commission in order to reduce the dependency of core supply chains on foreign inputs. The reasons behind this anti-globalisation tendency can be mainly ascribed to recent pandemic-related events, which have shown how global interconnectedness can contribute to the rapid transmission of initially localised shocks. However, **such an effort towards de-globalisation seems to be nowadays more valid in theory than in practice**. Indeed, the EU has not shown significant improvements in the direction of a strategic autonomy. At the same time, the validity of a model of de-globalisation is currently questioned by recent geopolitical events. In fact, although the pandemic has revealed the inherent fragility of global integration, the war in Ukraine has clearly demonstrated that such commercial linkages represent a safe haven in case of localised shocks, since they allow European countries to avoid serious supply disruptions by outsourcing essential intermediate goods from regions that, because of their physical distance, are protected against local shocks. Furthermore, the extremely high specialisation and technological advancement necessary to produce certain intermediate goods (e.g., semiconductors) prevent from undertaking a process of rapid strategic autonomy without significant investments and short-term disruptions to core European production chains.

About the Authors

- **Carlo Altomonte** is Professor of Economics of European Integration at the Social and Political Sciences Department of Bocconi University. He is currently the Director of the Globalization and Industry Dynamics unit at the Baffi-Carefin centre of research of Bocconi University, a Non Resident Fellow at Bruegel, a EU think tank, and a Senior Researcher at ISPI. He has been Visiting Scholar at the Centre of Economic Performance of the London School of Economics and at the Research Department of the European Central Bank. His main areas of research and publication are international trade and investment, the political economy of globalisation and its implication on competitiveness. On these topics, he has published a number of books with international editors as well as several articles in leading academic journals.
- **Martina Di Sano** is graduated in Economic and Social Sciences at Bocconi University in Milan, she is currently Academic Fellow at the Baffi Carefin Research Center and Consultant at the European Central Bank, where she worked as Research Analyst, with publications in the field of international trade.
- **Alicia García Herrero** is a Senior Fellow at European think-tank Bruegel. She is also the Chief Economist for Asia Pacific at Natixis, and a non-resident Senior Follow at the East Asian Institute (EAI) of the National University Singapore (NUS). Alicia is also Adjunct Professor at the Hong Kong University of Science and Technology. Finally, she is a Member of the Council of Advisors on Economic Affairs to the Spanish Government and an advisor to the Hong Kong Monetary Authority's research arm (HKIMR) among other advisory and academic positions.
- **Daniel Gros** is a Member of the Board and Distinguished Fellow at the Centre for European Policy Studies (CEPS). He joined CEPS in 1986 and has been the Director of CEPS from 2000 to 2020. Prior to joining CEPS, Daniel worked at the IMF and at the European Commission as economic adviser to the Delors Committee that developed the plans for the euro. Over the last decades, he has been a member of high-level advisory bodies to the French and Belgian governments and has provided advice to numerous central banks and governments, including Greece, the UK, and the US, at

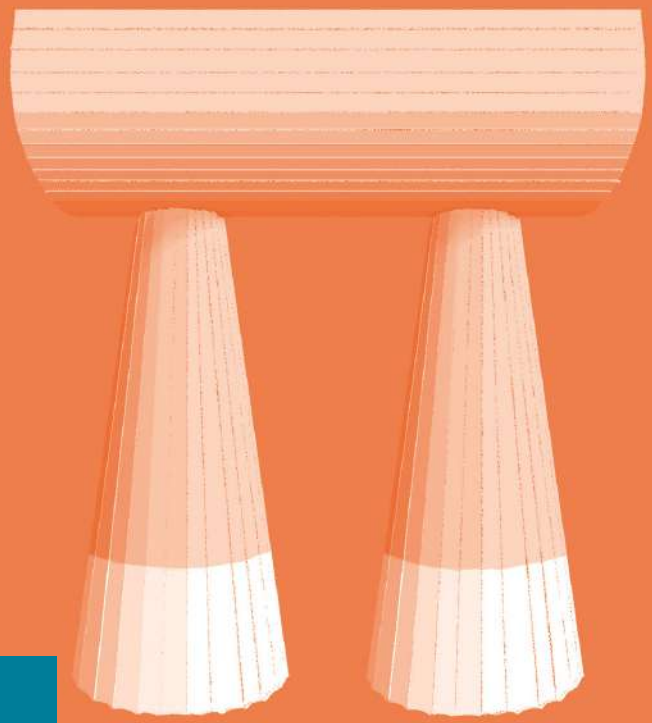
the highest political level. Daniel is currently also an adviser to the European Parliament and was a member of the Advisory Scientific Council (ASC) of the European Systemic Risk Board (ESRB) until June 2020. He held a Fulbright fellowship and was a visiting professor at the University of California at Berkeley in 2020.

- **Antonio Missiroli** was the Director of the European Union Institute for Security Studies from mid-October 2012 to December 2017. As from January 2018 he is NATO Assistant Secretary General for Emerging Security Challenges. He was a professional journalist and commentator on EU and international affairs. He has lectured in several subjects at various universities (European politics at the University of Bath, European security at the university of Trento, transatlantic security at Boston University, and European Foreign Policy at the School of Advanced International Studies of Johns Hopkins University. He worked in the Bureau of European Policy Advisers of the European Commission as the Head of the European Dialogue from 2010 to mid-October 2012. Before joining the Bureau of European Policy Advisers, he acted as Director of Studies at the European Policy Centre in Brussels (2005-2010). He currently teaches a course called "The EU and NATO: emerging security challenges" at Sciences Po Lille.
- **Antonio Villafranca** is ISPI Director of Studies and Co-Head of the Europe and Global Governance Centre. He is lecturer of International Relations at the Bocconi University (Milan), where he was also lecturer of European Economic Policies (2016-2018), and of 'Structure of International Society' at the IULM University. He is an economist by training and received his MA from the Catholic University of Milan where he also specialised in Economics and International Relations. He also served as Coordinator of the Think20 (T20) Italy during the G20 Italian Presidency in 2021.
- **Georg Zachmann** is a Senior Fellow at European think-tank Bruegel, where he has worked since 2009 on energy and climate policy. His work focuses on regional and distributional impacts of decarbonisation, the analysis and design of carbon, gas and electricity markets, and EU energy and climate policies. Previously, he worked at the German Ministry of Finance, the German Institute for Economic Research in Berlin, the energy think tank LARSEN in Paris, and the policy consultancy Berlin Economics.

EUROPE AND RUSSIA ON THE BALKAN FRONT

Geopolitics and Diplomacy in the EU's Backyard

edited by **Giorgio Fruscione**
introduction by **Paolo Magri**



ISPI

EUROPE AND RUSSIA ON THE BALKAN FRONT

Geopolitics and Diplomacy in the EU's Backyard

edited by Giorgio Fruscione

ISPI

Via Antonio Boselli, 10 – 20136 Milan – Italy
www.ledizioni.it
info@ledizioni.it

Europe and Russia on the Balkan Front. Geopolitics and Diplomacy in the EU's Backyard

Edited by Giorgio Fruscione

First edition: March 2023
Cover image by Francesco Fadani.
The monument in the cover is a memorial to Mitrovica's Albanian and Serbian fighters who worked at the Trepca mines and lost their lives during World War II, symbolizing unity between the ethnic groups.

Print ISBN 9788855268929
ePub ISBN 9788855268936
Pdf ISBN 9788855268943
DOI 10.14672/55268929

ISPI. Via Clerici, 5
20121, Milan
www.ispionline.it

Catalogue and reprints information: www.ledizioni.it

Ministry of Foreign Affairs
and International Cooperation

This Report is realized with the support of the Policy Planning Unit of the Ministry of Foreign Affairs and International Cooperation pursuant to art. 23-bis of Presidential Decree 18/1967.

Table of Contents

Introduction

This June, it will be exactly 20 years since the EU-Western Balkans summit in Thessaloniki reiterated the EU's "unequivocal support" to the European perspective of the Western Balkan countries. "The future of the Balkans", the joint declaration stated, "is within the European Union". Since that eventful day, only two Western Balkan countries have become members of the EU: Slovenia (in 2004) and Croatia (in 2013 – a full decade ago). Six other countries remain non-members, four of which are now negotiating their accession (Albania and North Macedonia having begun talks in July 2022), while Bosnia and Herzegovina was awarded candidate status and Kosovo applied for membership only last December. If the EU wants to restore trust in its relations with many countries in the region, it does not need to reinvent the "geopolitical wheel": it simply needs to relaunch the enlargement process in a credible way, by setting a clear timetable and milestones to be achieved.

The 20-year anniversary of the Thessaloniki summit is not the only one being celebrated this year. It has also been 15 years since Kosovo unilaterally declared its independence from Serbia, and 10 years since the "Brussels Agreement" that first normalised relations between Belgrade and Pristina. And only a few weeks ago, in late February, the leaders of Serbia and Kosovo accepted in principle the EU plan for an effective path to normalisation between the two countries. This EU-brokered initiative has come on the heels of a Franco-German proposal, trying to reduce tensions after the "license plate crisis"

threatened to jeopardise any further improvements over the past two years. With this agreement, the EU is probably also trying to throw a spanner in the works for Russia, by attempting to limit its influence over the Serbian government or, more likely, reducing the likelihood of Moscow remaining the indirect beneficiary of actions undertaken by the Serbian government.

Faced on the one hand with seemingly endless EU negotiations that continue to sour relations with Brussels, but on the other with a possible breakthrough in Serbia-Kosovo relations that would improve the EU's position in the region *vis-à-vis* Moscow, it is only fair to ask: are the Balkans at a crossroads? This is the main question which this Report revolves around.

The first chapter by Milena Lazarević and Sava Mitrović focuses on the EU integration process in the Western Balkans. The analysts from the European Policy Centre look at the current state of play in enlargement policy, analysing both its political and procedural deficiencies and mapping their main consequences. They then provide an overview of the main non-EU actors' influences, and examine their means and methods of penetration into the countries of the Western Balkans. Next, the chapter introduces innovative proposals for overcoming the enlargement impasse developed by the European Policy Centre in Belgrade together with the Centre for European Policy Studies (CEPS) in Brussels. The "Template for Staged Accession to the EU", published by the two think tanks in October 2021, seeks to achieve a twofold objective. On the one hand, it sets out to restore motivation for the reforms needed to attain EU membership by proposing that certain benefits should be extended to the candidate countries. On the other, it aims to unlock political will in the enlargement-sceptic member states by allaying their fears about the functioning of a further enlarged Union.

In the second chapter, Vuk Vuksanović focuses on Russia and analyses the nature and the elements that characterise its presence in the Balkan region. According to Vuksanović, the

Balkans have never been a priority for Russian foreign policy in itself, but are mainly important as an indicator of Russia's place in the world and as an extension of Russia's wider relationship with the West. In that context, Russia uses the Balkans as a staging ground to demonstrate that it has reclaimed the status of global and European great power which the West denied Moscow in the 1990s. Moreover, by being present in the region, Russia gains leverage and bargaining power with the West, which is particularly important as rivalry dynamics currently dominate ties between Russia and the West. These are important considerations, as Russian influence in the region is frequently overstated. As a matter of fact, in economic and security terms, the West outmatches Russia's strategic clout in the Balkans. However, Russia has three sources of influence in the Balkans and the region's pivotal country, Serbia, that it exploits skilfully and effectively: energy, the unresolved Kosovo dispute, and soft power, interpreted as the enormous popularity that Russia enjoys among large swaths of the local population.

Here, the most important considerations have to involve Serbia and its foreign policy. The focus of the editor of this Report, Giorgio Fruscione, is on the choices that Belgrade needs to make. In fact, the war waged by Russia has been the greatest game changer for Serbian foreign policy, as it directly affects Belgrade's "game of musical chairs", turning off the music and forcing the Balkan state to sit on only one seat – a move that has not been made yet. For almost ten years, an ambivalent foreign policy has underpinned the success of Aleksandar Vučić, whose country is economically dependent on the EU while nurturing a special relationship with Russia – mainly intended to preserve Moscow's support over Kosovo. For its part, the EU has been partly complicit in Belgrade's game of musical chairs, as in recent years the EU enlargement process has become less credible, allowing scope for Russia and its soft power tools to fill the credibility gap among Serbian citizens. However, the war in Ukraine has revived the role of the EU in the region, particularly concerning the Kosovo dispute. Last summer,

France and Germany proposed a plan, eventually endorsed by all EU member states, to relaunch the normalisation process between Belgrade and Pristina amid new tensions and crises which erupted following the license plates dispute. For the EU, reaching an agreement could indirectly represent a way of killing two birds with one stone: to normalise relations between Belgrade and Pristina preventing new hotbeds of tension in Europe, and to push for Serbia's alignment with EU foreign policy.

In any case, reviving EU engagement around the Kosovo dispute will be no easy task. In the fourth chapter, Tefta Kelmendi, from the European Council on Foreign Relations, analyses the role of Western diplomacy on Kosovo and reviews the main problems of the normalisation process. In fact, the normalisation of relations mediated by the EU since 2011 have produced very limited or artificial results and, until recently, both parties regularly held each other hostage and stuck to inflexible positions on several outstanding issues. The Kosovo government has not yet implemented the 2013 agreement for the creation of the Association of Serb-Majority Municipalities (ASM) and, until recently, has made its implementation conditional on Serbia's recognition of Kosovo's independence. Serbia has been waging a diplomatic war against Kosovo by blocking its international recognition and accession to international organisations. And today Belgrade makes the implementation of the ASM by Kosovo a precondition of any further agreement and demands that the question of Kosovo's recognition be off the table. Furthermore, the nationalist rhetoric of both countries' leaders has not contributed to easing tensions and normalising relations. Neither side has prepared their public for concessions, therefore the current pressure they face from the West puts them in a very uncomfortable position. Until recently, there was little motivation in both countries to re-engage in the dialogue with the EU acting as a facilitator in the process. This is explained by the EU's generally weak policies over the past ten years, as well as its many unkept promises.

However, is the EU's geopolitical revival in the Balkans due to the fear of an open confrontation with Russia? Is a new war a real possibility? The chapter by Bojan Elek and Maja Bjeloš from the Belgrade Centre for Security Policy focuses on such a possibility and discusses Russia's trouble-making potential over the Kosovo issue within the changed geopolitical context. With the onset of the Russian invasion of Ukraine, in fact, many experts started talking about the potential spillover effects of this conflict into other regions, the Balkans being one of them. The increasingly unstable situation between Serbia and Kosovo came to the forefront and international news headlines were filled with questions on whether this was the place where Russia could start a new war. These fears, coupled with the heightened tensions between Belgrade and Pristina over licence plates that led to increased hostilities in North Kosovo, left many wondering whether this was the proverbial pot that Russia could stir in order to cause more troubles and draw attention away from what has been going on in Ukraine.

But Bosnia and Herzegovina too could be the stage where Russia might cause trouble in the region through local secessionist leaders. This is the focus of Samir Beharić's chapter. In fact, Russia has been actively empowering its proxies in Bosnia and Herzegovina, sabotaging the country's EU path and threatening its leaders with a Ukraine-style invasion if the country joins NATO. Moscow's efforts to destabilise Bosnia and Herzegovina have been rather poorly addressed by the European Union from the start. The fact that certain European leaders have engaged in appeasing populists responsible for democratic backsliding, erosion of the rule of law and a skyrocketing brain drain has not helped the EU to adequately respond to Russia's meddling in Bosnia and Herzegovina. In order to advance its interests in Bosnia and Herzegovina, the Russian regime has not only relied on its partners within the country, but has also used a wide array of tactics and strategies ranging from social media campaigns to covert financial support for anti-Western actors such as the Bosnian Serb strongman Milorad

Dodik. In order to counter such serious threats, it is important for the international community and the EU in particular to remain vigilant against the Kremlin's attempts to undermine Bosnia's stability and security. By doing so, the EU would invest in preserving the peace and stability not only of Bosnia and Herzegovina itself but of the wider region too.

The final chapter of the Report focuses on energy issues. Although Western Balkan countries have a comparatively low energy consumption (including of natural gas), they have all been strongly affected by the energy crisis. In her chapter, Agata Łoskot-Strachota, an energy expert from the Centre for Eastern Studies, focuses on how Western Balkan countries – which are relatively poor and insufficiently diversified in terms of energy sources – are among the most vulnerable in Europe. High and highly volatile prices, the still unfinished EU integration process, the continuing challenges to regional integration and the heavy dependence on Russia of some countries in the region (above all Serbia, the largest Balkan energy consumer), highlight the structural energy problems facing the Western Balkans. This is clearly visible in the natural gas sector. Although Serbia has not joined EU sanctions and continues to import gas from Russia, it has started, in parallel, to look more actively for options to diversify its sources and to secure stable and affordable supplies in the future. This shows that the war, the crisis and the intensification of Balkan energy problems may, with stronger EU involvement, also offer an opportunity to reduce Balkan energy dependence both on Russia and, in the longer term, on hydrocarbons.

Paolo Magri
Executive Vice-President, ISPI

1. The EU and Third Actors in the Balkans. Relaunching Enlargement, Reviving Credibility

Milena Lazarević, Sava Mitrović

Two decades after the Thessaloniki Summit, which declared the European perspective for the Western Balkan (WB) countries,[1] only Croatia has become an EU Member. In contrast, the rest of the region is still a long way from attaining this goal. Membership negotiations with Montenegro and Serbia have spanned a decade with limited success, while accession talks with Albania and (conditionally) North Macedonia have just been opened. After years of groping in the dark, Bosnia and Herzegovina (BiH) has just become a candidate country, while Kosovo[2] has yet to surmount the obstacles to this initial milestone, having just received the green light for visa liberalisation. Individual Member States have – for various reasons – frequently blocked the process, causing it to become tediously slow and fragmented. As the process has dragged on with little real success, political will for reforms has dwindled, while autocratic tendencies have flourished in the weak WB democracies. A geopolitical vacuum in the WB which emerged due to the absence of a credible accession perspective has been

[1] "Eu-Western Balkans Summit Thessaloniki", European Commission, 21 June 2003.

[2] This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

filled by the growing influence of third powers, most notably Russia and China as two dominant actors.

Although the Russian aggression against Ukraine has prompted the EU to advance enlargement policy on its political agenda, it is still struggling to reinvigorate real progress, transform the candidates into viable members and prevent the perverse influence of third actors. The authors of this chapter argue that policy innovations along the lines of the Model of Staged Accession to the EU[3] would help restore political will for demanding reforms in the accession countries as well as unlock political will among the sceptical Member States to further enlarge the Union. By making a success out of enlargement to the WB, the EU would not only reaffirm itself as a key geopolitical actor in its immediate neighbourhood, but also restore its status as a normative power capable of transforming accession states into consolidated democracies. The latter would also be of tremendous importance for the three Eastern Partnership countries which have just been granted either candidate status (Ukraine and Moldova) or a European perspective (Georgia) but are in an even more dire situation *vis-à-vis* external influences, particularly Russia's.

This chapter starts by looking at the current state of play in enlargement policy, analysing both its political and procedural deficiencies and mapping their main consequences. It then provides an overview of the main non-EU actors' influences and examines their means and methods of penetration into WB countries. Next, the chapter introduces innovative proposals for overcoming the enlargement impasse, before concluding with how the EU should move towards both restoring the transformative power of its once most successful policy and reaffirming its geopolitical primacy in its own inner courtyard.

[3] "A Template for Staged Accession to the EU", European Policy Centre – CEP, Belgrade, and Centre for European Policy Studies – CEPS, Brussels, October 2021.

EU Enlargement 20 Years After the Thessaloniki Summit

Whereas the process of WB integration into the EU has been underway for the past two decades, its end goal is still nowhere in sight. Several factors, related to both politics and the enlargement policy itself, have contributed to such a status quo. This section discusses those factors, to illustrate how the EU's position in the region has weakened and opened up space for interference by third actors.

Problems of a political nature

The core problem relates to the open-endedness of the process in the case of Western Balkan candidates and potential candidates (following Croatia's accession in 2013), which has led to a growing belief among both the region's citizens and political leaders that their countries might never join the Union as full-fledged members. In the twenty years following the declaration of the European perspective for the Western Balkans at the Thessaloniki Summit, the process has been slow and often obstructed by Member States' vetoes on the individual steps of the already highly fragmented and incremental process. In the five years of the Juncker Commission (2014-19), enlargement was even officially removed from the list of priorities in the EU's political agenda. The fact that the process was made into a bureaucratic exercise, with little political steering, has created widespread disillusionment and fatigue. It has also turned EU integration into a politically unattractive issue and has led local politicians to make unfavourable cost-benefit calculations regarding major reform actions.

The lack of political inclination on the EU side to further push for enlargement arguably came as a consequence of the polycrisis as well as difficulties with the functioning of democratic institutions and the rule of law in some of the countries that have acceded to the Union since 2004. Both these factors have made it abundantly clear that enlarging the Union further with weak and poorly

law-abiding democracies might lead to decision-making paralysis and added crises of unity and confidence among Member States. As a result, individual Member States have repeatedly indicated that an internal reform of the EU would have to precede any further enlargement. Yet, with the existing Member States largely divided on the question of whether the Union even needs further treaty and institutional reforms, EU enlargement policy emerges as a major casualty of such a position.

Equally importantly, the lack of a clear and predictable membership perspective has negatively affected internal political developments in the Western Balkans, lowering the appetite for the most fundamental – and for EU membership most critical – reforms related to the functioning of democratic institutions, governance and the rule of law. By failing to properly reward bold political decisions and reforms with equally bold advances towards membership (most vividly demonstrated in the case of North Macedonia – a country that changed its name in order to advance its EU perspective), the EU has shot its own "most successful policy" in the foot. With the dwindling credibility of the process and no accession on the horizon, the region's leaders have resorted to less politically costly and more advantageous, albeit highly contentious, internal practices. These have included thwarting democratic processes, capturing of state institutions, increasing corruption as well as growing voluntary as well as forced exposure to both political and economic influences of third actors, most notably Russia and China.

Problems inherent in the enlargement methodology

All of these political issues are further exacerbated by specific inherent traits of the enlargement policy, related to the methodology of accession negotiations as well as the way that Pre-accession assistance (now through IPA III) is allocated and disbursed. Although the 2020 revision of the methodology – and to an extent the programming framework for IPA III – have led to some improvements, they fall short of tackling those problems effectively.

To begin with, in terms of actual benefits to citizens, even with the revised methodology, the accession process delivers little along the way, saving almost everything for the period after accession. Unlike the early phases of the process, which include the signing and ratification of the association agreement, liberalisation of the visa regime with the Schengen area and entry into the regime of the Instrument for Pre-accession assistance, after the start of accession talks, the process does not include additional benefits along the way. Benefits, including participation in EU programmes, have no clear connection with progress in the accession process and the level of preparedness for membership. The same goes for the amount of funds a country can draw from the pre-accession funds. Admittedly, the IPA III programming framework now states that one of the three key criteria for approving proposed actions will be "progress of the beneficiaries on their enlargement agenda." Yet, the limited total envelope of IPA III (€9 billion for the Western Balkans – corresponding to the structural funds appropriation for Croatia in the 2021-27 Multiannual Financial Famework - MFF) diminishes the possible impact of this factor on the creation of real political motivation and on closing the wide socio-economic development gap between the EU and the region.

Another inherent problem of the enlargement policy, which has plagued its credibility over the years, is its complete dependence on the unanimity rule for each decision by the Member States. Article 49 of the Treaty on European Union (TEU) does indeed provide for a unanimous vote in the Council when a membership application is submitted. Similarly, the act of accession is dependent upon the ratification of the Accession Treaty, which is an international treaty, requiring a lengthy ratification procedure not only at the EU level, but also by each Member state as well as the acceding country. Yet, in practice, this rule has been translated into each operational decision within a process that has become so fragmented over the years that North Macedonia has now been subjected to a

two-phase process just to formally open accession negotiations, requiring two separate unanimous votes by the EU27. That country provides a clear demonstration of the ineffectiveness of such an approach, having been obstructed by the vetoes of two Member States, despite major efforts to secure its EU future. Considering that Member States already have the two above-mentioned instances in which they can use their veto, keeping the generalised unanimity rule throughout the intricate accession process appears both excessive and unnecessary. Most importantly, it severely undermines the capacity of the EU27 to properly reward political commitment and progress in reforms with adequate graduation towards membership.

Finally, the approach that the Commission uses to monitor and rate progress and preparedness for membership is inconsistent and lacks credibility among at least some Member States, notably those mostly concerned with the state of democracy and the rule of law in the candidate countries. While some fundamental reform areas, such as public administration reform, rely on very detailed and evidence-based monitoring methodologies, others, such as democratic institutions, lack even a basic assessment of preparedness and include analyses of different issues and elements for different countries. Such inconsistencies arouse unnecessary suspicions among Member States and create distrust towards the Commission, resulting in additional problems when crucial decisions on rewarding progress (as well as sanctioning backsliding) need to be taken. Ultimately, this leads to a further slowing down of the overall process.

Third Actors' Impact in the Western Balkans

With enlargement proceeding at such a slow pace, some authors have warned that the WB is gradually becoming a "geostrategic chessboard" for external actors, and the EU is no longer unchallenged as the dominant force in the region.[4] When

[4] L. Hänsel and F.C. Feyerabend, "The influence of external actors in the Western

speaking about third actors capable of projecting significant economic and political power in the WB, either diverging from or opposed to the EU's approach, Brussels primarily refers to the Russian Federation and the People's Republic of China.[5] Altogether, it appears that "enlargement fatigue", caused by both the EU's internal challenges and external factors, costs the EU the dominant position in the region and allows third actors to gain meaningful influence. This section identifies the key fields of external actors' influence and shows the various ways in which their power projection has a negative impact on the European path of the WB.

Russia – the sources of its political influence

Despite a significant increase in investments since 2006, Russia's economic role in the region has remained limited, but not negligible, in a few important strategic sectors. Its economic influence is most visible in the energy sector, as most of the WB countries are highly dependent on natural gas and oil imported from Russia. Russia's energy influence is highest in Serbia, North Macedonia and BiH, where it supplies nearly 100% of gas needs and owns several important assets.[6] After the Russian company Lukoil opened the first petrol stations in Serbia in 2005 – which is regarded as the beginning of Russia's economic offensive in the region[7] – Russian energy companies started expanding their network throughout the WB. In 2008, Serbia sold its most important strategic company Petroleum Industry of Serbia to the Russian energy giant Gazprom, which became the majority shareholder of the company. Russian enterprises also play a significant role in the energy sector of BiH, where the petroleum industry of the Republika Srpska entity, including its oil refineries in Brod and Modrica and distribution company

Balkans: A map of geopolitical players", Konrad Adenauer Stiftung, 2018, p. 4.

[5] "EU chief: Russia, China vying for influence in West Balkans", *ANews*, 6 December 2022.

[6] "Russia's influence in the Western Balkans", European Parliament, June 2022.

[7] Hänsel and Feyerabend (2018), p. 36.

Petrolis, is owned by NeftGazinKor. Although Russia remains a marginal trade partner (3.9% for imports and 2.7% for exports)[8] and a modest foreign investor in the WB (4.6% of total foreign direct investments),[9] its control over the energy sector allows it to wield disproportionate political power. All in all, it is evident that Russian gas pipelines carry more than just energy products, and Russia's strong presence in certain Western Balkan countries is a textbook example of converting energy dependence into political influence, which Moscow has tried to use extensively in the wake of its aggression in Ukraine.

Besides the influence it draws from the energy sector, Russia's geopolitical power in the WB also stems from the unresolved Kosovo status. Given that Russia is a permanent member of the United Nations Security Council (UNSC), with the power to veto a decision on Kosovo's potential membership of the UN, Moscow is a key factor in this regard. Although Russian President Vladimir Putin manipulated Kosovo's secession from Serbia to justify the annexation of Crimea in 2014[10] and currently uses it as a precedent to justify the right of four Ukrainian regions to declare independence,[11] Moscow's Kosovo policy remains unchanged and Russia has continued to refuse to recognise Kosovo.[12] By endorsing Serbia's stance on the Kosovo issue, the Kremlin has gained significant leverage in the country, building on historical, religious and cultural ties between the Russian and Serbian peoples. As a consequence,

[8] "Western Balkans-EU – international trade in goods statistics", Eurostat, March 2022.

[9] I.N. Sushkova and A. Koumpoti, "FDI to and from the Russian Federation: A Case Study of the Western Balkans and the Role of the EU", in C. Nikas (ed.) *Economic Growth in the European Union: Analyzing SME and Investment Policies*, Springer, 2020, pp. 127-53.

[10] "Putin Says Kosovo Precedent Justifies Crimea Secession", *Balkan Insight*, 18 March 2014.

[11] "How the 'Kosovo Precedent' Shaped Putin's Plan to Invade Ukraine", *Balkan Insight*, 9 March 2022.

[12] "Russian Ambassador to Serbia Denies Change in Putin's Kosovo Policy", *Balkan Insight*, 29 April 2022.

Serbia is the only WB and one of the few European states that refuse to impose any sanctions against the Russian Federation. This has led to *backsliding* in its alignment with the EU's Common Foreign and Security Policy for the first time since the accession process began.[13] To conclude, even though Russia's influence in the WB is generally limited to the areas where the Orthodox Christian population lives, as long as the Kosovo dispute remains unresolved and until energy supply is diversified, Moscow remains an important geopolitical player in the region.

China – down the New Silk Road

After launching the One Belt One Road (OBOR) Initiative, now known as the Belt and Road Initiative (BRI),[14] China proved to be the EU's most serious economic competitor in the WB. A year before the OBOR Initiative was officially announced in September 2013, China's cooperation with Central and Eastern European countries (CEEC) was launched by the First China-CEEC Summit in Warsaw, with the goal of enhancing cooperation in the infrastructure, transportation, trade and investment sectors.[15] The fact that all WB partners participate in this format of cooperation – with the exception of Kosovo,* which is not recognised by China – proves that the region plays an important role in the BRI and, from Beijing's perspective, represents a "gateway to the EU market and land bridge between the Chinese-owned port of Piraeus and Central Europe".[16] Although WB countries do not represent a formal sub-group within broader China-CEEC cooperation, at the

[13] See: "Serbia 2022 Report", European Commission, 12 October 2022, pp. 134-37.

[14] Belt and Road Initiative is a global infrastructure development strategy adopted by the Chinese government in 2013 to improve connectivity and cooperation on a transcontinental scale (For more information: "China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape", OECD, 2018).

[15] For more information: http://www.china-ceec.org/eng/.

[16] Hänsel and Feyerabend (2018), p. 6.

bilateral level, China's approach to the WB partners includes more prominent financing of infrastructure projects compared to other CEEC.[17] Altogether, it can be concluded that China unequivocally perceives WB as a region in which it can project its growing economic power, which may come into conflict with the EU's value-based approach.[18]

Even though Beijing officially supports the EU integration process of the WB and the realisation of planned infrastructure projects that can contribute to economic modernisation, competitiveness and connectivity in the region, China's investments are mostly incompatible with EU standards and pose a serious threat to the rise of corruption.[19] These concerns are primarily related to economic practices that fail to meet environmental standards, competition regulations, as well as public procurement procedures. For instance, there are serious indications that a China-owned tyre factory in Zrenjanin, Serbia, has compromised the air, soil and water in this area, which many environmental activists have warned about.[20] Moreover, there are many cases of violation of EU competition rules, which in the case of a Chinese loan for coal power plants in Tuzla resulted in the Energy Community opening a procedure against BiH over illegal state aid.[21] The lack of transparency of Chinese projects also fuels already growing corruption in the region, clearly illustrated by the project for the construction of two highways in North Macedonia by the Chinese state-owned company Sinohydro, in what became one of the biggest

[17] W. Zweers, V. Shopov, F. Putten, M. Petkova, and M. Lemstra, "China and the EU in the Western Balkans: A zero-sum game?", Clingendael, August 2020, p. 8.
[18] M. Vučić, "European Union integration and the Belt and Road Initiative: A Curious case of Serbia", *International problems*, vol. 72, no. 2, 2020, p. 346.
[19] Hänsel and Feyerabend (2018), p. 6.
[20] "Aktivisti traže ekološke garancije za fabriku Linglong u Zrenjaninu" ("Activists demand environmental guarantees for the Linglong factory in Zrenjanin"), *Radio Free Europe*, 16 February 2021.
[21] "Energy Community opens infringement procedure against Bosnia-Herzegovina over illegal Tuzla 7 state aid", BankWatch Network, 26 March 2019.

corruption cases in the country's history.[22] Altogether, these examples indicate that the WB's cooperation with China, although it has helped these countries reduce unemployment and boost economic growth, often has other harmful societal effects and might negatively affect their accession to the EU.

Although current China-WB cooperation primarily involves the economic domain, there is a reasonable fear that China's growing economic influence could easily be used as political leverage in the future. Besides the usual conflict between China's economic practices and the EU *acquis communataire*, the fact that most of these infrastructure and energy projects are financed through loans is gradually bringing WB countries into a Chinese debt trap. Montenegro's loan from China's Export-Import Bank for the construction of the Bar-Boljare highway is the most illustrative example of this,[23] though the situation is only slightly better in other countries. Large sums of money have been borrowed from China by North Macedonia for its highways, for instance, by BiH for a number of energy projects, and by Serbia for several infrastructure projects. These loans have increased each of these countries' debt to China to around 10% of their total foreign debt, and if this borrowing trend continues, other WB countries could fall into a state of financial dependency on China.[24] These are undoubtedly the main tools for China's potential political influence over WB governments and one of the greatest challenges for the EU, which has yet to show a strong resolve to deal with them.

[22] A. Krstinovska, "Exporting Corruption? The Case of a Chinese Highway Project in North Macedonia", China Observers in Central and Eastern Europe, 6 November 2019.

[23] "Montenegro, the first victim of China's debt-trap diplomacy", *New Eastern Europe*, 7 May 2021.

[24] Zweers, Shopov, Putten, Petkova, and Lemstra (2020), pp. 14-15.

Innovating the Enlargement Policy for a 2030 European Integration Agenda

Previous sections have analysed the drawbacks of enlargement policy and have demonstrated how the undemocratic regimes of third countries have used the vacuum left by the EU to advance their own political and economic agendas, often to the detriment of that of the European Union. This section turns to a discussion of proposals made by the European Policy Centre (CEP) in Belgrade and the Centre for European Policy Studies (CEPS) in Brussels, with the goal of breaking the enlargement gridlock and restoring the EU's footing in the region.[25] The Template for Staged Accession to the EU, published in October 2021, seeks to achieve a twofold objective. On the one hand, it sets out to restore motivation for reforms needed to attain EU membership by proposing that certain benefits, which normally only belong to the membership phase, be extended to the candidates while they are still negotiating accession, in two separate pre-accession stages. On the other hand, it aims to unlock political will in the enlargement-sceptic Member States so as to proceed towards actual accession of the candidates by allaying their fears related to the functioning of a further enlarged Union.

The Staged Accession proposal: Pre-accession benefits

The Model of Staged Accession proposes bundles of benefits for acceding states as a reward for improved EU membership preparedness. To make them effective and ensure they really can stimulate reforms, rewards need to be clearly outlined and predictable as well as matter in terms of size and amounts. The Model therefore intentionally proposes packages of rewards which combine increasing funding with more substantive institutional participation, in order to create a positive impact

[25] "A Template for Staged Accession to the EU", European Policy Centre (CEP) and Centre for European Policy Studies (CEPS), October 2021.

on the society, economy and political representatives of the candidate countries.

Access to increasing funding would have to be strongly conditional on progress in reforms and improved readiness for assuming membership obligations and functioning within the EU. The initial proposal of the Model is that already in the first stage a candidate gains access to funding corresponding to up to 50% of what it would be eligible for as a conventional Member state, on condition that it achieves at least moderate ratings for cluster averages (3 on the 1-5 scale). In the second stage, the funding could reach a level of up to 75% of conventional membership, on condition that each cluster reaches a good average rating of 4. Once a candidate closes all negotiation chapters and the accession treaty is signed and ratified, it enters the EU as a new Member state – the third accession stage, detailed in the next section. At that stage, it can benefit from all funding mechanisms as conventional Member States and also starts to contribute to the EU budget. The opening of new funds to support socio-economic development as part of progression towards membership would serve as a major carrot for the governments in the Western Balkans to press forward with otherwise hesitant reform agendas.

An additional incentive for the candidate governments would be created by allowing them to participate more closely in the political life of the EU through gradual access to various institutions as observers. Already from Stage I, candidates would attain selective observer status in the main EU institutions – the European Parliament and select configurations of the Council. As the country proceeds to Stage II, its level of participation in the institutions advances, and it obtains generalised observer status. Once a country becomes a new Member state in Stage III, its ministers and other representatives gain voting powers in the Council and its committees in simple and qualified majority voting procedures. Moreover, its citizens can vote and be elected as members of the European Parliament, just like in any other Member state.

The bigger pre-accession carrots, however, need to be coupled with effective sticks to ensure that reforms are carried out continuously and to prevent regression in achieved standards and values. Hence, the Model envisages a functional approach to freezing and even reversing certain rights and benefits, relying on the qualified majority vote (QMV) of conventional Member States or indeed on reversed QMV, as proposed in the revised enlargement methodology. Reversibility between stages is also possible, though as a last resort against a backsliding candidate country. If it is transparent and easily implementable, the threat of reversal would help to dissuade political leaders from non-compliance and backsliding in the reform processes.

The staged accession proposal: Allaying the Member States' fears

One frequently cited obstacle to enlarging the European Union is the fear that additional members would further hamper EU decision-making due to the still extensive use of unanimity voting. To address this concern, the Model proposes that, during the temporary Stage III, new Member States' veto rights in the Council would be limited, based on specific provisions laid out in their accession treaties as temporary derogations of membership rights. A new Member State would still be able to play a constructive role in consensus-building, without being able to block major EU decisions. Once the provisional status expires, a new Member State proceeds to the stage of conventional membership, which includes full voting rights in the Council. This time-barred limitation would allow the entry of new Member States into the Union while it is still undertaking internal reforms aimed at improving the decision-making processes to fit the growing number of members.

Another problem which has created fears of further enlargements to "new" and unconsolidated democracies, such as those in the Western Balkans, concerns the weaknesses of the EU's mechanisms to keep its own members in check regarding respect for the fundamental values enshrined in

Article 2 of the TEU. The Article 7 procedure of the TEU is cumbersome and the requirement for a unanimous vote to sanction a Member state that is in breach of the Union's values hampers its effectiveness when troublemakers forge alliances. The Model recognises that Western Balkan countries would need a long time to prove themselves as functional democracies and proposes a period of post-accession monitoring and even freezing of certain membership rights (such as funding) in case of backsliding in these fundamental areas. This provision of the Model, too, creates a safety period in which internal EU rules for sanctioning breaches of fundamental values would be fixed and made effective, without making the candidates wait at the EU's door. Moreover, subjecting the new members to post-accession monitoring of functioning in areas in which the EU lacks proper mechanisms to sanction non-compliant Member States can go a long way towards securing sustainability of reforms implemented before accession.

Eventually, as the transitional provisions of the third stage expire based on the provisions of accession treaties, the new members become conventional members with all rights and benefits – whatever that status would mean in the EU treaty framework of the day. In a way, the automatic expiration of these limitations creates a risk for the EU should it not manage to reform itself while the new members are still under the special regime in stage III. However, it would also create pressure on it to agree on these internal improvements and ensure that it is fit for future challenges.

So far, the Model of Staged Accession has managed to create visible traction in the policy reality. It was echoed in the speeches of the President of the European Council in the European Economic and Social Committee,[26] as well as in the "non-papers" of two Member States (Austria and later Czechia), all of which have proposed the gradual integration of the

[26] "Speech by President Charles Michel at the plenary session of the European Economic and Social Committee", European Council, 18 May 2022.

Western Balkan region into the EU, picking up on several ideas from the Model. Building on the invitation of the June 2022 European Council, the EU's institutions are already working on proposals to further advance their gradual integration. The implementation of the Model, in all its aspects, has strong potential to restore trust in the EU's enlargement policy and strengthen pro-EU policies in the Western Balkans, as well as in Ukraine, Moldova and Georgia.

Towards the Epilogue of EU Enlargement to the Balkans

Enlargement has historically often served as a major incentive for the EU to reform its institutions and decision-making procedures, in order to retain functionality with an increased number of Member States. The 2004-07 enlargement wave is a case in point, as both the Treaty of Nice and the Treaty of Lisbon were to a great extent motivated by the anticipated expansion to the East and the need to prepare the Union for a much more diverse membership. The EU today similarly needs a boost to address the already demonstrated problems of its functioning as EU27, which may be further exacerbated once it is enlarged. Although the Model of Staged Accession offers a solution for the EU's own reforms to proceed in parallel with enlargement, they should be initiated immediately, to demonstrate that the EU is willing to and capable of making itself apt for the current and future challenges, which span much wider than accommodating the next enlargement.

Therefore, to secure a strong and enlarged EU at the end of the current turbulent decade, as a complement of the proposed innovations of the enlargement procedure, members and candidates should agree on a political pledge, acknowledging the common challenge and marking the start of a joint effort towards that goal. As recently proposed, such a "joint plan would explicitly state the obligations of the EU member and candidate states in terms of strategic EU integration with

clearly stated measures and deadlines for its implementation by 2030, which should be [its] indicative timeframe".[27] This Joint European Integration Plan 2030 would in a way mark the end of the current "teacher-student" relationship in which the "perfect" EU continuously makes demands from the "naughty" candidates, who repeatedly fail to deliver. It would put the two sides on an equal footing, recognise the joint interests as well as the challenges they need to face, and create concrete plans, with actions and deadlines that need to be met in order to safeguard the EU's functionality as well as geopolitical autonomy in the face of vast and growing challenges. Indeed, such a common agenda could go a long way towards supporting institutional preparations for enlargement, creating a consensus about the will to proceed with accepting new members into the Union and ensuring that candidates pursue a proactive reform agenda.

While the year 2030 would be a target date for accession and for the EU's internal preparations, it should in no case be communicated as a promised date for either. Clearly, if the candidates fail to undertake the reforms and prepare for membership, the target year will move back. As for the EU's own reforms, the temporary membership rights limitations for new members would give the Union an additional "grace period" to make itself fit for the enlarged membership. What is more, new Member States would thus get an opportunity to play a constructive role in building a better functioning Union, as they would be included as partners in these discussions, without being given the power to block decisions.

Finally, such a joint political pledge, coupled with further enlargement policy innovation based on the Model of Staged Accession, would signal to third actors seeking to undermine the EU in the Balkans that the Union is serious about its own sphere of influence and geopolitical ambitions. A smoother and accelerated accession process and eventual enlargement by

[27] S. Majstorović, "Joint European Integration Plan 2030", European Policy Centre (EPC), 22 December 2022.

2030 would logically lead to a diminishing dependence on third actors and also require their influence to be contained within the framework of EU membership, i.e. to respect the EU's fundamental values and environmental, state aid, competition and other rules and standards. The strong cultural ties that exist, for example, between the region's Orthodox Christian populations and Russia, as well as economic relations with China, will continue to exist, but they will be shaped to a large extent by the democratic, human rights and other fundamental values of the EU.

2. Russia in the Balkans: Interests and Instruments

Vuk Vuksanović

There has been much talk about Russian influence in the Balkans in recent years. The ongoing war in Ukraine has increased interest in Moscow's presence in the region. The frequent concern is that Russia will try to act as a destabilising force in the region to disrupt the West, with which Russia is in a state of rivalry in the wake of Russia's invasion of Ukraine.[1] This raises the need to assess Moscow's interests and instruments in the region.

In order to do that, there are a number of important points to consider. The first is that this region has never in itself been a priority for Russian foreign and security policy but is only important as an indicator of Russia's place in the world and as an extension of Russia's wider relationship with the West. In that context, Russia uses the Balkans as a staging ground to demonstrate that it has reclaimed the status of global and European great power that the West denied Moscow in the 1990s. Moreover, by being present in the region, Russia gains leverage and bargaining power with the West, which is particularly important when the dynamic of rivalry begins to dominate ties between Russia and the West.

The second important point is that Russian influence in the region is frequently overstated. In reality, in economic and

[1] P. Stronski, "Russia in the Balkans After Ukraine: A Troubling Actor", *Carnegie Politika*, 20 September 2022.

security terms, the West outmatches Russia's strategic clout in the Balkans. However, Russia has three sources of influence in the Balkans and the region's pivotal country, Serbia, that it exploits skilfully and effectively: energy, the unresolved Kosovo dispute, and soft power, interpreted as the enormous popularity that Russia enjoys among large swaths of the local population.

The third point is that after the ongoing Ukraine war, it is theoretically possible that Russia will try to generate a security crisis to divert Western attention from Ukraine. However, this option is also unlikely as the Western security presence and pressures on local power centres remain, leaving limited options for Moscow if it decides to pursue that goal. Moreover, to stir trouble in the Balkans, Russia needs support from the local elites, but none of them wants to take any chances on behalf of Moscow.

The three above-mentioned instruments of influence that Moscow has in the Balkans remain, but there will also be major changes in that domain. The Russian energy footprint will be weakened as Russia's Gazprom is having a tougher time conducting its operations, particularly in Serbia, as a result of EU sanctions against Russian companies. This footprint will also be weakened by the EU's efforts to help the region with energy diversification. The region will probably continue to buy Russian gas, but Moscow's ability to use energy as political leverage will be hindered. Nevertheless, Russia's two other sources of influence will remain, particularly in Serbia: the unresolved Kosovo dispute and soft power. These two factors will ensure that Russia still has some pull in the Balkans, although to a limited extent.

More Than Just the Balkans – Moscow's Interest in the Region

Despite frequent claims that Russia is a major threat to the Balkans, this goes against the region's geopolitical realities. The region itself has never constituted a strategic priority from the

Kremlin's foreign and security policy. Naturally, Russia has some interests in the Balkans that are region-specific. The region can be important for Moscow as a territory in which to construct the alternative infrastructure of gas pipelines that bypass Ukraine, or Russia can simply try to win new markets there for the Russian state and private enterprises. At one point in the early 2000s, Russian foreign policy elites defined economic cooperation as the main focus of Russia's foreign policy in the region.[2] For instance, it was during that period, in 2005, that Russian oligarch Oleg Deripaska acquired an aluminium plant and its associated bauxite mines in Montenegro, abandoning it a few years later after falling out with the local government.[3]

However, these are minor interests for Moscow compared to Russia's position in the post-Soviet space or its status as a global superpower. Therefore, the Kremlin perceives the Balkans as important only to the extent that it has implications for Moscow's regional hegemony in the post-Soviet space or Russia's place in the wider international system. While it is tempting to trace the historical roots of Russia's engagement in the Balkans to the former days of Tsarist Russia or the Soviet Union, such engagement falls under the domain of the strategic realities of the post-Cold War world.[4] Russian modern-day interests in the Balkans were shaped by the end of the Cold War, the collapse of the Soviet Union and Yugoslavia, and the wars that followed the latter's dissolution.

During the Yugoslav wars, Russia tried to participate in international peacekeeping in Croatia and in Bosnia and Herzegovina within UN and NATO peace missions.[5] With

---

[2] S. Secrieru, *Russia in the Western Balkans: Tactical Wins, Strategic Setbacks*, Brief 8, European Union Institute for Security Studies (EUISS), Paris, 2019, pp. 2-3.

[3] N. MacDonald, "Oligarch's Battle Clouds an Economy", *Financial Times*, 17 October 2008.

[4] "Russia in the Balkans - Panel 1 (The Balkans in Russia's Foreign Policy Strategy)", Russia in the Balkans conference, London School of Economics and Political Science, 13 March 2015.

[5] S. Secrieru (2019), p. 2.

the passage of time, Russia became more frustrated with the West as it believed that the West did not perceive Russia as an equal partner. Moscow's frustration became particularly pronounced regarding Western military unilateralism, starting with NATO's 1995 intervention against Bosnian Serbs.[6] NATO's intervention in Kosovo in 1999 played an even greater role in shaping Moscow's thinking about the Balkans. For the Kremlin, the war in Kosovo indicated Russia's vulnerability to ethnic separatism and ethnic conflicts within Russia and in its periphery. This perception was partly shaped by the fact that the Second Chechen War occurred in the same year as the Kosovo war.[7]

Russian frustration also grew because NATO's intervention against the Federal Republic of Yugoslavia took place the same year as the first round of NATO enlargement, in 1999, when Poland, the Czech Republic and Hungary become members of the Alliance. For Moscow, this meant that NATO was penetrating what was formerly Moscow's sphere of influence and getting closer to Russia's borders, but more importantly than that, the Kosovo war marked NATO's transformation from a defensive alliance into a battle group.[8] Ultimately, the Yugoslav wars also provided painful insights to Russia, not just regarding the post-Soviet space or Moscow's role in European security, but about Russia's place as a global power within the international system. NATO's war against Belgrade because of Kosovo underscored Moscow's disdain towards American unipolarity as the war displayed a world in which Washington is the ultimate rule-maker and Moscow is not a power centre whose point of view needs to be taken into consideration.[9]

---

[6] J.J. Mearsheimer, "Why the Ukraine Crisis is the West's Fault: The Liberal Delusions that Provoked Putin", *Foreign Affairs*, vol. 93, no. 5, 2014, p. 78.

[7] V. Vuksanović, "An Unlikely Partnership in Trouble: Serbia and Azerbaijan", Royal United Services Institute (RUSI), 19 August 2020.

[8] F. Lukyanov, "Putin's Foreign Policy: The Quest to Restore Russia's Rightful Place"', *Foreign Affairs*, vol. 95, no. 3, 2016, p.33.

[9] V. Vuksanović, "Serbs Are Not 'Little Russians'", *The American Interest*, 26 July 2018.

Today, Russia's interest in the post-Soviet space and its global power status-seeking trumps anything that the Balkans can offer to Moscow. The Balkans have become a useful instrument for Russia in cementing its regional hegemony in the post-Soviet space as Kosovo's slide towards independence again awakened Moscow's tendency to draw analogies between territorial conflicts in the Balkans and those in Moscow's backyard. Kosovo unilaterally declared independence from Serbia with Western backing in 2008, which provided Russia with a precedent to invoke territorial disputes in its neighbourhood and a way to deflect Western criticism by accusing Western powers of double standards. Moscow skilfully invoked the Kosovo precedent when it imposed the independence of Abkhazia and South Ossetia on Georgia in 2008 in the wake of the Russo-Georgian war.[10] The Kosovo precedent was also invoked in 2014 as a justification for the annexation of Crimea.[11] Most recently, Russian President Vladimir Putin used the case of Kosovo in 2022 to justify the Russian claim on Donbass.[12]

Russia's search for great power status also informs Russia's Balkan policies. The Balkans are important for Russia as an arena in which to demonstrate that Russia has reclaimed global and European great power status after being denied that status by Western powers during the 1990s, including through Western interventions in the region.[13] The period when Russia became more active in the Balkans in the second half of the 2000s also corresponds with tensions between Russia and the US on issues like the colour revolutions, missile defence, potential NATO membership for Georgia and Ukraine, and the Russo-Georgian War.[14]

---

[10] Vuksanović (2020).

[11] B. Barlovać, "Putin Says Kosovo Precedent Justifies Crimea Secession", *Balkan Insight*, 18 March 2014.

[12] "Putin: Right to recognise Donbas republics same as how Kosovo got recognition", *N1*, 18 March 2022.

[13] B. Buzan and O. Wæver, *Regions and Powers: The Structure of International Security*, Cambridge, Cambridge University Press, 2003, p. 430.

[14] V. Vuksanović, "Systemic Pressures, Party Politics and Foreign Policy: Serbia Between Russia and the West, 2008-2020", London School of Economics and

Russia's *modus operandi* in the Balkans frequently falls under the description of "spoiler power", not a power interested in acting as a geopolitical alternative to the West but one intent on undermining Western policies and interests in the region.[15] In the worst-case scenario, Russia gets the satisfaction of irritating and obstructing the West. In contrast, in the best-case scenario, it gets a bargaining chip that it can trade in a hypothetical great power deal with the West, particularly the US, for something important to Russia, particularly in the post-Soviet space.[16] This role became particularly pronounced in the wake of the original Ukraine crisis of 2014, when Russia started to perceive the Balkans as a way to push back against the West for what Moscow believes is encroachment into its sphere of influence.[17] For Moscow, the region remains Europe's "soft underbelly", an area of European vulnerability where the Kremlin can instigate controlled crises to pressure the West and divert its attention from Ukraine.[18] In 2015, Russia also vetoed a resolution describing the Srebrenica massacre perpetrated during the Bosnian war (1992-95) as genocide.[19]

Security cooperation with Serbia is one way for Russia to irritate the West. The military exercises, like the Slavic Brotherhood trilateral drill, held with Belarus since 2015, weapons delivery to Serbia and the existence of a Serbo-Russian humanitarian centre in Niš fall under that rubric.[20] Moscow's

---

Political Science (PhD Thesis), July 2021, p. 105.

[15] N. Burazer, "[EWB Interview] Bechev: Russia is playing the 'spoiler' in Western Balkans", *European Western Balkans*, 28 November 2017.

[16] Vuksanović (2021), p. 213.

[17] D. Bechev, "Russia's Foray into the Balkans: Who Is Really to Blame?", Foreign Policy Research Institute (FPRI), 12 October 2017.

[18] I. Krastev, "The Balkans are the soft underbelly of Europe", *Financial Times*, 14 January 2015.

[19] "Russia Vetoes UN Move to Call Srebrenica' Genocide"', *BBC*, 8 July 2015.

[20] V. Vuksanović, "Russia and China in the Western Balkans: The Spoiler Power and the Unexpected Power", in N. Dzuverović and V. Stojarová (eds.), *Peace and Security in the Western Balkans: A Local Perspective*, London and New York, Routledge, 2022, p. 241.

spoiler tactics also extend to the realm of diplomacy and politics. The UN Security Council veto is an effective tool for Moscow. In 2014, Russia abstained in the UN Security Council vote on the extension of the mandate for the EU's stabilisation mission in Bosnia and Herzegovina, EUFOR.[21] Seven years later, in 2021, Moscow allowed the extension of EUFOR's mandate on condition that the Office of the High Representative (OHR) would not be mentioned in the UN resolution and that the High Representative would not address the UN Security Council.[22] Russia also uses political tools. In August 2018, Greece expelled Russian diplomats who communicated with Greek political groups intent on sabotaging the deal resolving the name dispute between Greece and what is now North Macedonia.[23] Russian intelligence can also be employed. In 2019, an online video emerged of a Russian intelligence officer then stationed at the Russian embassy in Belgrade bribing a retired Serbian military officer.[24]

Limited, but Effective – Russia's Instruments of Influence in the Balkans

Russian influence in the Balkans is limited in both economic and security terms, particularly compared to the EU. For the Western Balkans, the EU is the main partner for exports (81.0 %) and imports (57.9 %).[25] After the December 2022 EU-Western Balkans Summit in Tirana, the EU launched €1 billion energy support package for the region, as part of the

[21] Secrieru (2019), p. 2.

[22] "Russia's Victory in Bosnia-Herzegovina; 'Giving an Ultimatum'", *B92*, 3 November 2021.

[23] A. Osborn, "Russia Expels Greek Diplomats in Retaliatory Move", *Reuters*, 6 August 2018.

[24] "Serbia's President Aleksandar Vucic Confirms Russian Spy Operation after Bribe Video", *DW.com*, 22 November 2019.

[25] "Western Balkans-EU - international trade in goods statistics", *Eurostat*, March 2022.

Economic and Investment Plan for the Western Balkans of €9 billion in grants, with the ultimate aim of mobilising €30 billion in total.[26] In comparison, except for energy, Russia is a minor partner in exports (2.7 %) and imports (3.9 %).[27] Even before the war in Ukraine, in 2021 Russia's Sberbank sold its subsidiaries in Southeastern Europe.[28]

In security terms, Russia is also heavily outgunned. Unlike the West, Russia has no military presence in the Balkans. In 2003, in the early years of the Putin era, Russia pulled back its peacekeepers stationed in Kosovo and in Bosnia and Herzegovina.[29] Even now, this 2003 decision strengthens the argument about the Balkans not being a priority for Moscow and Russia having limited capacity in a NATO-dominated environment. Indeed, most countries in the region are members of NATO or aspirants for NATO membership.

Serbia is not interested in joining NATO and is geographically encircled by NATO members. However, even Belgrade has a formal relationship with the Alliance, as it has been participating in NATO's Partnership for Peace (PfP) programme since 2006 and has adopted the Individual Partnership Action Plan (IPAP), the highest level of cooperation between NATO and non-Member states.[30] NATO's Liaison Office is situated in Serbia's Ministry of Defence building, and its staff have diplomatic immunity.[31] In contrast, despite numerous Russian requests, the Russian staff at the Serbian-Russian humanitarian centre do not enjoy diplomatic immunity in Serbia, and the Centre's future is uncertain because of Western sanctions against Russia and

---

[26] I. Todorović, "EU launches EUR 1 billion energy support package for Western Balkans", *Balkan Green Energy News*, 7 December 2022.

[27] B. Stanicek, "Russia's influence in the Western Balkans", European Parliamentary Research Service, March 2022, p. 2.

[28] "Russia's Sberbank to Sell Subsidiaries in Central and Eastern Europe", *Reuters*, 3 November 2021.

[29] A. Nikitin, "Partners in Peacekeeping", NATO, 1 October 2004.

[30] "Relations with Serbia", NATO, 23 May 2022.

[31] V. Velebit, "Serbia and NATO: From hostility to close cooperation", European Western Balkans, 15 November 2017.

pressures by the EU.[32] The Serbian military also conducts more military exercises with NATO than with Russia. In 2021, the Serbian army participated in 14 exercises with NATO members and partners and four military exercises with Russia. Two years earlier, in 2019, the Serbian military held 23 military exercises with NATO members and five with the Russian military.[33]

Despite objective limitations to Russia's capabilities in the Balkans, Russia still has three main instruments through which it exercises its influence: the unresolved Kosovo dispute, energy dependence, and Russian soft power, manifested through its popularity among parts of the population.[34] The independence of Kosovo and the global financial crisis of 2008 ushered in a power vacuum in the Balkans due to Western inattentiveness, representing two systemic realities that allowed Russia to be more assertive in the region. These two transformations were decisive in creating an opening for Russia in the Balkans, but they also encouraged some Balkan nations, primarily Serbia, to hedge their bets by engaging with Russia.[35]

In the years before Kosovo issued its declaration of independence, Russia became more active in the Balkans by backing the Serbian case in the dispute as a counterweight to the US, which supported the claim of Kosovo Albanians.[36] Kosovo's independence placed Serbia in a relationship of political dependency towards Russia because of Moscow's protection within the UN Security Council, giving Russia a political and diplomatic presence in the region via Serbia. That way, Russia also perpetuates the Kosovo dispute, creating a situation similar to frozen conflict that prevents the region from being integrated

---

[32] "Demostat claims Belgrade changing status of Serbian-Russian humanitarian center", *N1*, 20 June 2022.

[33] L. Sterić, M. Bjeloš, and M. Ignjatijević, "Balkan Defence Monitor", Belgrade Centre for Security Policy (BCSP), 14 March 2022, p. 37.

[34] V. Vuksanović, "Why Serbia Won't Stop Playing the Russia Card Any Time Soon", Carnegie Endowement for International Peace, 28 October 2019.

[35] V. Vuksanović (2021), pp. 5-6.

[36] D. Ekinci, *Russia and the Balkans after the Cold War*, Libertas Paper 76, Rangendingen: Libertas, p. 68.

into Western institutions. In doing so, Russia can try to trade its cooperativeness in resolving the Kosovo dispute for Western acquiescence in resolving disputes in the post-Soviet space in a way that suits Moscow.[37] Through the Kosovo dispute, Russia profits as it gets the satisfaction of opposing the West while establishing a precedent to invoke in the post-Soviet space.[38]

Energy supplies are also part of Russia's toolkit in the Balkans. The Balkans are frequently perceived as a territory through which gas pipeline infrastructure can bypass Ukraine to enable Moscow to supply gas to the European market, an idea which came to the fore as price disputes between Moscow and Kiev in 2006 and 2009 caused an energy crisis in Europe.[39] This was the main driver behind the South Stream gas pipeline project, envisioned in 2006 to transport 63 billion cubic metres of Russian gas annually across the Black Sea and the Balkans onto Italy and Austria.[40] In 2008, Russia's Gazprom acquired a majority stake in the Serbian multinational oil and gas company Naftna Industrija Srbije (Petroleum Industry of Serbia, NIS) from the Serbian government.[41] The South Stream project was cancelled in 2014 as the EU opposed the project because it breached the EU's Third Energy Package, which limits how much pipeline ownership a company can have if it also owns its contents.[42] In January 2021, the Russo-Turkish gas pipeline project TurkStream, a replacement of South Stream, began operating, affirming the gas dependency of Balkan countries like Serbia and Bosnia and Herzegovina on Russia.[43]

---

[37] Vuksanović (2021), p. 138.

[38] D. Bechev, *Rival Power: Russia in Southeast Europe*, New Haven and London, Yale University Press, 2017, p. 60.

[39] A. Vihma and U. Turksen, "The Geoeconomics of the South Stream Pipeline Project", *Journal of International Affairs*, 1 January 2016.

[40] Ibid.

[41] O. Shchedrov, "Serbia signs strategic energy deal with Russia", *Reuters*, 25 January 2008.

[42] G. Gotev, "Russia confirms decision to abandon South Stream", *Euractiv*, 10 December 2014.

[43] "Russia's Gazprom begins gas deliveries to Serbia, Bosnia via TurkStream

Such energy ties also provide Russia with a conduit for political influence. Speaking about the cancellation of the South Stream pipeline project in 2014, former Serbian President Boris Tadic (2004-12) stressed that Serbia's sale of NIS to Gazprom was motivated by both energy and political interests, explaining why NIS was sold to Gazprom below the market price. Namely, Serbia believed that by selling NIS it was securing Russia's guarantee that the South Stream pipeline project would be constructed across Serbian territory and Moscow's protection on Kosovo.[44] Russia's presence in the energy sector also takes the form of the Russia-leaning Socialist Party of Serbia (SPS), a junior partner in Serbia's ruling coalition.[45] This party is led by Serbia's new Foreign Minister Ivica Dacic, who will also be the coordinator of Serbia's security services, while the director of Serbia's state-owned natural gas provider Srbijagas, Dusan Bajatovic, another player closely linked to Russia, is also a member of the SPS.

The perfect example of how Russian energy also provides political leverage to Moscow was seen in November 2021. In response to the energy crisis, Serbian President Aleksandar Vučić met President Putin in Sochi to negotiate a new gas price for Serbia as the old supply contract was expiring and the heating season and electoral cycle in Serbia were about to begin. The deal stipulated the price of US$270 per 1,000 cubic meters for a six months period and a commitment that the amount of gas delivered would also increase as Serbian gas consumption had doubled at that point. Belgrade's political counter-favour to Moscow remains unknown, but there is a strong belief that Putin used the moment to politically discipline Vučić.[46]

---

pipeline", *Reuters*, 1 January 2021.

[44] "Tadić uveren da će Južni tok biti izgrađen" ("Tadić is convinced that the South Stream will be built"), *N1*, 2 December 2014.

[45] S. Mitrescu and V. Vuksanović, "The Wider Balkan Region at the Crossroads of a New Regional Energy Matrix", New Strategy Center and Belgrade Centre for Security Policy, October 2022, p. 30.

[46] V. Vuksanović, "Russia's gas gift to Serbia comes with strings attached",

Soft power is the final source of Russian influence in the region, and Russia has profited from it significantly. Russia's soft power credentials manifest themselves in the enormous popularity it enjoys among significant portions of the local population. Frequently, Russian soft power allure is not based on the genuine attractiveness of Russia's social and political model but on the dissatisfaction of local societies with the West.[47] This is particularly pronounced in Serbia, Russia's main partner in the Balkans. A very important display of, and a watershed moment for, Russia's soft power allure in Serbia came in 2011 when Vladimir Putin, in the capacity of Russian Prime Minister, visited Belgrade. On that occasion, Putin received the highest distinction granted by the Serbian Orthodox Church and then attended a friendly football match between Red Star Belgrade and a team from his hometown, Zenit St Petersburg, with Red Star fans chanting "Putin, you Serb, Serbia is with you".[48] From that point on, it became clear that Russian influence could also be openly displayed because local elites frequently used ties with Russia as tools of domestic promotion.[49]

Russia itself has established links with local players across the region, including pro-Russian business groups, left and right political groups with pro-Russian sympathies and Orthodox Church representatives.[50] Moscow builds public support and bargaining power with local governments through these groups.[51] Russian Radio Sputnik has operated its Serbian bureau since 2014.[52] To compensate for the closure of RT channels in

---

Euronews, 4 December 2021.

[47] V. Vuksanović, S. Cvijić, and M. Samorukov, "Beyond Sputnik and RT. How Does Russian Soft Power in Serbia Really Work?", Belgrade Centre for Security Policy (BCSP), December 2022, p. 8.

[48] Bechev (2017), p. 225.

[49] Vuksanović (2021), pp. 147-48.

[50] H. Conley et al., *Kremlin's Playbook: Understanding Russian Influence in Eastern and Central Europe*, Washington DC and Lanham, Center for Strategic and International Studies (CSIS), October 2016, pp. 6-7.

[51] Bechev (2017), p. 236.

[52] Secrieru (2019), p. 2.

Europe, Russia's RT decided to open a news portal in Serbia, with plans to launch a news channel in 2024.[53]

These facts support the notion that the Russian definition of soft power is different from the American definition of the concept which presumes the ability to influence others through the power of attraction, whereas Moscow believes that soft power credentials can be boosted through deliberate state policies.[54] However, the main source of Russia's soft power appeal does not come from Kremlin-orchestrated campaigns but from local players and local amplifiers. In Serbia, the main source of pro-Russian narratives are pro-government tabloids, which glorify Russia so that the ruling elites can profit domestically from Russian popularity and blackmail the West by inflating the presence of the Russian factor.[55] A powerful example of how local elites use ties with Russia to build domestic legitimacy is Vladimir Putin's 2019 visit to Belgrade, where he was greeted by vast crowds in front of the Orthodox Church of Saint Sava at a time when the Serbian government was faced with massive protests.[56] As a result of this approach, according to a recent poll, 50.5% of Serbian citizens believe that Russia is the country's most important partner and 65.8% that Russia is Serbia's greatest friend.[57]

The Future After Ukraine

With Russia invading Ukraine in 2022, the question remains: what is the future of Russian influence in the Balkans? In theory, it is possible that Russia could resort to hybrid war measures against Western interests in the region, but Western vigilance

[53] "RT Launches Local Website, Broadcasting in Serbia", *The Moscow Times*, 15 November 2022.
[54] Bechev (2017), p. 226.
[55] Vuksanović, Cvijić, and Samorukov (2022), p. 10.
[56] Vuksanović (2019).
[57] Vuksanović, Cvijić, and Samorukov (2022), p. 8.

would seriously lower that possibility.[58] It is already evident that the West is taking this possibility seriously. The European Rule of Law Mission in Kosovo has received extra personnel, as has the EUFOR mission in Bosnia and Herzegovina.[59] NATO's KFOR mission in Kosovo is also on the ground. Serbia cannot get weaponry purchased from Russia because of EU sanctions, as it remains encircled by the EU and NATO.[60] In June 2022, Russian Foreign Minister Sergei Lavrov cancelled his visit to Belgrade because the European air space was closed to Russian aeroplanes.[61]

If Moscow has the ambition to cause trouble, it cannot do so without assistance from local elites, and they are unwilling to take any risks for the sake of Moscow's geopolitical ambitions.[62] The local elites and the ethnic groups they lead are not Moscow's obedient proxies but self-interested actors who leverage their ties with Moscow for their own ends. Even the regime in Serbia, one of the rare European countries that have not completely closed its doors to Russia, is not fully aligned with Russia. Instead, it balances and plays off Russia and the West against each other in order to score a better bargain on issues like Kosovo and improve the country's position in the Western security architecture.[63] In April 2022, Serbian pro-government tabloids accused Putin of betrayal for comparing Kosovo to Donbass.[64]

---

[58] D. Bechev, "War Won't Be Coming Back to the Balkans", *War on the Rocks*, 24 March 2022.

[59] Ibid.

[60] Ž. Banović, "Ministar odbrane potvrdio nove probleme sa isporukama naoružanja iz Rusije i Kine; analiziramo šta još nedostaje" ("Defence Minister Confirmed New Problems with Weapons Deliveries from Russia and China: we Analyse What Else is Missing"), *Tango Six*, 27 December 2022.

[61] "Lavrov cancels flight to Serbia after countries close airspace, Interfax reports", *Reuters*, 5 June 2022.

[62] M. Samorukov, "Why Is All Quiet on Russia's Western Balkan Front?", *Carnegie Politika*, 5 December 2022.

[63] Vuksanović (2018).

[64] M. Stojanović, "Russian Ambassador to Serbia Denies Change in Putin's

The elites in the Balkans frequently play the Russian card to deter the West from criticising the democratic backsliding that the region has experienced in the past several years.[65] We saw this phenomenon in Serbia in the summer of 2020, when the Serbian pro-government tabloids accused the Russian deep state of fomenting violent anti-lockdown protests in Belgrade.[66] More famously, the case of the 2016 Montenegro coup, where Russian agents allegedly failed to overthrow the government in an attempt to prevent the country's membership of NATO, shows many inconsistencies in the government's official narrative and leads to the suspicion that the story was used by the Montenegrin government for electoral purposes and to attract Western backing.[67]

The three sources of Russian influence will remain energy, the unresolved Kosovo dispute and soft power. Regarding energy, in May 2022, as the Kremlin suspended gas deliveries to Finland, Poland and Bulgaria after they refused to pay in roubles, Moscow and Belgrade agreed on new gas prices.[68] The deal involved the replacement of the old 10-year gas supply contract with a new three-year supply contract for the annual delivery of 2.2 billion cubic meters of gas at a price ranging from 340 to 350 per 1,000 cubic meters, depending on the amount.[69] However, in November 2022, Serbia had to switch oil suppliers as it could no longer import Russian oil via the Janaf oil pipeline in Croatia because of the EU's ban on imports of Russian seaborne oil.[70] Gazprom's ownership of NIS is also

---

Kosovo Policy", *Balkan Insight*, 29 April 2022.

[65] B. Pula, "The Budding Autocrats of the Balkans", *Foreign Policy*, 15 April 2016.

[66] V. Vuksanović, "Belgrade's New Game: Scapegoating Russia and Courting Europe", *War on the Rocks*, 28 August 2020.

[67] V. Hopkins, "Indictment tells murky Montenegrin coup tale", *Politico*, 23 May 2017.

[68] "Serbia secures gas deal with Putin, as West boycotts Russia", *Al Jazeera*, 29 May 2022.

[69] T. Ozturk, "Serbia secures new 3-year deal with Russia for gas supply", *Anadolu Agency*, 29 May 2022.

[70] V. Dimitrievska, "Serbia and Croatia spar over ban on oil transport through

uncertain in the light of EU sanctions.[71] The EU is willing to support energy diversification projects in the region, which will decrease Moscow's ability to use energy as a political tool.[72]

However, the Kosovo issue and soft power still help to sustain Moscow's presence in the Balkans. The Kosovo dispute remains unresolved, forcing Belgrade to preserve its partnership with Moscow. Russia's soft power capital is also a powerful force in Serbia and, by extension, in the region. With 63% of the population blaming the West for the war in Ukraine, Serbia is a global outlier ahead of other countries with sympathetic attitudes towards Russian perspectives, including Senegal (52%), Indonesia (50%), Turkey (43%), Nigeria (39%), Moldova (35%) and India (34%).[73] The overwhelming majority of Serbs are opposed to sanctions against Russia, 44.1% of them because Serbia experienced sanctions in the 1990s, 24.3% because they perceived Russia as the country's greatest friend, and 11.8% because of the Kosovo issue.[74] In April 2022, thousands of people gathered in Belgrade to support Russia and its Ukraine campaign, although it is unknown who the organisers of the gathering were.[75] This is a vulnerability that Russia can also potentially exploit if Belgrade tries to align with EU sanctions against Russia.[76]

The continued salience of the Kosovo dispute in Serbian politics and Russia's popularity in Serbia gives Russia the ability to disrupt the Serbian government if it ever negotiates a settlement of the Kosovo dispute that excludes Russia and denies it an opportunity to ask for something in return. This

---

Janaf pipeline", *bne IntelliNews*, 6 October 2022.

[71] M. Stojanović, "Serbia Mulls 'Taking Over' Mainly Russian-owned Oil Company", *Balkan Insight*, 14 July 2022.

[72] Mitrescu and Vuksanovic (2022), pp. 32-33.

[73] Vuksanović, Cvijić, and Samorukov (2022), p. 5.

[74] Ibid., p. 11.

[75] "Pro-Russia Serbs protest in Belgrade to support Russia and against NATO", *Euractiv*, 17 April 2022.

[76] U. Hajdari, "Pandering to Putin comes back to bite Serbia's Vučić", *Politico*, 7 March 2020.

would be a political fiasco for the Serbian leadership, which cannot afford to be perceived by its population as softer on the issue of Kosovo than the Russian leadership.[77] We will see this possibility tested in the future as we witness the European efforts to resolve this dispute. This is important in the context of the recent Franco-German proposal to resolve the Kosovo dispute. The proposal involves Serbia not actually recognising Kosovo but not objecting to its membership of international institutions, while Kosovo is expected to form an Association of Serbian Municipalities (ASM), an entity guaranteeing autonomy for Kosovo Serbs. The Franco-German proposal enjoys the backing of the US, and Western governments appear willing to pressure both Serbia and Kosovo to accept the agreement. This new reality is primarily the result of the fear caused by the Russian invasion of Ukraine and the desire to close any windows of opportunity for Russian influence.[78] There are signs that Russia, primarily through its diplomatic representatives in Belgrade, has expressed displeasure with the Franco-German proposal.[79]

However, despite Western pressures, it remains uncertain whether Serbia and Kosovo can agree to Kosovo having a seat at the UN and to the formation of the ASM, respectively.[80] Russia, preoccupied with Ukraine, can patiently wait and see whether the proposed deal will be accepted and, more importantly, implemented, hoping that just like many previous diplomatic efforts on Kosovo, this too will fail. Nevertheless, suppose the proposal reaches the point of final implementation. In that case, Russia may find a way to sabotage it in order to

[77] M. Samorukov, "Escaping the Kremlin's Embrace: Why Serbia Has Tired of Russian Support", Carnegie Endowement for International Peace, 22 January 2019.

[78] M. Stojanović, "EU, US Piling Pressure on Serbia to Accept Kosovo Plan, Vucic Says", *Balkan Insight*, 24 January 2023.

[79] A. Brzozowski, "Serbia, Kosovo leaders expected to endorse EU plan to normalise relations", *Euractiv*, 27 February 2023.

[80] S. Dragojlo, Serbia Rules Out Signing EU Plan Over Kosovo's UN Membership", *Balkan Insight*, 1 March 2023.

humiliate the West and prevent the loss of a useful leverage tool. This possibility will remain in play for both the Serbian leadership and the West. Meanwhile, in Serbia, the government in power will have to balance its ties with the EU and Russia for the sake of domestic political survival as Russia remains the most popular foreign country among the population, but the economic well-being of the country is still largely dependent on the EU.[81]

Conclusion

Despite frequent suggestions that Russia will generate a new crisis in the Balkans in the wake of Moscow's war in Ukraine, there have been many misconceptions about the region's standing in the strategic thinking of the Russian foreign policy elite. While Russia might have some interests in the region, these are secondary compared to the greater strategic considerations shaping Moscow's thinking and its behaviour in the Balkans.

The region is important to Moscow to the extent that it has implications for Russia's role in the post-Soviet space or its overall position in the international system. This means that the region is important when it gives Russia a precedent (e.g. Kosovo) to invoke in territorial disputes in the post-Soviet space, or as a way to demonstrate that Russia has reclaimed great power status after the humiliations of the 1990s. Russia's presence in the Balkans also gives Moscow leverage in its relations with the West, showing that the region should be viewed as a sideline arena in the wider theatre of Russia-West relations.

Despite the scaremongering of media commentators, Moscow's influence in the region was overstated even before the Ukraine war. Economically, the EU trumps Moscow in the Balkans. Regarding security, Russia has no military presence in the region, where NATO remains the primary security provider.

[81] V. Vuksanović, "Russia Remains the Trump Card of Serbian Politics", Carnegie Endowement for International Peace, 17 June 2020.

Even occasional military cooperation with Serbia is likely to decrease. For years, Russian policy in the region has been based on three instruments of influence: energy dependence, the unresolved Kosovo dispute and soft power.

The war in Ukraine raises the question of the future trajectories of Russian behaviour in the Balkans. While it is theoretically possible that Russia might attempt some subversive operations in the region in order to divert the attention of Western powers away from the war in Ukraine, this scenario is unlikely. It is doubtful because of the increased scrutiny of the Western capitals on local players and Moscow's resources being overly focused on Ukraine. Equally important is the fact that Moscow cannot cause trouble in the Balkans without assistance from the local elites. These elites want to use Russia to gain leverage with the West, but none want to be used as an expendable pawn of Moscow.

The traditional instruments of Russian influence will remain but in an altered form. The sanctions against Russian firms, including Gazprom, and initiatives to decrease the region's energy dependency on Russia will reduce Moscow's ability to use energy as a political tool. The other two instruments, the Kosovo dispute and soft power, will guarantee that Russia remains a political factor in the region, primarily in the strategically most consequential player, Serbia. However, Moscow's reach will be much more limited due to the constraints brought by the Ukraine war. No less important is the fact that while it might be attractive for Russia to instigate a security crisis that would divert the West's attention away from Ukraine, Moscow needs the support of local actors and local elites in that endeavour. However, these players are self-interested and want to use Russia for their own ends but not to be sacrificed for Russia's strategic interests.

In the future, we can expect that Russia's three sources of influence in the Balkans – energy, the Kosovo dispute and soft power – will remain, particularly in Serbia. However, Russian influence will change. The diversification of energy supplies will

decrease the Kremlin's ability to use energy as political leverage. However, the unresolved Kosovo dispute and Moscow's soft power capital in Serbia will make it difficult for Belgrade to pivot away from Moscow, because of the salience of the Kosovo dispute but also to avoid Moscow using its popularity in Serbian public opinion to politically subvert the government in Belgrade. For Moscow, a partnership with Belgrade will also be important for its political symbolism as it will signal that Russia has not been entirely kicked out from the region. Consequently, Russian influence in the Balkans will continue to exist, although in a significantly altered and toned-down form.

3. Serbia's Game of Musical Chairs Is Over

Giorgio Fruscione

At the last UN General Assembly (UNGA), when the President of Serbia Aleksandar Vučić started his speech, the audience in the hall still had to sit down after its standing ovation for the video message delivered by Ukrainian President Volodymyr Zelensky.[1] The Serbian leader took the floor addressing the Assembly on the importance of protecting territorial integrity and national sovereignty. His speech clearly referred to the case of Kosovo. The same principles were underlined right before him by Zelensky who spoke about Ukraine's integrity and sovereignty violated by Russia – Serbia's most important ally over the Kosovo issue.

In an ironic twist of fate, the order of speakers at the 77th UNGA highlighted the contradictions of Serbian foreign relations – contradictions that have backed Serbia into a corner since the beginning of the Russian invasion of Ukraine. Apart from Belarus, Serbia – a candidate for European Union membership – is in fact the only European country that has not imposed sanctions against Russia.

This would of itself aptly summarise Serbia's decade-long "swing policy" between Russia and the West. However, on the sidelines of that same General Assembly meeting, then Serbian Ministry of Foreign Affairs Nikola Selakovic signed a cooperation agreement with his Russian counterpart, Sergei Lavrov. What they signed, dubbed "Consultation Plan", was soon downplayed

[1] "World leaders address the United Nations general assembly in New York".

by Selakovic himself as merely "technical".[2] Yet, the cameras were there capturing a less technical handshaking between the two. The impression is that while Selakovic was right, in that the substance of cooperation between the two ministries is limited to a few issues, what matters more is the way it appears, and how Serbian voters perceive it. In Serbia, in fact, Russia and the European Union were perceived as poles apart long before the beginning of the invasion of Ukraine.

Since February 2022, the war waged by Russia has been the greatest game-changer for Serbian foreign policy, as it directly affects Belgrade's "game of musical chairs", turning off the music and forcing the Balkan state to sit on only one chair – a move that has not been made yet. For almost ten years, an ambivalent foreign policy has underpinned the success of Aleksandar Vučić, whose country is economically dependent on the EU while nurturing a special relationship with Russia – mainly intended to preserve Moscow's support over Kosovo.[3] For its part, the EU has been partly complicit in Belgrade's game of musical chairs, as in recent years the EU enlargement process has become less credible, allowing scope for Russia and its soft power tools to fill the credibility gap among Serbian citizens. Moreover, for years Brussels supported Belgrade and relied on Vučić's official stances to bring Serbia into the EU, but turned a blind eye to the drift towards the Russian-style authoritarianism that completely eroded the rule of law and undid the democratisation process of the post-Milosevic years. The support Vučić enjoys from the EU also serves him to promote his alleged rule as a factor of peace and stability in the region – as underlined during his speech at the UNGA – even though he simultaneously endorses secessionist moves by Serb leaders in former Yugoslav republics within the framework of what Belgrade refers to as *Srpski svet* ("Serb world," a modern

[2] "Serbian foreign minister plays down deal with Lavrov after flak from Brussels", *Euronews*, 25 September 2022.

[3] D. Bechev, "Hedging Its Bets: Serbia Between Russia and the EU", Carnegie Europe, 19 January 2023.

version of the nationalist "great Serbia" concept and which recalls the Russian idea of *Russkiy mir*).

The geopolitical disruption caused by the war in Ukraine began one month before Serbia's general elections in which President Vučić gained his second mandate. As for the parliamentary elections, despite the landslide victory of his Serbian Progressive Party (SNS), it took seven months to form the new government. During that period, Vučić's Serbia was under a twofold pressure. On the one hand from local voters, the majority of whom[4] consider Moscow as the most important Serbian partner, and on the other from the European Union, which was asking Belgrade to align with EU foreign policy and adopt sanctions against Russia.

But the war in Ukraine has put unprecedent pressure on the EU, too. Brussels diplomats fought Russia back on its main contact point with Belgrade: the issue of Kosovo.

Last summer, France and Germany proposed a plan to relaunch the normalisation process between Belgrade and Pristina amid new tensions and crises. The plan was eventually endorsed by all EU Member States, including the five non-recognisers of Kosovo, further reducing the time President Vučić has to make a final choice: whether to be consistent with the ten-year long path towards the EU, or to safeguard a relationship with an ally whose popularity contributes to his internal support. In this respect, the EU's plan for Kosovo indirectly represents a way to kill two birds with one stone: to normalise relations between Belgrade and Pristina preventing new hotbeds of tension in Europe, and to push for Serbia's alignment with EU foreign policy.

The official contents of the plan were finally accepted at the high-level meeting in Brussels on the 27th February by Vučić and Kosovo's Prime Minister Albin Kurti.[5] Before that meeting,

[4] V. Vuksanović, L. Sterić, and M. Bjelos, "Public Perception of Serbian Foreign Policy in the Midst of the War in Ukraine", Belgrade Center for Security Policy, December 2022.

[5] "Belgrade-Pristina Dialogue: EU Proposal - Agreement on the path to

Vučić has preferred to capitalise on it by drawing attention to the dire consequences that he claims could have followed if Serbia rejected the plan, making it look like an ultimatum from the EU. According to him, refusing to accept it would have meant "the interruption of the process of European integration, the halting and withdrawal of investments and comprehensive economic and political measures that will cause great damage to the Republic of Serbia".[6] By presenting the plan with the focus exclusively on what could have happened if Serbia rejected it, Vučić pursued two interdependent goals: to shake off political responsibility for the most important national issue for Serbia and to present himself as a victim of Western blackmailing – which could further alienate his voters from the EU. Whether this plan is a true ultimatum or not, Vučić has incidentally delivered another message: Serbia cannot get along without the European Union.

The choice between the EU and Russia is in fact mainly one between what matters most to Serbia: a set of stable economic and political relations or a strategic alliance limited to certain issues. While the EU represents by far its biggest trade partner and source of foreign investment, Russia is an essential ally mainly for hindering the recognition of Kosovo in international organisations.

In Serbia, Russia and the EU have never been on the same level, and the way their respective relationships with Belgrade have developed over time have followed different trends. While Russia's ties with Belgrade have remained largely unchanged, the EU's have considerably improved, so that the EU is now an indispensable trade partner for Serbia,[7] and ultimately the only real mediator in the normalisation process with Kosovo.

---

normalisation between Kosovo and Serbia", EEAS Press Team, 27 February 2023

[6] "Serbia under Western pressure to reach deal on Kosovo, Vucic says", *Al Jazeera*, 24 January 2023.

[7] "Western Balkans-EU - international trade in goods statistics", Eurostat, March 2022.

The EU: An Essential Partner

In 2009, Serbian exports to the EU amounted to just €3.2 billion, while today they exceed €40 billion.[8] Also, 63% of current total foreign direct and indirect investment comes from EU Member States and, over the years, Serbia has received more than €3.5 billion in EU grants. Since 2008, when Belgrade and Brussels signed the Stabilisation and Association Agreement, Serbian citizens have been positively affected by the rapprochement with the EU, enjoying several real benefits, such as the lifting of the visa regime in 2009 and participation in the Erasmus+ programme since 2019. More recently, the President of the EU Commission, Ursula von der Leyen, announced[9] an energy support package of €1 billion in EU grants to help the Western Balkans to mitigate the consequences of the energy crisis and build resilience in the short and medium term. Similarly, after the outbreak of the Covid-19 pandemic, the Commission proposed to mobilise up to €9 billion of Instruments for Pre-accession assistance (IPA) funding for the period 2021-27 "through investments and support to competitiveness and inclusive growth, sustainable connectivity, and the twin green and digital transition".[10] In 2014, when Serbia was hit by one of the worst floods in its history, the EU Commission acted quickly to help the country by investing over €170 million in flood relief and prevention.[11]

Despite the essential trade partnership and assistance it provides in times of need, the EU still suffers from low popularity among Serbian citizens. As a political partner, in fact, over the years the EU has disappointed even the most pro-Europeans,

[8] "Main trade partners of Serbia in 2021", EU in Serbia.

[9] "Berlin Process Summit: EU announces €1 billion energy support package for the Western Balkans and welcomes new agreements to strengthen the Common Regional Market", European Commission, 3 November 2022.

[10] "Commission Communication on An Economic and Investment Plan for the Western Balkans", European Commission, 6 October 2020.

[11] "Floods in Serbia – European Union continues supporting", EU in Serbia, 25 June 2020.

and the percentage of those who would support EU membership in a referendum is getting smaller.[12] The common belief is that the integration process will never be completed, or at least not in the near future, and that Serbian authorities will be given new timeframes that will not be respected. A case in point is the rhetorical announcement made by the previous EU Commission in 2018 that Serbia had "frontrunner country" status, combined with the possibility of final membership by 2025.[13] Since then, Belgrade's accession process has actually slowed down, and in 2022 no new negotiation chapters were opened. This setback in the integration process has two main, and complementary, reasons. The first is that EU enlargement itself has been called into question, with proposals for reforming its methodology,[14] reflecting a certain degree of opposition to future expansion to the Balkans. In this sense, a negative attitude towards the region from within the EU has exposed its decoupling syndrome, with the official position of the EU Commission supporting enlargement on the one hand and the intransigence of some Member States on the other. The second reason is the gradual erosion of the rule of law that has driven Serbia away from EU standards regarding democracy. Paradoxically, in the same year that Serbia was granted EU candidate status, the achievements of the post-Milosević transition started to vanish. Since its rise to power in 2012, Vučić's party has in fact tightened control over the economy, society and public institutions through state capture dynamics.[15]

---

[12] N. Zdravković, "Podrška EU se kruni, ali u jednom većina je složna: Kakva bi bila poruka građana Srbije kad bi se sad glasalo o članstvu" ("Support for the EU is growing, but the majority is in agreement on one thing: What would be the message of the citizens of Serbia if there was a vote on membership now?", *Euronews*, 12 February 2023.

[13] G. Gotev, "Juncker tells Balkan states 2025 entry possible for all", *Euractiv*, 26 February 2018.

[14] V. Tcherneva, "French connections: How to revitalise the EU enlargement process", European Council on Foreign Relations, 11 December 2019.

[15] B. Elek and G. Fruscione (eds.), "The Crime-Politics Nexus Entrapping the Balkans", Italian Institute for International Political Studies (ISPI), 22 September

Since 2011, in parallel with Serbia's integration process, Brussels has been leading the meditation between Belgrade and Pristina. In 2013, the EU brokered the First Agreement of Principles Governing the Normalisation of Relations, commonly known as Brussels Agreement.[16] The normalisation of relations between the two neighbours is a preliminary requirement for Serbia's final accession. However, while the Brussels Agreement helped in solving some technical issues and to partially remove Serbian parallel structures in Kosovo, the whole process suffered many interruptions because of local crises and incidents – often fuelled and exploited by Belgrade in an attempt to prolong the status quo in its former province. Pristina, for its part, over the last ten years has failed to establish the Association of Serb Municipalities (ASM), the main provision of the agreement and major demand from Belgrade, and has thus contributed to stoking up the Kosovo Serbs' anger that has led to all the main troubles in Northern Kosovo.

However, after last summer's car plate dispute,[17] the EU relaunched its geopolitical commitment on the issue of Kosovo, offering Belgrade a diplomatic way out and mediating a new framework of relations with Pristina on the basis of a Franco-German proposal. The plan – which still lack an Implementation Roadmap – could eventually unlock the stalemate between the two countries and help them to move forward. The new deal seems to be based on the 1972 Basic Treaty by which East and West Germany de facto recognised each other.[18] In fact, the plan do not provide for mutual recognition and it even avoids this wording, but engages Belgrade in ceasing to block Pristina's

---

2021.

[16] "First Agreement of Principles Governing the Normalization of Relations", Government of the Republic of Serbia. "First Agreement of Principles Governing the Normalization of Relations", Government of the Republic of Serbia https://www.srbija.gov.rs/cinjenice/en/120394

[17] W. Preussen, "Kosovo, Serbia reach deal over car plate dispute, EU says", *Politico*, 24 November 2022.

[18] M. Stojanović, "EU, US Piling Pressure on Serbia to Accept Kosovo Plan, Vucic Says", *Balkan Insight*, 24 January 2023.

accession to the UN and other international organisations. In return, Serbia will obtain the creation of "an appropriate level of self-management for the Serbian community in Kosovo and ability for service provision in specific areas" – a provision whose interpretation is still ambiguous. The eventual creation of the ASM – though it remains to be seen whether it will be called that – should be consistent with Kosovo's constitution and its multi-ethnic structures.[19] The diplomatic hyperactivity to convince Kosovo's Prime Minister Kurti to accept its establishment even exposed the EU to the criticism of not being impartial, reinforced by the fact that both Lajčák and the EU high representative for foreign policy Josep Borrell come from two non-recogniser countries – Slovakia and Spain, respectively. Nevertheless, by pressuring the parties to respect the agreement provisions, and showing regard for the national interests of both, Brussels – with Washington's support – reasserted its influence in the Balkans as the dominant geopolitical actor as well as strategic mediator.

Russia: A Brother or an Only Child?

Unlike Serbia's relations with the EU, those between Moscow and Belgrade have not translated into significant improvements for the life of Serbian citizens. Since the end of the Yugoslav wars, the Russia-Serbia relationship has been mainly static and limited to a few issues as well as conservative, to the extent that it has mostly focused on preserving the regional status quo and Serbia's perception of Russia as "big brother" at the local level, relying on cultural and religious proximity. Also, it would not be true to say that Russia has always sided with Serbia and its national interests. This is rather a myth that Serbian nationalists have been spreading over the years and which today makes the possible adoption of sanctions against Russia a gamble that could be costly for Vučić's government.

[19] A. Taylor, "Kosovo's PM accepts EU, France, Germany backed normalisation plan", *Euractiv*, 7 February 2023.

Looking at economic relations, in the last ten years, Russia has never been among the top three destinations of Serbian exports,[20] being a secondary partner compared to EU Member States and Serbia's neighbours. This seems to reflect a specific Russian intention to focus the relationship with Serbia – and in general its presence in the Balkans – only on limited spheres. For Russia, Serbia and the Balkans do not represent a vital strategic interest but rather another European region on which its influence may hamper Western geopolitical ambitions. This attitude has become particularly evident since the beginning of the invasion of Ukraine, with the West seeking political unity and cohesion.

As Vuk Vuksanović explains in his chapter, Russia has three main sources of influence in the Balkans: energy exports, soft power (i.e., the popularity that Russia enjoys among the local population), and the unresolved Kosovo dispute.[21] As a matter of fact, the invasion of Ukraine influences all of these three pillars too. Energy dependence will most probably decrease because of sanctions; soft power is expected to increase as long as the war lasts; and the Kosovo issue can eventually be manipulated for mere Russian use and consumption, without offering Belgrade a diplomatic way out with Pristina.

As for energy, in June 2022 the Council of the EU adopted a package of sanctions that prohibits the purchase, import or transfer of seaborne crude oil and certain petroleum products from Russia to the EU.[22] This will reduce Serbia's imports of Russian oil, which used to be distributed from the Croatian island of Krk.

Soft power, on the other hand, has been increasing since February 2022. Even if there are no scientific methods to measure the increase in soft power, a number of considerations

[20] "Country of destination rank /origin, by value of exports/imports", Statistical office of the Republic of Serbia.

[21] See the chapter 2 in this Report by V. Vuksanović.

[22] Z. Radosavljević, "Serbia, Croatia leaders trade barbs over oil embargo", *Euractiv*, 7 October 2022.

may confirm it has been on a growing path. On the very first day of the invasion, Serbia's biggest-selling pro-government tabloid featured the headline "Ukraine attacked Russia";[23] a few days later, Belgrade became the first European capital to host a mass demonstration in support of Moscow's so-called "special military operation".[24] That rally – the first in a series of pro-Russian public demonstrations – was organised by Serbian far right movements. The timing of such demonstrations, so close to the general elections, combined with the fact that the radical organisations behind them have never protested against Vučić's regime, raises the suspicion that they are under the control of Serbian authorities – or, at least, that they indirectly benefit from them. As a matter of fact, in the April 2022 elections, President Vučić and his party gained political support from those nationalist fringes that are sensitive to "Russian brotherhood" and would not have voted for Vučić if Serbia had unambiguously aligned with the West and with EU sanctions. The Russian card is thus a functional cornerstone for Serbia's regime, which returns the favour by echoing Kremlin propaganda. According to public opinion polls, in fact, only 12% of Serbian citizens believe Russia is responsible for the invasion of Ukraine.[25] Such data confirms that Russian soft power has been increasing since the beginning of the war. And since last November, Kremlin propaganda has obtained even more public space thanks to the opening of Russian state-owned TV and radio broadcaster RT in Serbia – despite a law providing otherwise.[26]

---

[23] "'Ukraine attacked Russia': How Serbian pro-government tabloids reported on yesterday's events", European Western Balkans, 22 February 2022.

[24] B. Filipović, "Pro-Russia Serbs march in Belgrade as country treads ever finer line between East and West", *Reuters*, 5 March 2022.

[25] Vuksanović, Šterić, and Bjeloš (2022), p. 11.

[26] M. Radenković, "Zakon ne dozvoljava pokretanje Raše tudej u Srbiji: Korak dalje od EU ili dimna bomba?" ("The law does not allow Raša to be launched there in Serbia: A step further from the EU or a smoke bomb", *Danas*, 15 July 2022.

Unlike energy and soft power, whose trends have been changing in two opposite directions since February 2022, the issue of Kosovo, as the main link between Belgrade and Moscow, has remained almost untouched. The substance of Moscow's diplomatic approach to the Kosovo dispute has not changed. Russia's military involvement is insignificant as Moscow has not had boots on the ground since 2003, when Russian troops left Kosovo after participating in the NATO-led peacekeeping mission.[27] That is why Russia's role in supporting Serbia over Kosovo is best described as static and conservative. In the various crises that occurred last year, Serbia's political alliance with Moscow did not materialise in the shape of a diplomatic mediation with Pristina. Russia has not been promoting any compromise agreement, officially sought by Serbia itself,[28] relying mainly on respect for UN Resolution 1244[29] and refusing to recognise Pristina's independence. For Russian President Vladimir Putin, the case of Kosovo is rather a useful rhetorical tool: "a precedent"[30] he uses to justify the annexation and military occupation of Ukrainian regions and to highlight the West's alleged geopolitical inconsistency.

Last summer, many Europeans worried that Moscow was fuelling another war in the Balkans and was behind the troubles on the Kosovo-Serbia border. However, a Russian military intervention in Kosovo must be ruled out: Moscow has neither the military capacity to undertake such an operation, nor the financial capacity to add to the already heavy economic burden of the war in Ukraine. In the various crises that occurred in Kosovo in 2022, Russia therefore played a passive rather than a leading role. Moscow was not the architect of the car plate

[27] "Russian troops leave KFOR", NATO, 3 July 2003.

[28] A. Taylor, "Vucic claims compromise sought while announcing institutional walkouts in Kosovo", *Euractiv*, 22 August 2022.

[29] "Security Council Resolution 1244 (1999) on the situation relating Kosovo", United Nations Peacemaker.

[30] D.B. Pineles, "How the 'Kosovo Precedent' Shaped Putin's Plan to Invade Ukraine", *Balkan Insight*, 9 March 2022.

dispute nor of the barricades in Northern Kosovo, but was rather its biggest, indirect beneficiary. And that is why Moscow will not promote a mediation between Belgrade and Pristina: the more unstable the Balkans will be, the more Russia will benefit from it. This attitude prompted the West's U-turn in its diplomatic approach to the Kosovo issue, as the restoration of the status quo after each eruption of local tension could only be in Russia's interest.

Finally, it is worth analysing how, when it comes to Serbian national interests, Russia has not always acted like a "brother". This concept, shared by nationalist politicians and organisations, should be understood rather as an anti-establishment, anti-West position that uses Orthodox Christianity as a natural link inextricably connecting the two peoples. However, recent history tells a different story.

When the USSR and Yugoslavia both ceased to exist, the restoration of what is now propagandised as a brotherhood between Serbian and Russian peoples was not without contradictions. As a survey by the Belgrade Centre for Security Policy points out, "the majority of the Serbian public is against introducing sanctions against Russia, with the majority doing so on the grounds that Serbia experienced sanctions in the 1990s".[31]

But if sanctions are a traumatic event for the Serbian public, then it should be recalled that in the 1990s the Russian Federation supported all the sanctions imposed against Yugoslavia.[32] This happened in 1991, with a UN resolution that prohibited arms exports to Yugoslavia; then in 1992 with resolution 757,[33]

[31] The survey shows that 44% of respondents is against sanctions because of personal, collective similar experience https://bezbednost.org/wp-content/uploads/2022/12/WBSB-2022_Serbia-Report-1_Dec-2022.pdf#page=11

[32] "Zaharova zaboravila da je Rusija podržala sankcije protiv SFRJ i SRJ" ("Zakharova forgot that Russia supported the sanctions against SFRY and FRY"), *Danas*, 14 April 2022.

[33] "Resolution 757 (1992) / adopted by the Security Council at its 3082nd meeting, on 30 May 1992", United Nations Digital Library, 1992.

which entailed the adoption of the first sanctions in UN history against Serbia and Montenegro; and yet again in 1993, when Russia voted in favour of the establishment of the International Criminal Tribunal for the Former Yugoslavia, a United Nations body tasked with sanctioning the war crimes committed during the Yugoslav wars – an institution that Serb nationalists label as "anti-Serb". Finally, in 1998, during the first phases of the war in Kosovo, Russia supported UN resolution 1160, which imposed an arms embargo on the Federal Republic of Yugoslavia.

Although all these UN resolutions dealt with territorial issues and national interests pursued by the Milosevic regime, Russia never used its veto power. But that is not all. While Russia supported all these resolutions, it also violated the arms embargo and the ban on exporting weapons to the territory of Yugoslavia. But it did so in favour of Croatia, in its war of independence from Belgrade. According to the Executive Director of the Council for Strategic Policy Nikola Lunić, in the 1990s Russia armed Croatia both with financial and foreign policy benefits in its war against Belgrade-backed Croatian Serbs.[34] During the Yugoslav wars, the Croatian army received "everything but nuclear ballistic missiles"[35] from Russia through an estimated 160 flights from Russia to Croatia with an average of 100 tons of cargo per flight. In doing so, Russia violated not only the UN embargo, but above all the supposed brotherhood with the Serbs.

There were also other, highly symbolic moments in which Russia disregarded Serbian interests. Moscow not only recognised the independence of Croatia months before the United States

[34] N. Lunić, "Moscow does not believe in tears", Council for Strategic Policy, 12 May 2019.

[35] As Lunić details: "Croatia received 18 Mi-17 transport helicopters, 12 Mi-24 combat helicopters commonly called "the devil's chariot", 40 MiG-21 fighter planes / interceptors, as well as a whole range of sophisticated weapons and military equipment such as the Fagot anti-armor systems, Sturm anti-tank missiles, R-60 air defense missiles, and non-guided S-5 missiles. Out of 40 fighters, 23 single-seat MiG-21bis and 3 two-seater MiG-21UM were put into operational use, while the rest of the aircraft was used for spare parts".

and other Western countries but also honoured Croatian leaders with public awards. In 1996 – just one year after the "Oluja" ethnic cleansing operation that forced around 200,000 Croatian Serbs to leave their homes – the first President of Croatia, Franjo Tudjman, was awarded the Georgij Konstantinović Žukov medal for merits in and contributions to the fight against fascism. In 2005, a similar award was given by Putin to Stipe Mesić, the last Yugoslav President and Tudjman's successor.

The abovementioned cases show how ambiguous Russia has been towards Serbia, especially concerning its national or territorial interests, calling for a more comprehensive interpretation of their relationship than today's propagandistic focus on "brotherhood". But they also show how since then Russia has only cared for its own interests in the Balkans. Therefore, when Putin mentions the "Kosovo precedent" today to accuse the West of double standards,[36] Serbia might use the same argument, recalling how back in the 1990s Russia did not safeguard Belgrade's national interests but rather helped its opponents. In other words, Serbia should bear in mind such precedents in recent history before making a final choice for its future foreign policy.

Abandoning the Status Quo

Today, the EU and the US have a great chance to solve, through their mediation, the longstanding issue of Kosovo. While for years Russia has been doing nothing but back the Serbian position to respect UN Resolution 1244[37] and blocking Pristina's accession to international organisations, Brussels and Washington have been intensifying their diplomatic activities in order to find a binding agreement.

---

[36] B. Barlovac, "Putin Says Kosovo Precedent Justifies Crimea Secession", *Balkan Insight*, 18 March 2014.

[37] M. Stojanović, "Russian Ambassador to Serbia Denies Change in Putin's Kosovo Policy", *Balkan Insight*, 29 April 2022.

For the West, finding a solution to Kosovo that Serbia can accept would mean one step towards Western geopolitical cohesion. The new framework for normalisation of relations between Belgrade and Pristina may not automatically translate into an unambiguous Serbian alignment with EU foreign policy, but would contribute to pushing Russia one step back from the Balkans.

In recent years, there have been several crises between Kosovo and Serbia – many of them "remote-controlled" from Belgrade – which have often interrupted the dialogue process. Both governments benefited politically from all these crises, intended as perfect circumstances for eventually presenting themselves as the only legitimate defenders of national interests threatened by "the old enemy". As a matter of fact, each crisis only upset the status quo, and all consequent mediations to restore it have been falsely interpreted as steps forward. The reality is that maintaining the status quo has been the best option for both parties, as it has enabled them to avoid the responsibility of agreeing to any unpopular deal while taking political advantage of every moment of tension. This vicious cycle has left the two countries in a bilateral limbo, with repercussions for the political stability of the whole region – a predicament to the exclusive advantage of Russia. And herein lie the potential benefits of the new EU plan for Kosovo: preventing new hotbeds of conflict in Europe and depriving Russia of its influence in Serbia and the Balkans. That is why Western diplomates are making a great effort over the establishment of the Association of Serb Municipalities.[38] The future administrative status of a piece of land smaller than the Province of Naples could be the key for new geopolitical balances in Europe.

[38] N. Albahari, "Beyond the status quo: A perspective from Serbia on relations with Kosovo", European Council on Foreign Relations, 8 December 2022.

However, the new deal won't be enough if no guarantee is given to Serbia and Kosovo for a faster integration process. If Serbia's foreign policy alignment with the EU is the goal, then the long-awaited deal with Kosovo is the means to attain it. And this should be the guarantee for Belgrade's new European momentum, as the normalisation of relations with Pristina has always been considered a precondition for Serbia's full EU membership. So, rather than an ultimatum, the plan for Kosovo should be interpreted as the basis of a renewed EU engagement. The disruption caused by Russia's aggression against Ukraine compels the EU Commission to finally honour the geopolitical commitments it made at the start of the current mandate.[39] The time to deliver on that expectation is now.

[39] "Speech by President-elect von der Leyen in the European Parliament Plenary on the occasion of the presentation of her College of Commissioners and their programme", European Commission, 27 November 2019.

4. The Way Forward for the Normalisation of Relations Between Kosovo and Serbia

Tefta Kelmendi

On 27 February, the Prime Minister of Kosovo, Albin Kurti, and the President of Serbia, Aleksandar Vučić, met in Brussels for what everyone expected to be the historic meeting in which both parties would sign an agreement based on the latest EU proposal for the normalisation of relations. The meeting ended without a formally signed agreement, and early reports gave way to confusion as to whether something was agreed after all. What is certain is that both parties seem to have accepted the EU proposal and agreed that there will be no further changes to it. The challenge remains in agreeing on the timeframe and priorities regarding its implementation, for which the parties have been given an additional few weeks, with the next meeting expected to take place on 18 March in Ohrid, North Macedonia.

This meeting follows intensive diplomatic efforts by the EU and the US to break through the decade-long stalled progress in the dialogue for the normalisation of relations between Kosovo and Serbia. The war in Ukraine has certainly served as a wake-up call to Europeans, a warning that this is no time to ignore frozen conflicts and unresolved matters of security within Europe. Tensions between Kosovo and Serbia have indeed mounted in recent years. Frequent flare-ups in northern Kosovo over a number of disagreements between the Kosovo government and ethnic Serbs have raised concerns about a

possible escalation of violence. The Kosovo government sought to extend its sovereignty in the north, de facto not under its control, trying to fight the parallel structures by taking firmer action on certain issues. Its punitive policy on vehicle licence plate conversion has been the main cause of tensions in the north last year, as the majority of Serbs have refused to convert their licence plates. They have since been very vocal in demonstrating loyalty to Belgrade, and expressing mistrust in the Pristina authorities and disappointment with the Kosovo government's overall engagement and policies in the north. The peak of their discontent was reached in November last year when they decided to collectively resign from Kosovo institutions, which they had successfully integrated as part of the first agreement for normalisation of relations between Kosovo and Serbia signed in 2013.

The frequent outbreaks of violence in northern Kosovo have affected the dialogue process, switching its focus from high-level political dialogue to one that serves to put out small fires. The challenge for the EU as a main facilitator of the dialogue was therefore to make sure that the focus of the dialogue process remained on a comprehensive agreement for the normalisation of relations that addresses some of the most important outstanding issues such as the status of the Serb community in Kosovo, the status of the Serbian Orthodox Church in Kosovo and the issue of Serbia's recognition of Kosovo. This was a difficult task given the conflictual context in which the dialogue needed to be relaunched. Moreover, the nature of the relationship between Kurti and Vučić further complicated matters. Serbian President Aleksandar Vučić and Kosovo's Prime Minister Albin Kurti strongly dislike each other, and they are both ardent nationalists. Neither side has prepared their public for concessions, therefore the current pressure they face from the West puts them in a very uncomfortable position.

The main disagreement between the parties is over the non-implementation by the Kosovo government of the 2013 agreement for the creation of the Association of Serb-Majority

Municipalities (ASM).[1] Until recently, Kosovo has made its implementation conditional on Serbia's recognition of Kosovo's independence. Serbia on the other hand, made the implementation of the ASM by Kosovo a precondition of any further agreement and was categorically against Kosovo's recognition.

The meeting of 27 February is a positive development towards settling these disagreements, as both parties have in principle accepted the most recent proposal,[2] which is being published for the first time since the first discussion about a version of it dating from last September – a sign of it being accepted, albeit not formally, by both parties. Among the most important parts of the proposal, it is worth mentioning that it gives a vague and confusing answer to the question of Kosovo's recognition by Serbia, as addressed by the fourth line of the preamble of the proposed agreement, which reads: "Proceeding from the historical facts and without prejudice to the different view of the Parties on fundamental questions, including on status questions". However, under Article 2, the parties are to respect each other's territorial integrity and sovereignty in line with the aims and principles of the UN charter. Furthermore, Article 4 states that Serbia shall not object to Kosovo's membership of any international organisation (therefore including its membership of the UN even though this is irrelevant given that Russia will do the job for Serbia). Article 7 refers to the right of the Serbian community to greater autonomy within Kosovo, including the possibility of financial support by Serbia, and requires settlement of the status of the Serbian Orthodox Church in Kosovo. Finally, under Article 10, both parties are to agree to implement all past agreements of the Dialogue, which in this case includes the establishment of the ASM as provided for by the 2013 agreement on the normalisation of

[1] Association/Community of Serb-majority Municipalities in Kosovo – general principles/Main elements, The Dialogue Platform, 25 August 2013.

[2] Belgrade-Pristina Dialogue: EU Proposal - Agreement on the path to normalisation between Kosovo and Serbia, EEAS, 27 February 2023.

relations between the parties. While the main disagreement in the past months was over the establishment of the ASM as part of this new agreement, that is no longer an issue. The ASM will be established, and the object of disagreement is now the implementation timeframe. Serbia wants the ASM established first, while Kosovo wants to avoid its immediate implementation, pushing for other matters first hence buying time.

However, for this agreement and its annexes to become legally binding and show the parties' serious commitment to the normalisation of relations, it needs to be formally accepted. While Joseph Borrell's declaration following the meeting sounded hopeful, the truth is that "nothing is agreed until everything is agreed".

A Glimpse of the Background and Context

While Kosovo was off the news for more than a decade, the recent tensions have also raised interest in better understanding this conflict and the overall security concerns in the Western Balkans in the light of Russia's invasion of Ukraine. A brief look at Kosovo's recent history is necessary for understanding today's conflict between Kosovo and Serbia, the main disagreements and the reasons behind the successive failures in reaching a comprehensive agreement between the parties.

After NATO's military intervention in Serbia and Kosovo in 1999 which ended the war and pushed back Serbian troops, a long and complex diplomatic process began on the question of the settlement of the status of Kosovo in the new regional context. The war atrocities committed by the Milosevic regime against the Albanians in Kosovo and the violations of international norms and values were strong arguments for ruling out any possibility of the return of Serbian rule over Kosovo. It was equally clear that Kosovo needed a final settlement, and that an extended UN administration was not a guarantee for sustainable peace and stability in the country and the region.

In 2007, the UN Special Envoy Martti Ahtisaari presented a proposal[3] to the UN Secretary-General, which would define Kosovo's internal settlement, give it a prospect of independence, but also create a mechanism for the protection of minorities – with extended rights for the Serbs in Kosovo. This proposal was the result of months of negotiation talks between the Kosovo and Serbian representatives, which ended in vain and without a mutually accepted agreement regarding Kosovo's final status. For Kosovo, nothing short of independence would be accepted, and for Serbia, nothing that would go beyond giving Kosovo autonomous status within Serbia was acceptable.

At that moment in history, Western partners were on Kosovo's side. Ahtisaari recommended independence for Kosovo to be initially supervised by the international community. The process of Kosovo's independence, eventually proclaimed in February 2008, was therefore fully coordinated with and supported by the international community. The support was conditional on the new state's capacity to strongly adhere to democratic values and build solid, modern and multi-ethnic institutions. Kosovo's constitution, which was drafted based on the Ahtisaari plan, is one of the most modern and democratic constitutions in Europe in terms of protecting freedoms and equality for all communities living in the state. The multi-ethnic nature of Kosovo is also represented in its state symbols – the stars in the Kosovo flag represent the six ethnic communities living in Kosovo and its national anthem is neutral. In 2012, the International Steering Group (ISG), the body in charge of supervising Kosovo's independence, formally announced the end of the supervision period, which further extended Kosovo's full sovereignty over its territory. With all this in mind, one could argue that Kosovo was truly becoming a successful project for contributing to peace and stability in the region.

[3] Letter from the Secretary-General addressed to the President of the Security Council, *Security Council Report*, United Nations, 26 March 2007.

A decade later, in a global context that is very different from a decade ago, the situation in Kosovo is far from being a success story. Relations between Kosovo and Serbia have been deteriorating in recent years, and ethnic tensions are on the rise again. The triggers are both internal and external. The post-independence period in Kosovo was marked by a series of diplomatic clashes with Serbia, which categorically opposed Kosovo's independence and launched a diplomatic war against it. Following Kosovo's declaration of independence, Serbia deployed substantial resources to block Kosovo's international recognition and integration into international organisations. At the same time, a dialogue process between Pristina and Belgrade representatives was launched in 2011, with the aim of reaching agreement on some of the outstanding issues stemming from the new reality in Kosovo. This process initially focused on technical issues such as freedom of movement, recognition of diplomas, the issue of documentation and civil registries, and customs and border management among others. In 2013, a new phase of the dialogue began with higher-level representatives from both countries, with the aim of addressing issues of a more sensitive nature. An initial agreement called The First Agreement of Principles Governing the Normalization of Relations, also knowns as Brussels Agreement, was reached. The agreement addressed the issue of the ASM, the integration of the Serbian parallel structures of Justice, Police and Civil Defence (in the northern municipalities) into the Kosovo system, as well as holding local elections in the four Serb-majority northern municipalities (North Mitrovica, Zvecan, Zubin Potok and Leposavic) under the jurisdiction of Kosovo. These agreements were partially implemented. They successfully allowed for the integration of the Serbian police and justice structures into the Kosovo institutions, and facilitated local elections in the northern municipalities. However, the Association of Serb Municipalities has never been implemented. The Kosovo government argues that it cannot implement it because of an

unfavourable ruling[4] on the ASM issued by the Constitutional Court of Kosovo in 2015. This Court decision ruled that the ASM is not in line with the "spirit" of Kosovo's constitution, because it provides for the creation of a mono-ethnic association in a constitutionally multi-ethnic state, with competences that go beyond what the constitution sets down for municipalities. Yet for Serbia the creation of some form of Association for Serb Municipalities was already envisaged in the Ahtisaari plan, and was given effect and included in the 2013 Brussels Agreement which both parties signed. For Serbia, its non-implementation is a violation of a legally binding international agreement. Kosovo, on the other hand, had a constitutional ruling which needed to be taken into account. The then-opposition party of Albin Kurti Vetevendosje was one of the most vocal opponents of the ASM, but it was not alone. The government, civil society and a large proportion of Kosovar Albanians believed that such an Association would lead to a dysfunctional state and give Serbia stronger leverage to undermine Kosovo's territorial integrity and sovereignty. Given the ASM's unpopularity at that time there was little interest in taking concrete steps to review it and propose a new version that would respect Kosovo's constitution. Moreover, Kosovo wanted Serbia to stop its aggressive diplomatic campaign against its recognition and stop supporting the remaining parallel structures. From that moment on, in an atmosphere dominated by hostility between the two countries, the dialogue process has become particularly difficult, and most of the few agreements reached in its early stage were eventually only partially or not implemented.

[4] Judgment case no. Ko130/15 concerning the compatibility of the ASM with the spirit of the Constitution, Constitutional Court of Kosovo, 23 December 2015.

The Role of the West in the Kosovo-Serbia Dialogue

Taking stock of the above, one can argue that the dialogue on normalisation of relations between the two countries led to positive results between 2011 and 2013 but took a downturn in 2015 and has produced limited or artificial results since. The causes for this cannot be attributed exclusively to internal struggles and disagreements between the parties. At that time, Western partners started turning their attention away from the Balkans, including from the still unresolved issues between Kosovo and Serbia. In Europe, this was more of a necessity than a choice. The continent was consumed with multiple internal crises and security threats – terrorism, migration waves, Brexit, street protests, and the rise of populism. EU enlargement policy was becoming less popular in the European Union, with member states blocking the accession processes of some candidate countries (notably North Macedonia and Albania) over political and nationalist claims. This created great frustration among Western Balkan leaders, who started losing patience and motivation to deliver on democratic reforms. In the case of Kosovo, the EU had a visa regime in place for Kosovo citizens, making it the only Western Balkan country to be isolated from the rest of Europe. Perceptions of the EU as a reliable partner started changing and affected the trust that Western Balkan partners placed in the EU's institutions and enlargement policy. In this context, it was difficult for the EU to inspire positive results in the dialogue between Kosovo and Serbia. The EU did play an important role in the first, technical phase of the dialogue process in 2011 through which the parties addressed issues aimed at improving the lives of citizens in Kosovo and Serbia in the new reality created after Kosovo's independence. However, until recently, it failed to come up with an acceptable proposal for a political solution in the second phase of the dialogue, which involved the highest level of representatives in both countries. By failing to deliver

on this matter, the EU also exposed its weakness in dealing with matters of peace and security.

The United States, on the other hand, had handed over responsibility for Western Balkan stability to the European Union, despite its military footprint in the region and the crucial role it played in ending the conflicts in the Balkans and in post-conflict reconstruction. Since all states in the Western Balkans were aspiring to join the EU, it was natural that the region should be a foreign policy priority for the EU, more so than for the US. However, the US, without taking the lead, always maintained a role in Western Balkan affairs and contributed to diplomatic efforts in the region together with EU partners. During the Obama administration, then vice-President Joe Biden visited the region twice (in 2009 and 2016) and played a more active role in terms of diplomatic engagement. In 2016, as part of a Western Balkans tour as vice-President, Joe Biden visited both Belgrade and Pristina[5] and reiterated US interest in pushing forward the dialogue process which was already slowing down and yielding no results. More recently, in an effort to support the EU and reaffirm its presence in the region, the US appointed heavyweight ambassadors Christopher Hill to Serbia and Jeffrey M. Hovenier to Kosovo. Both diplomats are versed in Western Balkan issues and have played crucial roles in the Dayton and Rambouillet peace processes. US special representative for the Western Balkans Gabriel Escobar, who previously served as Deputy Chief of Mission in Serbia, has been very active since his appointment in September 2021, which confirms Biden's wish for a more energetic US role in the region. The lead in the Kosovo-Serbia dialogue, however, has remained with the EU as the principal facilitator of the process.

[5] S. Dragajlo, "Biden to Push Serbia-Kosovo Dialogue on Farewell Tour", *The Balkan Insight*, 15 August 2016.

Russia's War in Ukraine and Its Implications for the Kosovo-Serbia Dialogue

Russia's invasion of Ukraine has challenged the post-Cold War European security architecture and forced policy makers to rethink their policies, including security policies for the EU's eastern and south-eastern neighbourhoods. The war in Ukraine has direct implications for the security of the Western Balkans. Peace in the region is fragile, the EU integration process and EU stabilisation efforts failed to bring wished results, and three out of six countries are not NATO members: Serbia, which opted for neutrality and does not seek NATO membership (as a sign of loyalty to Russia), Kosovo, and Bosnia and Herzegovina (BiH), which despite having openly expressed Euro-Atlantic integration as a strategic objective are still far from becoming members of the alliance. In Bosnia, Russia maintains its influence through its nationalist proxy, Milorad Dodik, the president of the Serb-run entity, and uses him to block Bosnia's NATO membership process. Kosovo, which is not recognised by all members of the alliance, has little chance of obtaining the support needed to secure a unanimous vote. Since the start of the war, fears are mounting in Kosovo of possible aggression from Serbia – the only country in Europe other than Belarus not to have aligned with the West on sanctions against Russia. To understand Kosovo's concerns and its resistance towards a deal with Serbia, one needs to better understand Serbia's relations with Russia, especially Vučić's role in Russia's growing soft power in the region.

Since the rise to power of President Vučić, Serbia's political and military links[6] with Russia have intensified, and his government has opened the way for increased Russian influence in the Balkans,[7] especially by recycling Russian propaganda

[6] Pentagon Report: Serbia has intensified relations with Russia since 2012, European Western Balkans, 28 November 2019.

[7] T. Kelmendi, Past talker: How the EU should respond to the Serbian president's re-election, 6 April 2023.

through fake news channels operating from Serbia, such as Russia Today and Sputnik. These channels have been very active in recent flare-ups[8] in Kosovo, spreading disinformation about the situation on the ground with the aim of inciting fear and panic[9] among the public, which in the medium-to-long term intensifies ethnic divisions in Kosovo and blocks progress on normalisation of relations. Serbia uses Russian fake news channels to spread general disinformation about Kosovo's history and the legitimacy of its independence, supporting its efforts to prevent further international recognition of Kosovo. All of this has undermined the EU's interests and role in the region. It has also changed public perceptions of the EU from a trusted and reliable partner into one that is "divided and weak", thereby replicating Russian President Vladimir Putin's narratives about the EU in a region where the EU has invested billions of euros and whose countries are predominantly EU candidate countries. The security situation in the Western Balkans, and more specifically in Kosovo and Bosnia, has become fragile since the years preceding the war, mainly due to an increasingly aggressive Serbia and its pro-Russian nationalist leaders. Moreover, the EU should start dealing with the effects of Russia's soft power in Serbia, which have increased Russia's popularity to the detriment of support for EU integration. A poll[10] conducted in June 2022 shows that 51% of participants were against EU integration, and 80% were against Serbia imposing sanctions on Russia.

The war in Ukraine has highlighted the continuing peace and security challenges in the Western Balkans. It has also

[8] "Mediat e kontrolluara nga pushteti në Serbi me lajme nxitëse dhe propagandë të shtuar për situatën në veri të Kosovës", ("Media controlled by the government in Serbia with inflammatory news and increased propaganda about the situation in the north of Kosovo"), *Telegrafi*, 27 December 2022.

[9] X. Bami, "Social Media Disinformation Spreads Panic About Kosovo-Serbia 'War'", *The Balkan Insight*, 1 August 2022.

[10] S. Bjelotomić, Demostat survey: "80% of people in Serbia against sanctions imposed to Russia", *Serbian Monitor*, 30 June 2022.

exposed Europe's weak policies towards the region over a decade, which have left partner countries vulnerable to threats from external powers, including hybrid threats from Russia. But the war has also served as a wake-up call for the EU to review its neighbourhood policies, acknowledge its mistakes and take on a new, more robust approach by strengthening its presence and defending its interests and those of its partners in the region. This is also reflected in the facilitation process of the Kosovo and Serbia dialogue, with the EU stepping up its efforts to break through the stalemate. In recent months, the EU has intensified diplomatic initiatives to push through the latest EU proposal for the path towards normalisation of relations and ease tensions between the two countries. The EU Special Representative for the Belgrade-Pristina dialogue Miroslav Lajcak has doubled his efforts since the start of the war in Ukraine, travelling regularly to both countries and meeting with leaders and chief negotiators, advocating in favour of the new proposal on the table. The US has similarly increased its engagement in the Kosovo-Serbia issue, bringing its full support to the EU in the process and engaging directly with both countries in support of the most recent EU proposal. US special representative Gabriel Escobar visited Kosovo and Serbia together with EU Special representative Miroslav Lajcak in August 2022,[11] in October 2022,[12] and more recently in January 2023, calling for a rapid solution to the long overdue outstanding issues, making particular reference to the need for the immediate implementation of the 2013 agreement between the parties for the establishment of the ASM. A first attempt to get the parties to sign an agreement on the basis of the new proposal was made by EU High Representative Joseph Borrel in Brussels on 21 November 2022, but the meeting did not lead to

[11] S. Popović, "Visit of Escobar and Lajčák to Kosovo and Serbia: Part of crisis management", *European Western Balkans*, 26 August 2022.

[12] P. Isufi, "Kosovo-Serbia Talks May Advance 'in Weeks', US Diplomat Says", *The Balkan Insight*, 20 October 2022.

the desired results.[13] Instead, another agreement was reached[14] three days later on the issue of licence plates, which served to de-escalate the situation in the north. Diplomatic efforts continued from November onwards, with the West showing strong support and unity in favour of the latest EU proposal. The last visit of the five envoys from the US, the EU, France, Italy and Germany to Pristina and Belgrade in January 2023 demonstrated this. The most recent meeting of the leaders of Kosovo and Serbia in Brussels on 27 February was a second attempt to get the parties to sign the agreement, but despite an informal acceptance of the proposal, there is still no deal.

Conclusion

The EU proposal for the path towards normalisations of relations between Serbia and Kosovo has indeed raised hopes, for the first time in years, that a solution is still possible to solve the impasse in the Kosovo-Serbia dialogue. It has demonstrated the interest of the West in taking the matter seriously and engaging more robustly to solve outstanding issues between neighbours and avoid reigniting conflicts in the Balkans. While efforts to relaunch the dialogue predate the start of the war in Ukraine, Russia's unjustifiable invasion of Ukraine served as an alert for the EU to adapt its foreign policy to the new fragile security context in the continent, and especially on its immediate borders. This is no time for the EU to allow an escalation of violence in the Western Balkans. The post-invasion approach of the EU and the US has been firm and strategic, creating all the conditions for an agreement between Kosovo and Serbia to be reached. One of the main challenges however will be to

[13] Belgrade-Pristina Dialogue: Press statement by High Representative/Vice-President Josep Borrell after High-Level Meeting with President Vučić and Prime Minister Kurti. EU in Serbia, 21 November 2022.

[14] "Kosovo and Serbia reach deal on licence plate dispute – Borrell", *Euronews*, 24 November 2022.

persuade the two parties that the time is ripe for such a move and that this is the best proposal on the table since 2013. While the last meeting in Brussels is a positive step towards the formal acceptance of the agreement, the parties are still resisting on certain matters regarding its implementation. Kosovo now knows that it cannot escape the obligation to establish the ASM, but is pushing for delaying it. Serbia, on the other hand, wants the ASM to be created without any further delay. To avoid the parties clashing again over the implementation plan and losing time, continued and steady diplomatic efforts from the West are still needed. These have to be largely directed at Kosovo's leadership, as the key issue still remains the ASM. In fact, if Kurti has accepted the proposal as he claims to have done, then the issue of the ASM is settled. Insisting on the timeframe is only buying him extra time and serving him politically, as he wants to show his electorate that he did not betray them by accepting the ASM, and that he did everything in his power to avoid it. But one needs to understand the political motivation behind Kurti's insistence and take it into consideration. In this sense, the EU can offer some form of support to Kosovo that is visible to the public too. Visa liberalisation is a powerful tool in this respect, and the promise should now be kept so that Kosovars will be able to travel in the EU without visas in 2024. Additional support can take the form of greater advocacy in favour of Kosovo's EU membership application, by working with the five non-recognisers within the Union – Cyprus, Greece, Romania, Spain and Slovakia – to convince them that it is time they changed their positions on this matter, for the sake of peace in the Balkans and in their own continent. Moreover, their recognition of Kosovo's independence will open Kosovo's path to joining other Western Balkan countries in becoming an EU candidate member.

With regard to Serbia, the difficulty stands equally with the lack of public backing of a "deal" with Kosovo. In fact, an agreement that involves any form of recognition of Kosovo will face strong resistance from nationalist and ultranationalist parties

and groups in Serbia. Hence Vučić's insistence on prioritising the establishment of the ASM so that he has a winning act for Serbia and for the Serbs of Kosovo to communicate to the public and justify the concessions he needs to make as part of the deal. While it is evident that the ASM should be established without further ado as it will benefit Kosovo Serbs and lead to stability in Kosovo, it should be clear to Serbia that any action to use it against Kosovo's legitimate institutions and sovereignty should be condemned.

If the parties were to sign the agreement and its annexes, diplomatic efforts should then be oriented towards proper supervision of the implementation phase. In fact, considering the challenges encountered with previous agreements, the EU and the US should sustain their high-level engagement in the dialogue process and supervise its implementation if they are truly committed to a successful mediation of this conflict. Their political efforts to accompany Kosovo and Serbia towards full normalisation of relations should also be supported by projects that enhance the understanding and benefits of the normalisation of relations at the societal level in both countries.

Finally, the West's recent intensive diplomatic efforts in the Kosovo-Serbia dispute come at a time when Europe and the US are consumed with Russia's invasion of Ukraine, which is shaping up to be a long war. Considering the context, there is no guarantee that the current Western engagement and support is going to continue indefinitely. Whether these diplomatic efforts will lead to the desired results in the upcoming meeting of the two countries' leaders in March will now solely depend on their willingness to take that one last step, which is to sign everything that is on the table. And time is running out.

5. Is Kosovo a Fuse for the Balkan Powder Keg?

Bojan Elek, Maja Bjeloš

With the onset of the Russian invasion of Ukraine many experts started talking about the potential spillover effects of this conflict into other regions, the Balkans being one of them. The increasingly unstable situation between Serbia and Kosovo came to the forefront and international news headlines were filled with questions of whether this is where Russia could start a new war.[1] These fears, coupled with the heightened tensions between Belgrade and Pristina over licence plates that led to increased hostilities in North Kosovo,[2] left many wondering whether this is the proverbial pot that Russia could stir in order to cause more troubles and draw attention away from what has been going on in Ukraine. This chapter analyses the merits of these claims and discusses Russia's trouble-making potential over the Kosovo issue within the changed geopolitical context.

[1] For example, see: A. Lumezi, "In Kosovo, fears that Russia could inspire a new Serbian offensive", *Euronews*, 17 March 2022; O. Dragaš, "Russia is seeking new wars and Kosovo could be the next one", *Euractive*, 5 August 2022; A. Nuqi, "Kosovo: Russia's war in Ukraine has a ripple effect", *DW.com* 29 November 2022.

[2] A. Kluth, "Don't Let License Plates Start a New War", Bloomberg, 4 August 2022.

Kosovo-Serbia Dialogue: A Permanent Crisis

The long process of so-called normalisation of relations between Kosovo and Serbia, mediated by the European Union, seems to have reach an impasse despite some initial successes. Most prominently, in 2013 the two parties reached the First Agreement of Principles Governing the Normalization of Relations, colloquially referred to as the Brussels Agreement, which provided for the dissolution of the Serbian state and security institutions in North Kosovo while offering a framework for their integration into the Kosovo system. While the dialogue itself has since hit many obstacles, it entered a radically new phase with the recent developments on the ground that seem to have been prompted by a proposal presented through the joint efforts of France and Germany to resolve the longstanding disputes.[3] Although up until recently veiled in mystery, the proposal seems to provide a framework for a substantial normalisation of relations between the two parties based on the model of "two Germanys" and what could potentially be regarded as the deal that could make real progress on the ground after a long impasse.

However, following a series of unilateral actions by Pristina authorities over licence plates and their refusal to establish the long awaited Association/Community of Serbian Municipalities, the Serbs from North Kosovo decided to boycott Kosovo institutions by resigning *en masse* from their posts in the parliament, local municipalities, the police and the judiciary. Most recently, barricades were set up in the North, effectively cutting off this part of Kosovo from the rest of the country. Despite the intensive shuttle diplomacy by the EU's Special Envoy Miroslav Lajčák and various Western diplomats that has ensued, there is a permanent crisis on the ground and it seems highly unlikely that under these circumstances the two parties can be brought to the negotiating table.

[3] A. Brzozowski, A. Taylor, and G. Gotev, "LEAK: Franco-German plan to resolve the Kosovo-Serbia dispute", *Euractiv*, 9 November 2022.

With the Serbs boycotting Kosovo's institutions and thus effectively suspending the Brussels Agreement, which was declared "dead", coupled with the official request by Serbia for its security personnel to return to Kosovo under the UN SC Resolution 1244, which was later refused,[4] there is a bigger game at play. In this way, by effectively undermining the rules-based order that rests upon agreements reached in the dialogue process and demonstrating that Resolution 1244 is no longer relevant, one can question the need to reach a further agreement that would only remain yet another irrelevant piece of paper. While the apparent end-game of the Belgrade-Pristina dialogue seems to be approaching, many ask whether Russia will sit idly by and watch its influence being eroded before its very eyes or act as a spoiler to prevent this from happening. In order to provide a meaningful answer to these concerns one has to look at the way in which Russian influence operates in Serbia and Kosovo and what is at stake.

Understanding the Role of Russia in the Kosovo-Serbia Conflict

Perceptions of Russian influence in Serbia are often misguided as a result of equating it with the strong pro-Russian sentiments of the Serbian population and general foreign policy alignment between the two countries. It is difficult to estimate Russia's actual power in Serbia since there is little societal and political resistance to its presence. The Serbian Government takes no active measures to counter Russian influence, which is why it is almost impossible to assess what Russia's real strength is, and what could actually be achieved if there were any opposition to Russian meddling.

To better understand the relationship between Serbia and Russia it is more useful to think of it as a marriage of interests

[4] M. Stojanović, "Serbia Officially Asks for Security Personnel to Return to Kosovo", *Balkan Insight*, 16 December 2022.

rather than a warm brotherly embrace, the latter being a very prominent trope in Western media.[5] Russia has very little strategic interest in Serbia, apart from using Serbia's trouble-making potential in its relations with the West. Serbia, on the other hand, has a clear interest in obtaining Russian support for its foreign policy, particularly with regard to the Kosovo issue. This support of course comes with a price tag, namely concessions from which Russia benefits materially, most prominently through Gazprom's ownership of Serbia's oil industry.[6] In addition, maintaining friendly ties with Russia works well with the Serbian electorate, which is why being close to Putin wins votes and the incumbent Serbian President has used his frequent visits to Moscow with great success.

With the onset of the Russian war in Ukraine it seemed at first that little had changed. The Serbian public continued to view Russia favourably from the very start of the invasion, frequently invoking the case of Kosovo as a justification for Russia's actions and comparing the Ukraine war to Serbia's experiences with NATO in 1999. However, as early as September 2022 various experts started claiming that Russia had suffered a "strategic defeat" in Ukraine.[7] With the Russian army withdrawing from several areas of Ukraine and the military campaign not going according to plan, it is reasonable to assume that Putin's attention has been focused mostly on the war efforts. Perhaps even more importantly, significant efforts and resources have to be diverted towards quelling internal dissatisfaction and dissent within Russia. By extension, and contrary to some predictions,

---

[5] V. Vuksanović, "Serbs Are Not "Little Russians"", *The American Interest*, 26 July 2018.

[6] M. Stojanović, "Serbia Mulls 'Taking Over' Mainly Russian-owned Oil Company", *Balkan Insight*, 14 July 2022.

[7] J. Haltiwanger, "The army Putin spent 2 decades building has been largely destroyed in Ukraine, and Russia's 'strategic defeat' could threaten his grip on power", *Business Insider*, 14 September 2022. More recently, also: J. Garamone, "Russia Suffers 'Catastrophic Strategic Disaster' in Ukraine", US Department of Defense, 9 November 2022; and B. Cole, "Russia Has Suffered 'Strategic Defeat' As War Nears 10th Month: Igor Girkin", *Newsweek*, 17 December 2022.

the role of Russia in the Balkans is now more passive and there are several reasons why all is quiet on this front.[8]

Russia relies primarily on local actors that are cooperative towards Moscow, most significantly Serbian President Aleksandar Vučić and President of Republika Srpska Milorad Dodik, as well as some pro-Russian Montenegrin politicians. While these actors are a key vehicle of Russian influence, they also, to the extent their own agendas go against that of Moscow, moderate its influence and pose certain limits to Russian ambitions. Whereas these agendas overlap in their desire to prevent pro-European reforms and to capitalise on the resentment against the West, there is growing list of issues on which they might disagree.[9] Another limiting factor to Moscow's influence is the fact that it has no military presence in the region, with the surrounding NATO countries providing a buffer zone against its potential incursions. This became evident in June 2022 when Russia's Foreign Minister had to cancel his plans to visit Serbia after the countries around it decided to close their airspace, which helped Serbia to save face but was also seen as a humiliating blow to Moscow.[10]

Moscow's actions in Serbia take place within a friendly environment and there is little societal resistance to them. The environment is so friendly that, in addition to the already present *Sputnik* news portal, the international broadcaster *Russia Today* has also launched a channel for Serbian audiences despite facing an EU ban. This carefully curated pro-Russian atmosphere helps to explain why, despite the ongoing war, the positive public perception of Russia in Serbia has not changed to any significant extent.[11] According to a 2022 public opinion

[8] M. Samorukov, "Why is all quiet on Russia's Western Balkan front?", Carnegie Endowment for International Peace, 5 December 2022.

[9] Ibid.

[10] S. Dragojlo, "Russia Voices Fury About Cancelling of Lavrov Visit to Serbia", *Balkan Insight*, 6 June 2022.

[11] V. Vuksanović, L. Sterić, and M. Bjeloš, "Public Perception of Serbian Foreign Policy in the Midst of the War in Ukraine", Belgrade Center for Security Policy,

survey conducted by the Belgrade Centre for Security Policy, two-thirds of the population consider Russia a friend of Serbia, while half of Serbian citizens see Russia as Serbia's closest foreign policy ally.[12] Extremely positive perceptions of Russia are a product of recent Serbian history but also of the radical pro-Russian narrative that was pushed for years in the pro-government media and tabloids. This is vividly illustrated by the front pages of the pro-government tabloid *Informer* published ahead of the Russian invasion of Ukraine on 22 February 2022, whose main headline read "Ukraine attacked Russia", while another headline in the same tabloid issue stated that "America is pushing the world into chaos".[13] This is why the Serbian public largely subscribes to the Russian point of view on the Ukraine war, with the majority blaming NATO and the US for its outbreak, and only 12% of Serbs believing that Russia is responsible for the war. The majority of the Serbian public is opposed to introducing sanctions against Russia, most of them on the grounds that Serbia experienced sanctions in the 1990s, demonstrating that Serbian perceptions of Russia are frequently based on historical experiences from the 1990s.

Strong government control over the media with national coverage as the main source of information will ensure continued pro-Russian sentiments in Serbian public opinion. The majority of the population who sympathise with Russia and its perspective on the war in Ukraine most often cite Serbia's national broadcaster RTS as their main source of information, and occasionally the powerful privately-owned pro-government network TV Pink. Moreover, people who expressed pro-Russian attitudes are those who fully support the policies of the incumbent President Aleksandar Vučić. Therefore, careful political messaging about Russia and the West spread by Serbia's

December 2022.

[12] Ibid.

[13] A. Ivković, "Rooting for Russia, then blaming the West: Evolution of Serbian tabloids' reporting on the war in Ukraine", *European Western Balkans*, 20 May 2022.

media and politicians has had a greater impact on the perception of the Serbian public than *Sputnik* and *Russia Today* combined. As a result of this approach, Russia's popularity in Serbia is so high that no government can pursue a policy that goes against Russia's interest without attracting significant hostility from the electorate.[14]

In the absence of objective information and critical media, a significant percentage of Serbian citizens (45%) have a rather naive and unrealistic expectation that Russia, and not the US or China, will be the dominant power in the XXI century.

Somewhat counterintuitively, due to its international isolation, Moscow is more lenient towards Belgrade. For Russia it is important to project itself as a world power that has allies in Europe and, for the sake of preserving this image, Belgrade has significant leeway.[15] Moreover, Putin has used Kosovo's bid for independence to justify referendums organised in eastern Ukraine, a move that angered many Serbian nationalists.[16] Despite maintaining a strong position of not introducing sanctions against Russia, faced with deep dissatisfaction among the Western partners Vučić has also managed to distance himself and Serbia from the Kremlin to some extent.[17] For these reasons, Russia appears to be sidelined, engaging in low-cost actions to maintain a friendly environment, such as providing unwavering support to Serbia on the Kosovo issue and inviting Dodik to Moscow as a way of assisting in his re-election as President of Republika Srpska.

As for Russia's influence in Kosovo, Kosovo Serbs remain its main gatekeepers, primarily those in the four municipalities

[14] Vuksanović, Šterić, and Bjeloš (2022).

[15] V. Vuksanović, S. Cvijić, and M. Samorukov, "Beyond Sputnik and RT. How Does Russian Soft Power in Serbia Really Work?", Belgrade Centre for Security Policy (BCSP), December 2022,

[16] J. McBride. "Russia's Influence in the Balkans", Council on Foreign Relations, 2 December 2022.

[17] M. Samorukov, "Last Friend in Europe: How Far Will Russia Go to Preserve Its Alliance With Serbia?", Carnegie Endowment for International Peace, 10 June 2022.

with a Serb majority in North Kosovo. Due to their hostile sentiments towards the Pristina authorities, which became particularly strong after the incumbent Kosovar Prime Minister Albin Kurti came to power, Russia is seen as a natural ally and protector of their interests.[18] However, owing to the territorial concentration of Serbs in the northern part of Kosovo and their recent exit from local institutions, Russian sway over Kosovo's internal affairs is both limited and isolated. Kosovo's Albanian population remains extremely anti-Russian and there is thus significant societal resistance to Russian influence. As a rule, Russia is almost universally perceived as a hostile country with a harmful influence on Kosovo, and ethnic Albanians in Kosovo are "impenetrable" to Russian courting.[19] Russia itself has very little interest in Kosovo but rather sees it as a bargaining chip in its relationship with Serbia. This is why it can be said that Russian influence in Kosovo has nothing to do with Kosovo itself but has everything to do with Serbia.

With Moscow's inability to engage in active foreign policy on multiple fronts and Russian President Vladimir Putin consumed by the invasion of Ukraine, lower levels of the establishment "prefer to play safe and follow tried and tested instructions, no matter how outdated the latter may look" over trying out new tools in the Balkans.[20] This means that, instead of actively engaging in destabilising or stirring conflict, Russia will be more prone to using opportunities when they present themselves, such as local instabilities in North Kosovo and elsewhere, in order to push its agenda. Therefore, one should be on the lookout for critical moments or junctures that Russia may seek to exploit, most likely acting as a spoiler attempting to prevent positive changes. The first thing that comes to mind is the Franco-German proposal: given its potential to set the stage

[18] "Trend Analysis 2022: Attitude of the Serbian Community in Kosovo", NGO Aktiv, November 2022.

[19] E. Vlassi, "Russian Influence in Kosovo: In the Shadows of Myth and Reality", Kosovar Center for Security Studies, 2020.

[20] M. Samorukov, "Why is all quiet on Russia's Western Balkan front?..., cit.

for a resolution of outstanding disputes between Belgrade and Pristina, Russia might seek to actively undermine it.[21]

This is consistent with the toolbox that Russia has already shown its readiness to deploy in the Balkans in order to use opportunities to destabilise and prevent positive changes during critical moments. In 2016, two Russian agents, together with several Serbian citizens, attempted what was later described as a "coup plot" to overthrow the Montenegrin Government, and both were later sentenced on charges of terrorism and creating a criminal organisation.[22] Moscow has also been accused of having helped fuel the expression of popular discontent with the Prespa Agreement in Greece and North Macedonia.[23] With Russia's increased isolation and its designation as a terrorist state by the European Parliament,[24] coupled with its earlier expulsion from the Council of Europe, nothing is off the table and it seems that Russia will not refrain from using any means that suit its ends.

Another important factor to consider is the role of Western powers in the Balkans, primarily that of the US and EU countries. With the West's increased geostrategic interest in the region as a result of the Russian war in Ukraine, a united front that has little patience with those perceived to be Putin's allies seems to have emerged. Serbia's authoritarian President has thus far managed to manoeuvre his way surprisingly well, carefully juggling his country's European aspirations, non-alignment with the sanctions regime and keeping a friendly attitude towards Russia. Sooner or later this balancing act will have to stop, and the single most important factor that can determine exactly when this will occur seems to be the outcome of the Russian invasion of Ukraine.

---

[21] Brzozowski, Taylor, and Gotev (2022).

[22] S. Walker, "Alleged Russian spies sentenced to jail over Montenegro 'coup plot'", *The Guardian*, 9 May 2019.

[23] N. Leontopoulos, "Who's been meddling in Macedonia? Not only who you think", *Investigate Europe*, 14 December 2018.

[24] "European Parliament declares Russia a state sponsor of terrorism", *Reuters*, 23 November 2022.

Russia as the Main Bogeyman

Following the Russian invasion of Ukraine, the latest licence plate incident came at a time of particular concern. Numerous diplomats, journalists, scholars and policy analysts were already discussing the possibility of a new war in the Balkans amid the political and institutional crisis in Bosnia and Herzegovina. Russia's invasion heightened these concerns and placed the Western Balkans higher on the political agenda of the European Union. The fear is that the war in Ukraine may have a spillover effect, which could lead to the breakup of Bosnia and Herzegovina or to an open conflict in Kosovo. Many worry that Russia will trigger a new conflict in the Balkans through its proxies, including Bosnian Serb leader Milorad Dodik, the Serbian Orthodox Church or other far-right movements.

Events on the ground have played into these fears. Serbia's reluctance to join sanctions against Russia further strengthened the image of Serbia as a Russian proxy. On the other side, high-level officials in Kosovo were eager to convince international and domestic audiences that "Russia's war against Ukraine could embolden Serbia to act militarily against Kosovo".[25] A few weeks prior to the crisis, Kosovo President Vjosa Osmani warned that "Putin's aim is to expand the conflict to other parts of the world. Since his aim has constantly been to destabilise Europe, we can expect that one of his targets might be the Western Balkans".[26] Later on, Kosovo's Prime Minister Kurti warned domestic and international audiences that Russia was fuelling tensions between Kosovo and Serbia due to the faltering war in Ukraine.[27]

[25] T. Lazaroff, "Russian-Ukrainian war could spill over into the Balkans, Kosovo FM warns", *The Jerusalem Post*, 10 May 2022.
[26] I. Tharoor, "Russia's war in Ukraine finds echoes in the Balkans", *The Washington Post*, 1 August 2022.
[27] D. Boffey, "Kosovo PM says Russia is inflaming Serbia tensions as Ukraine war falters", Europ.Info, 20 December 2022.

Social media, too, amplified the Russian angle on the most recent crisis. There was a stark difference between what appeared to be a controlled crisis on the ground and social media speculation about an impending Serbian invasion. Indeed, when social media users pointed out that Russian and pro-Russian social media channels were taking an intense and seemingly orchestrated interest in Kosovo, it created a self-perpetuating cycle of alarm.[28] In fact, some Russian accounts were happy to play into this narrative, but that does not mean they should be taken at face value. Russian MFA spokeswoman Maria Zakharova gave a statement in which she almost reiterated the words of the Serbian President – that "the decision of the 'authorities' in Pristina […] is another step towards expulsion of Serbs from Kosovo".[29] A *Kyiv Post* special correspondent tweeted that Russian social media went overboard with "our Serb brothers'" rhetoric, promising that Moscow would support them.[30] Western journalists reported that users of several Russian and pro-Russian Telegram channels were spreading disinformation and even encouraging violence against Albanians.[31] On 1 August 2022, the Wagner Group's official Telegram channel shared the following message: "Kosovo is Serbia. Denazification is inevitable". A high-ranking Serbian politician from the ruling party echoed this on social media,[32] while some Serbian ultranationalists even claimed that ties with Russia's private military company might help the country in an eventual war in Kosovo.[33]

---

[28] A. Pavicević, "Kosovo Tensions 'Escalated' Again but This Time, Russian Telegram Channels Were Involved", *Impakter*, 2 August, 2022.

[29] https://twitter.com/mfa_russia/status/1553864361202130945

[30] https://twitter.com/officejjsmart/status/1554074825676783616

[31] Pavicević (2022).

[32] S. Janković, "Najava za 'denacifikaciju Balkana' preko Twittera ("Announcement for the 'denazification of the Balkans' via Twitter"), *Radio Slobodna Evropa*, 1 August 2022.

[33] D. Komarcević, "Serbian Right-Winger Says Vagner Ties Could Help If There's 'Conflict In Kosovo'", *Radio Free Europe*, 6 December 2022.

In reality, however, Russia appears to be an unwanted guest in these mini-crises, such as the one that developed in July 2022 after Kosovo announced it will start issuing special certificates to Serbian citizens when entering Kosovo.[34] Local journalist Una Hajdari stressed that "this incident was entirely tied to a decision of the Kosovo government that was announced ages ago, and the fact that Serbia is unhappy about it".[35] The belief that Russia "has a finger in every pie" is not only misleading, but also ignores the fact that local political leaders tend to pursue their own agendas, which have nothing to do with Putin and Russia. As a journalist of the online news outlet IMPARKTER correctly noted, "tensions in Kosovo will keep rising and "escalating" as long as the leaders (on both sides) keep benefiting from them".[36]

In the spirit of never letting a good crisis go to waste, various local and international politicians and public officials have now instrumentalised the Russian angle on the latest blow-up to push their own agendas. For example, Kosovo officials used it to advocate for Kosovo's accelerated accession to NATO and the EU,[37] while certain Western diplomats, Europarlamentarians and opinion-makers argued that the EU should cut funds intended for Serbia or terminate accession talks because of Belgrade's attitude toward Russia. EU and NATO officials have also expressed their desire to reinforce the EULEX policing mission and increase NATO troops in Kosovo. The Russian ambassador to Belgrade exploited the crisis to blame the West and Pristina for the "intimidation and oppression of Serbs in Kosovo".[38]

---

[34] "Kosovo starts issuing extra documents to Serbian citizens as protesters block roads", *Euractiv*, 1 August 2022.

[35] https://twitter.com/UnaHajdari/status/1553834345353420800

[36] A. Pavicević (2022).

[37] P. Isufi, "Kosovo Leaders Sign EU Candidacy Application", *Balkan Insight*, 14 December 2022.

[38] "Bocan-Harčenko: Priština nastavlja se kampanja zastrašivanja i ugnjetavanja Srba na KiM" ("Bocan-Harchenko: Pristina's campaign of intimidation and oppression of Serbs in Kosovo and Kosovo continues"), *Politika*, 19 December

The importance of Kosovo in Serbian domestic politics and public opinion makes Russia a necessity for the Serbian foreign policy elite.[39] Kosovo continues to dominate the foreign policy agenda, as the majority of Serbian citizens still perceive the status of Kosovo as very important for the country's foreign policy. At the same time, more than half of Serbian citizens do not think that Serbia should recognise Kosovo.[40] Given Russia's support for Serbia's stance on Kosovo and President Putin's image as a protector of Serbs, the Serbian government is expected to maintain this relationship with Russia primarily to avoid alienating potential voters.

Maintaining peace and stability was important part of the West's approach towards the Balkans. Following this strategy, "Western countries have backed officials in Belgrade and Pristina who promised to settle their disputes through dialogue and choose European integration over alignment with Russia. In return, these stabilocrats were granted international legitimacy and a free hand in running their countries. This has led to real progress, such as the integration of predominantly Serb-majority living in northern Kosovo into the country's legal and political system. However, leaders in Belgrade and Pristina have also instrumentalized this progress to consolidate their power within the country as well as their international image as peacemakers and escape criticism for undemocratic behavior".[41] The price of supporting stability and stabilocrats over democracy is that progress on the integration of Serbs is short-lived and depends on the political whims of autocrats, as evidenced by the concerted exit of all of northern Kosovo's Serbs from the Kosovo institutions.

2022.

[39] V. Vuksanović, "Russia Remains the Trump Card of Serbian Politics", Carnegie Endowement for International Peace, 17 June 2020.

[40] Vuksanović, Šterić and Bjeloš (2022).

[41] M. Bjeloš, "Only Democracy can Bring Stability to the Balkans", *War on the Rocks*, 15 September 2022.

In this context, local elites in Serbia profited from the spread of pro-Russian narratives and used Russia's popularity in Serbia to deter the West from criticising the country's democratic backsliding.[42] In words of Serbian foreign policy analyst Vuk Vuksanović, the "popularity of Russia [among] the Serbian public is not based on what Russia is, but what it isn't – the West. It is perceived as a counterweight to the West".[43] The war in Ukraine prompted the West to increase pressure on local politicians and apply quick solutions to the Balkan conflicts to eliminate Russia from the region. Serbian President Vučić eventually had to accept personal documents issued by Kosovo and stop issuing Serbian licence plates. Since any such agreement with Pristina is considered political suicide,[44] news about Russia's direct involvement in the Kosovo crisis often serves as a smokescreen and helps the Serbian political leadership save face and secure political support. Despite his eagerness to boost Russia's visibility and influence in the country, Serbian President Vučić fears direct Russian interference and the possibility that Putin could sabotage any hypothetical agreement he might negotiate regarding Kosovo.

Conclusion

With the barricades in North Kosovo which brought the lives of local Serbs to a standstill in December 2022, following their exit from Kosovo institutions, it seems that reaching any kind sustainable solution of the crisis through an EU-mediated dialogue is highly unlikely to happen anytime soon. The Franco-German proposal that was recently presented

[42] V. Vuksanović, "Belgrade's new game: Scapegoating Russia and courting the EU", *War on the Rocks*, 28 August 2020.

[43] "After the beginning of a war in Ukraine, citizens of Serbia still have positive attitudes towards Russia", Meeting at Belgrade Centre for Security Policy, 15 December 2022.

[44] Bjeloš (2022).

in Brussels within the Belgrade-Pristina Dialogue, without discussing its merits at length, might potentially serve as a turning point that will provide a sustainable framework for normalisation of relations between the two parties.[45] This is a critical moment where Russia can step in in order to spoil the chances of reaching the deal. If some kind of deal is reached, it would significantly reduce the leverage that Russia has over Serbia and, by extension, undermine Russia's influence in the Balkans. This is something that Russia cannot afford and since the stakes are high it is important to take preventive measures to mitigate the risks. These measures must address the possibility of misinterpreting the outcome of the dialogue by controlling the narrative surrounding the process, which is why transparency and inclusiveness are key. If Kosovo is indeed a potential fuse for the proverbial Balkan powder keg, toxic narratives and disinformation could provide the spark that sets it off. This is why it is important to deescalate tensions in North Kosovo in the short term, return to the negotiating table in the medium term and, lastly, reach the deal that could provide a framework for functioning relations in the long term.

[45] EEAS Press Team, Agreement on the Path to Normalization between Kosovo and Serbia, 27 February 2023.

6. Bosnia and Herzegovina: A Geopolitical Mission for the EU

Samir Beharić

With its three presidents, 14 parliaments and 136 ministers, Bosnia and Herzegovina is considered one of the most complicated political systems in the world. Due to its complex structure, Bosnia's political landscape has been plagued by internal disputes, political instabilities and malign foreign influence. Besides the "usual suspect", Serbia, the country that has directly contributed to the political turmoil in Bosnia and Herzegovina is neighbouring Croatia, an EU member state, which has often been accused of colluding with political forces aiming to weaken and cause the disintegration of Bosnia and Herzegovina. However, in the recent years, the entity that has most notably expanded its influence in Bosnia and Herzegovina is the Russian Federation. Russia has been actively empowering its proxies in Bosnia and Herzegovina, sabotaging the country's EU path and threatening its leaders with a Ukraine-style invasion if the country joins NATO.[1]

Moscow's efforts to destabilise Bosnia and Herzegovina, as well as a number of other countries in the region, have been rather poorly addressed by the European Union from the start. The fact that certain European leaders have engaged in appeasing populists responsible for democratic backsliding, erosion of the rule of law and a skyrocketing brain drain has

[1] "Russia claims Bosnia could suffer the same fate as Ukraine if it decides to join Nato", *Independent*, 17 March 2022.

not helped the EU to adequately respond to Russia's meddling in Bosnia and Herzegovina.

In order to advance its interests in Bosnia and Herzegovina, the Russian regime has not only relied on its partners within the country, but has also used a wide array of tactics and strategies ranging from social media campaigns to covert financial support for anti-Western actors such as the Bosnian Serb strongman Milorad Dodik.[2] This has led to the rise of pro-Russian political movements in the country, which is probably the most visible manifestation of Russian influence not only in Bosnia and Herzegovina but across the region. However, particularly in the Serb-majority Republika Srpska entity, the mushrooming of pro-Russian NGOs often working under the banner of "humanitarian organisations" has been extremely worrying not only from a political but also from a security point of view. Members of some of those organisations have openly voiced their support for Russian aggression against Ukraine.[3] Groups such as the "Night Wolves of Republika Srpska" have direct ties with the "Night Wolves", Russia's largest motorcycle gang also known as "Putin's Angels". They are widely feared as "agents of meddling and mayhem" beyond Russia's borders.[4] Such groups have capitalised on deep ethnic rifts in Bosnia's society, which have brought them popularity from across the Republika Srpska entity and scorn from the rest of the country. The members of this bike group have been recognized as Kremlin's tool for spreading anti-Western propaganda and promoting Russia's national interests not only throughout the Balkans, but internationally.[5] In 2018, the Night Wolves'

[2] "SAD: Rusija tajno finansirala DF u Crnoj Gori i Dodika u BiH" ("USA: Russia secretly financed DF in Montenegro and Dodika in BiH"), *Voice of America* (Glasamerike), 13 September 2022

[3] S. Mujkic, "Support for Russia among Some Pro-Russian Bosnian Groups, but Not All", *Balkan Insight*, 7 March 2022.

[4] A. Higgins, "Russia's Feared 'Night Wolves' Bike Gang Came to Bosnia. Bosnia Giggled", *The New York Times*, 31 March 2018.

[5] J. Kleiner, M. Gregor, and P. Mlejnková, "The Night Wolves: Evidence of Russian Sharp Power and Propaganda from the Victory Roads' Itinerary",

leader Alexander Zaldostanov, known by the nickname of "the Surgeon", and Saša Savić, the leader of the club's branch in Serbia, were banned from entering Bosnia and Herzegovina, being considered a national security threat.[6] The "humanitarian work" of the Night Wolves group is usually promoted by media outlets in Serbia and the Republika Srpska entity, including the public broadcaster Radio-Television Republika Srpska, RTRS, creating a positive media framing for the group.

Another important tool of the Kremlin's influence in Bosnia and Herzegovina have been Russian state-owned media outlets such as RT and Sputnik. As outlined in a US Department of State's Global Engagement Center report, RT and Sputnik are "using the guise of conventional international media outlets to provide disinformation and propaganda support for the Kremlin's foreign policy objectives".[7] Even though neither of the two media outlets have their offices in Bosnia and Herzegovina, their fake news, disinformation and conspiracy theories are penetrating the Bosnian media scene through neighbouring Serbia.

Belgrade already hosts a Serbian-language Sputnik radio and website. Months after the EU suspended the broadcasting activities of some Russian state-backed media, including RT, reports of this TV giant opening its office in Serbia soon emerged. In November 2022, RT launched its website in Serbian language, dubbed RT Balkan, announcing that they would need two additional years to launch TV broadcasting services. The executive editor of RT Balkan is Jelena Milinčić, the daughter of Ljubinka Milinčić, the editor-in-chief of the Serbian edition of Sputnik's news website.[8] As underlined by

Problems of Post-Communism, 2023, pp. 1-11.

[6] "Bosnia denies entry to leaders of Russian biker club: report", *Reuters*, 15 March 2018.

[7] State Department, Report: *RT and Sputnik's Role in Russia's Disinformation and Propaganda Ecosystem*, United States Department of State, 20 January 2022.

[8] "Russia Today launches website in Serbian, defying EU sanctions", *N1*, 15 November 2022.

numerous analysts and experts, RT entered the media landscape in the Balkans with the aim of targeting audiences in Serbia and the Republika Srpska entity.[9] This type of media influence will undoubtedly have a significant malign influence in Bosnia and Herzegovina, too. Fake news and disinformation coming from both Russian state-owned media and obscure pro-Kremlin websites are often republished by Republika Srpska's official news agency SRNA and public broadcaster RTRS, making their way to media consumers in Bosnia and Herzegovina.[10]

The use of social media has proved a useful tool for the dissemination of Russian misinformation. The Facebook profile of the Russian Embassy in Bosnia and Herzegovina regularly shares the Russian Ambassador's statements, often based on disinformation and fake news. Most recently, the Russian embassy's official Facebook page published a series of posts by the Russian Ambassador to Bosnia and Herzegovina, Igor Kalabuhov, and the "Young Diplomats of the Russian Embassy" openly threatening Bosnia and Herzegovina if the country decides to join NATO. In a Facebook post designed to correct myths about the "Russian threats against Bosnia", Ambassador Kalabuhov stated that Russia has the right to a "proportionate response" should Bosnia and Herzegovina join NATO or any entity unfriendly to Moscow.[11] The EU Delegation to Bosnia and Herzegovina swiftly responded through its own Facebook page using a series of posts signed by the "Young Diplomats of the EU". This unconventional exchange soon escalated into a social media showdown between the two diplomatic missions, which arguably contributed to even greater confusion among ordinary social media users in Bosnia and Herzegovina.[12]

---

[9] T. Wesolowsky, "Barred In EU, Could Russia's RT Find A Home In Serbia?", Radio Free Europe/Radio Liberty, 21 July 2022.

[10] M. Obrenović, "How Fake News Spreads: Mainstream Media Republish Suspect Sites' Stories", *Balkan Insight*, 31 August 2020.

[11] "Russian envoy makes veiled threats if Bosnia joins NATO", *Euractiv*, 8 February 2023.

[12] I. Pekmez, "Prijetnje Rusije prema BiH pokrenule raspravu sa EU na

However, this was not the first time that Kalabuhov openly threatened Bosnia and Herzegovina and its leaders if the country joins NATO. The Russian envoy did that several times in the past, including in March 2022, less than a month after Russia launched its invasion against Ukraine. Back then, in an interview for the public broadcaster of the Federation of Bosnia and Herzegovina FTV, Kalabuhov stated that if Bosnia and Herzegovina decided to become a member of any alliance, that would be an internal matter, but added that Russia's response would be a different matter and that Ukraine's example shows what Russia expects: if it posed a threat Russia would respond.[13].

In order to counter such serious threats, it is important for the international community and the EU in particular to remain vigilant against the Kremlin's attempts to undermine Bosnia's stability and security. By doing so, the EU would invest in preserving the peace and stability not only of Bosnia and Herzegovina itself but of the wider region too. To counter Russian influence in the country, the West needs to be more proactive in supporting the country's democratic institutions and its integration into NATO. This requires not only providing financial and technical assistance to promote good governance and the rule of law and strengthen state institutions, but also investing in education and media literacy programs to help inoculate people in Bosnia and Herzegovina against fake news, disinformation and propaganda. However, unless the EU clearly sanctions those pro-Russian actors who undermine the very foundations of Bosnia and Herzegovina and its stability, risking a new conflict in the country, these measures will only have a limited effect. Not only has the EU failed to sanction these politicians in Bosnia and Herzegovina, but some European leaders have appeased nationalists in the

društvenim mrežama" ("Russia's threats against Bosnia and Herzegovina started a discussion with the EU on social networks"), Detektor, 14 February 2023.

[13] "Kalabuhov: U Ukrajini nema rata. Sigurnost u BiH je zagarantovana, ali..." ("Kalabukhov: There is no war in Ukraine. Security in BiH is guaranteed, but..."), *Federalna TV*, 15 March 2022.

country, including those with direct links to Vladimir Putin.[14]

By turning a blind eye to and often supporting Russian proxies in the Western Balkans, the EU has already helped many of them to stay in office for years. Some of the staunchest Putin supporters in the Balkans, those representing Bosnian Serbs, have remained in power even while visiting Putin in Moscow and openly supporting Russia's invasion of Ukraine.[15] Analysts warn that the international community's failed policy in Bosnia and Herzegovina is strengthening country's autocrats and empowers pro-Putin separatists, , which could backfire by opening another Russian front aimed at destabilising Europe.[16] Bosnia and Herzegovina is prone to Russian influence not only due to the resources Russia is devoting to destabilising the region, but also because of the EU's inability to recognise the threat, sanction Putin's allies in the region, and offer a set of viable policy solutions. Some of the pro-Russian nationalists in Bosnia and Herzegovina who should have been under strict and uniform EU sanctions, similar to those imposed by the US and UK, have been winning elections that they have been accused of rigging. Such an outcome enables Kremlin-backed stakeholders to actively promote Russia's interests in Bosnia and Herzegovina.

One of the most vocal supporters of Vladimir Putin not only in Bosnia and Herzegovina but in the whole of the Western Balkans is the ultra-nationalist Bosnian Serb leader Milorad Dodik.[17] During this year's celebration of "the day of Republika Srpska," which has been declared illegal by the Constitutional Court of Bosnia and Herzegovina, Dodik awarded the Russian President with Republika Srpska's highest medal of honour "for his patriotic concern and love

[14] S. Beharić, "The EU must stop appeasing 'Putin's puppets' in Bosnia", Heinrich Böll Stiftung, 28 March 2022.

[15] "Putin meets Bosnian Serb separatist leader, praises Serbia", *Associated Press*, 20 September 2022.

[16] M. Kraske, "Misguided Balkans policy. Dangerous appeasement", Heinrich Böll Stiftung, 15 February 2023.

[17] H. Karčić, "Putin's Most Loyal Balkan Client", *Foreign Policy*, 7 October 2022.

for Republika Srpska".[18] Infamous for his genocide denial and divisive rhetoric, Dodik has undermined the country's stability through constant calls for Bosnia's Republika Srpska entity to secede and join neighbouring Serbia. However, Dodik has not been using secessionist rhetoric alone in order to achieve his plans. In December 2021, he orchestrated the Republika Srpska National Assembly's vote on withdrawing from Bosnia's joint military, secret service, tax administration and highest judiciary body. Barely two months later, in February 2022, MPs in the Republika Srpska entity enacted a draft legislation establishing a parallel institution challenging the authority of the Bosnian state's top judicial body. At the time that this law was approved, the authorities of the Republika Srpska entity had established an entity-level agency for medicinal products and medical devices, challenging the authority of the state Agency for Pharmaceuticals and Medical Devices. These political developments led to the country's worst crisis since the end of the Bosnian war.

The attempt to cripple Bosnia's state institutions and block the country from functioning just months before the general elections produced negative reactions from both the domestic judiciary institutions and international actors in the country. The strongest condemnation came from several Members of the European Parliament, who called for sanctions against Dodik. Austrian Green MEP Thomas Waitz called on the High Representative in Bosnia and Herzegovina Christian Schmidt to dismiss Milorad Dodik from office.[19]

However, Dodik was not alone in contributing to the country's worst political crisis since 1995. Dragan Čović, the Bosnian Croat leader and President of the Croatian Democratic Union of Bosnia and Herzegovina (HDZ BiH), heavily lobbied

[18] U. Hajdari, "EU, US slam Bosnian Serb leader for awarding Putin highest honor", *Politico*, 9 January 2023.

[19] A. Wölfl, "EU-Abgeordneter zu Republika Srpska: 'Es gibt ausreichend Gründe, Dodik zu entlassen'" ("MEP on Republika Srpska: 'There are sufficient reasons to sack Dodik'"), *DerStandard,* 13 December 2021.

the High Representative of Bosnia and Herzegovina Christian Schmidt to amend Bosnia and Herzegovina's Electoral Law without implementing the European Court of Human Rights (ECHR) judgments. The Chairman of the Delegation of the European Parliament for Cooperation with Bosnia and Kosovo, Romeo Franz, criticised this proposal, slamming the EU's appeasement policy towards Dodik and Čović. It is important to note that Čović threatened to boycott the 2 October 2022 general elections if the Electoral Law was not amended without implementing the ECHR judgements. The most serious political crisis in post-Dayton history of Bosnia and Herzegovina did not culminate in Dragan Čović and the Croat parties boycotting the elections but in the general elections that took place on 2 October.

Last October, more than 3.3 million voters went to the polls for the ninth time since the signing of the Dayton Peace Agreement in 1995, which ended an almost four-year long war marked by 100,000 dead, two million refugees and the Srebrenica genocide. The 2 October general elections were held at a turning point for the country, which is aspiring to become an EU member while at the same time being hampered by ethnic division, systemic corruption and malign foreign influence.

A Failing Electoral System

Since the first independently organised elections in 2006, Bosnians have been voting in general elections every four years, adding a further complicating element to the country's complex and overly expensive state apparatus. Out of 3.3 million Bosnians registered to vote, only 51% of them decided to cast their ballots in the 2 October elections, considered "the most important elections in the country since the war".[20]

[20] "What you need to know about Bosnia's general election", *Al Jazeera*, 30 September 2023.

Depending on their place of residence, voters had the opportunity to participate in up to four electoral contests. These include a contest for the tripartite Presidency of Bosnia and Herzegovina, 14 parliaments at the national, entity, and cantonal levels within the Federation of Bosnia and Herzegovina (FBiH), as well as a directly elected President of the Republika Srpska entity. Probably the most important representative post directly elected by the voters is the tripartite Presidency of Bosnia and Herzegovina, a rotating interethnic body representing the so-called constituent peoples: Bosniak Muslims, Catholic Croats and Orthodox Christian Serbs.

Additionally, at the state level, voters also elected 42 members to the lower chamber of the Parliamentary Assembly of Bosnia and Herzegovina. In the predominantly Bosniak and Croat entity of the Federation of Bosnia and Herzegovina, voters elected a total of 98 MPs to the House of Representatives of the Parliament of the Federation of Bosnia and Herzegovina and an additional 289 representatives in 10 cantonal assemblies. Those residing in the Serb-dominated entity of Republika Srpska elected the President of this entity, as well as 83 MPs to the National Assembly of Republika Srpska.

According to the Central Electoral Commission of Bosnia and Herzegovina, a total of 7,257 candidates ran for office as members of one of 127 parties and coalitions. Close to 70,000 Bosnian citizens voted from abroad, sending their ballots by post, which is around 6,000 less than in 2018.

How To Vote?

Voters with their permanent residence address in the Central Bosnia Canton of the Federation of Bosnia and Herzegovina entity, for example, could pick from among 596 candidates and 61 parties and coalitions. At the polling station, they would receive four lengthy ballots to elect their representatives at the cantonal, entity and state level.

First, the voters had to choose their representatives at the cantonal level. The cantonal assembly ballot featured 16 different political parties and 349 candidates. They could only vote for candidates within one party. Voting outside of one political party or coalition would make the ballot invalid.

Moving on to the second ballot, it is important to note that the Central Bosnian Canton is one of the 10 cantons of the Bosniak-Croat majority Federation of Bosnia and Herzegovina. Therefore, voters in this entity also elected MPs for the 98-member House of Representatives of the Federation of Bosnia and Herzegovina, which is the upper house of the entity's parliament. This particular ballot in this voting unit featured 16 different parties and 127 candidates in total.

At the state level, a total of 42 lawmakers were elected to the House of Representatives of Bosnia and Herzegovina. This is one of the two chambers of the Parliamentary Assembly of Bosnia and Herzegovina, the other being the House of Peoples of Bosnia and Herzegovina. In total, 28 members are elected from the Federation of Bosnia and Herzegovina, and the remaining 14 from the Republika Srpska entity. From the third ballot, on which the voters could pick their candidates for the state-level parliament, they could choose from among 24 political parties and 115 candidates.

Finally, the fourth ballot was reserved for the Presidency of Bosnia and Herzegovina, a three-member body that replaces a single president. Voters in the Federation of Bosnia and Herzegovina entity could pick between the Bosniak and Croat candidates – five in total. Those in Republika Srpska had the option to vote for one of the five candidates for the Serb member of the tripartite Presidency.

It is important to note that numerous groups are not eligible to run for the Presidency and several other high-ranking posts due to the discriminatory Dayton constitution. Based on their ethnicity and residency, only Bosniak and Croat candidates from the Federation of Bosnia and Herzegovina are qualified to run for the Bosniak and Croat member of the Presidency. At

the same time, only Serb candidates from the Republika Srpska entity are allowed to run for the Serb member of the Presidency. In other words, Bosniaks and Croats residing in Republika Srpska, as well as Serbs living in the Federation of Bosnia and Herzegovina are prevented from running for the highest post.

However, the discrimination does not stop there. Bosnia's numerous ethnic minorities, including Roma and Jews are not eligible to run for the position of state president either. Furthermore, the constitution also bans people who do not wish to declare their ethnic identity or who simply identify as "Bosnians" or "citizens" from running for the highest office. An estimated 400,000 citizens of Bosnia and Herzegovina, which constitute around 12% of the total population, cannot run for president because of their religion, ethnicity or place of residence. In several instances, the ECHR found that the Dayton constitution violates citizens' rights to run for public office, urging Bosnia and Herzegovina to amend its constitution and electoral law. None of the court judgements, including the famous Sejdić-Finci and Zornić cases, have been implemented yet.

Election Night

Due to a lack of political willingness to implement the ECHR judgements, there is a broad expectation that the Office of the High Representative (OHR) will put an end to electoral discrimination by amending the electoral law. In this respect, not only is the OHR certainly regarded as the most prominent international body, but it is also an integral part of Bosnia and Herzegovina's political system. The OHR was established with a mandate to oversee the implementation of civilian aspects of the Dayton Peace Agreement, and as such has considerable powers to pass legislation and dismiss elected officials, which has been done in the past.

The current High Representative is Christian Schmidt, a former German official who decided to intervene in the electoral law in the middle of election night. Minutes after

the polling stations closed at 7 p.m., Christian Schmidt imposed the so-called Functionality Package, a set of measures amending the Electoral Law of Bosnia and Herzegovina and the Constitution of the Federation of Bosnia and Herzegovina. According to Schmidt, the aim of this decree was to improve the functionality of political institutions in the Federation of Bosnia and Herzegovina as well as to establish mechanisms to unblock the implementation of the election results and increase the transparency and integrity of the electoral process. Even though Schmidt's intent and the effects of his decision are beneficial, its timing could not have been worse. Despite the fact that the reforms imposed by Schmidt had no effect on direct votes, his decision did set new regulations and time constraints for the formation of indirectly elected bodies in the Federation of Bosnia and Herzegovina.

Pro-Bosnian parties saw such intervention in the legislature as a push benefitting the Croat nationalist parties led by the HDZ BiH. They argued that the enacted reform package helps the HDZ BiH and its coalition partners in two key respects. The first is that it increases the number of representatives in the House of Peoples of the Parliament of Federation of Bosnia and Herzegovina from 58 to 80 delegates, and the second, even more important aspect, is that it gives more power and influence to delegates nominated to the upper house of the Parliament of Federation of Bosnia and Herzegovina by the Croat-dominated cantons. Since the laws need to be passed by both houses of the Parliament of the Federation of Bosnia and Herzegovina, Schmidt's decree gave the HDZ BiH and its affiliates considerable manoeuvring space for potential blocking actions.

Hours after Schmidt imposed his Functionality Package, the first election results for the Presidency trio were announced. Voters in the Federation of Bosnia and Herzegovina elected Denis Bećirović, a high-ranking official of the Social Democratic Party (SDP) as the Bosniak member of the Presidency. His candidacy was supported not only by Bećirović's SDP but

also by an alliance of 11 opposition parties endorsing his campaign against the President of the Bosniak nationalist Party of Democratic Action (SDA) Bakir Izetbegović. By defeating Bakir Izetbegović, the son of the late Alija Izetbegović, the first President of the independent Republic of Bosnia and Herzegovina Denis Bećirović became the first social democrat serving as the Bosniak member of the three-headed Presidency.

On the Croat side, Željko Komšić, the civic-oriented President of the Democratic Front (DF), was re-elected as the Croat member of the Presidency. Komšić gained more votes than Borjana Krišto, the candidate of the HDZ BiH. Komšić's victory has caused additional frustration among Croat nationalists claiming that he does not represent the Croat people, threatening to block the government formation and calling for a more rigid election law reform.

In the Republika Srpska entity, voters elected pro-Russian candidate Željka Cvijanović as the Serb member of the Presidency, which made her the first woman ever elected to the Presidency. At the same time, she has been a long-serving official of the Serb nationalist Alliance of Independent Social Democrats (SNSD) and a close aid of the Bosnian Serb separatist Milorad Dodik. Considering her track record, close ties with Dodik and friendly relations with Putin, combined with the overall political context in Republika Srpska, it would be highly unrealistic to expect any change in the course that the new Serb member of the Presidency will take during her mandate.

In parallel with electing their member of the Presidency, the voters in Republika Srpska also voted for the President of the Republika Srpska entity, an event marked by drama and controversy. Hours after the polls were closed, Jelena Trivić, the candidate of the Party of Democratic Progress (PDP), announced she had become the new President of the Republika Srpska entity, defeating Bosnian Serb strongman Milorad Dodik. The following morning, the Central Electoral Commission of Bosnia and Herzegovina announced that

the new President of Republika Srpska was the former Serb member of the Presidency of Bosnia and Herzegovina Milorad Dodik. Jelena Trivić, a Bosnian Serb ultra-nationalist herself, filed complaints citing irregularities and voter fraud, but the result remained unchanged even after the recount.

Old Winners, New Coalitions

With the results being announced, it was evident that over the next four years the Presidency would be composed of two pro-Bosnia oriented politicians and a Bosnian Serb nationalist. This raised hopes that the results for the state- and entity-level parliamentary elections would mirror the Presidency results. However, it was the nationalist-oriented parties that won the biggest share of mandates in the state and entity parliaments as well as in the cantonal assemblies of the Federation of Bosnia and Herzegovina entity. For many, this was a sign that the political blocking tactics from the previous mandate will continue, deepening the stalemate in the reform process, cementing ethnocratic clientelism and potentially causing even greater depopulation.

However, just days after the elections, the opposition parties from the Federation of Bosnia and Herzegovina promptly agreed to form a coalition which would effectively exclude the Party of Democratic Action (SDA) from power. Individually, the SDA won more votes than any other party in this entity, but the new umbrella opposition bloc consisting of eight parties, dubbed the "Eight", had more MPs in the state-level and entity parliaments. In mid-December, after a series of negotiations, the eight opposition parties led by the Social Democratic Party of Bosnia and Herzegovina (SDP BiH), the People and Justice Party (NiP) and Our Party (Naša stranka), joined by the Party for Bosnia and Herzegovina (SBiH), Movement of Democratic Action (PDA), People's European Alliance (NES), Party for the New Generations, and the Bosnia and Herzegovina Initiative – Fuad Kasumović, signed a coalition agreement with the

Croatian Democratic Union (HDZ BiH) and the Alliance of Independent Social Democrats (SNSD), paving the way for a new majority without the Party of Democratic Action (SDA) in both the Council of Ministers of Bosnia and Herzegovina and the legislature. The coalition partners announced a swift transition of power that will ensure a prompt implementation of the laws necessary for enhancing the EU integration process. Topics such as NATO accession were not on the table as Dodik and his Alliance of Independent Social Democrats (SNSD) vehemently oppose Bosnia and Herzegovina joining this military alliance.[21] The new coalition will soon be put to the test as the HDZ BiH will step up its demands for reform of the election law, which would further strengthen its position, and Dodik's SNSD will work towards Bosnia and Herzegovina staying out of NATO.

On 15 December, the same day as the new state-level coalition agreement was signed, EU leaders unanimously decided to grant EU candidate status to Bosnia and Herzegovina. The candidate status came with an invitation for political leaders in Bosnia and Herzegovina to implement the long-overdue reforms and move the country towards the EU before its citizens do so – without Bosnia and Herzegovina.

However, the political situation in the Federation of Bosnia and Herzegovina looks more complicated as there are ambiguities caused by the amendments to the Election Law of Bosnia and Herzegovina and the Constitution of the Federation of Bosnia and Herzegovina imposed by the High Representative on election night. The Bosniak, Croat and Serb caucus of the House of Peoples of the Parliament of the Federation of Bosnia and Herzegovina chose three candidates for the leadership positions of this entity: one president and two vice-presidents. Once they are elected, they will nominate the President of the Federation of Bosnia and Herzegovina. In line with the election

[21] Al Jazeera, "'Osmorka', HDZ BiH i SNSD potpisali 'historijski' sporazum", 15 December 2022.

results, since the SDA has a majority in the Bosniak caucus of the House of Peoples of the Parliament of the Federation of Bosnia and Herzegovina, it picked a candidate from its own party for one of the three leadership positions of the entity. The other two candidates are HDZ and SDP cadres. Since the "Eight" and HDZ sidelined them during the coalition talks, this gives SDA a more than comfortable position to block the process of appointing the entity's president. Since the President of the Federation of Bosnia and Herzegovina appoints the entity government, the SDA will be able to block the formation of the government – all thanks to the new amendments imposed by Christian Schmidt on election night. As a result, several of the "Eight" leaders anticipate that the High Representative will impose yet further amendments, neutralising any attempt by the SDA to block the formation of an entity government.

If the "Eight" and HDZ are successful in their goal of forming the government of the FBiH, we may expect a large purge of SDA staff in public institutions across the Federation entity. If this happens, there is likely to be massive opposition from the SDA cadres who are spread across the institutions of the FBiH and have held power for more than two decades.

Conclusion

In recent years Russia has been accused of supporting nationalist political parties and secessionist leaders in Bosnia and Herzegovina. Using its media outlets, Moscow has engaged in spreading disinformation and fake news and promoting anti-Western narratives. Moreover, the Kremlin has been accused of using its influence in Bosnia and Herzegovina to block the country's membership of NATO and the EU, as part of its broader strategy to undermine Western influence in the Balkans. This has been particularly evident in Republika Srpska, where Russia has provided economic and political support to Bosnian Serb separatists led by Milorad Dodik.

Russia's malign influence in Bosnia and Herzegovina poses a significant threat to the country's stability and security, as well as to the broader European and transatlantic community. The EU has offered little in terms of curbing the Russian threat and holding accountable Bosnian decision-makers who side with Russia and engage in undermining the state institutions. Instead, some EU officials have been appeasing pro-Russian nationalists without offering a viable policy solution aimed at integrating Bosnia and Herzegovina into NATO and the EU.

At the same time, post-election developments have shown that Bosnia and Herzegovina, now an EU candidate country, will remain prone to political instabilities and institutional paralysis for the next four years, which will only obstructs economic development, encourage endemic corruption, and accelerate youth emigration.

7. The War in Ukraine: A Chance to Reduce the Western Balkans' Energy-Dependence on Russia

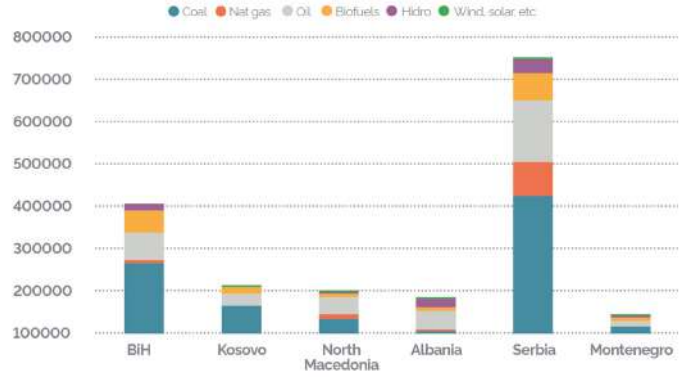
Agata Łoskot-Strachota

Although the countries of the Western Balkans consume relatively little energy (natural gas included) they are all strongly affected by the ongoing energy crisis. Western Balkan countries, which are relatively poor and insufficiently diversified in terms of energy sources, are among the most vulnerable in Europe. High and highly volatile prices, the still unfinished EU integration process, the continuing challenges to regional integration and the heavy dependence of some countries in the region – above all Serbia, the largest Balkan energy consumer – on ties with Russia, highlight the structural energy problems facing the Western Balkans. This is clearly visible in the natural gas sector. Although Serbia has not joined the EU sanctions and continues to import gas from Russia, it has, in parallel, started to look more intensively for options to diversify its sources and guarantee itself stable and affordable supplies in the future. This shows that the war, the crisis and the intensification of Balkan energy problems may, with stronger EU involvement, also offer an opportunity to reduce Balkan energy dependence both on Russia and, in the longer term, on hydrocarbons.

Sources of Energy in the Western Balkans

The Western Balkan states are among Europe's smallest energy consumers. All six countries consumed the equivalent of less than 2.5% of the EU's total energy consumption in 2020, with Serbia alone accounting for just over half of this percentage. In most Balkan countries, coal plays the most important role in the energy mix, and it is used for both electricity and heat generation. Oil also has an important role in all Balkan primary energy mixes, being the most important source in Albania and North Macedonia. Natural gas has traditionally been used to a smaller extent in the Western Balkans, with a more pronounced – although still low compared to the EU average – share in the energy mixes of Serbia (12.5%) and North Macedonia (11.7%).

Fig. 7.1 - Total Energy supply in Western Balkans, 2020, TJ

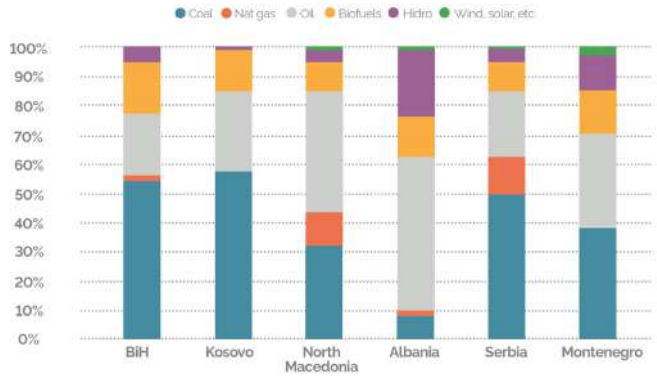


Source: IEA

Coal accounts for the smallest share in Albania (7.7% of total primary energy consumption), which relies almost entirely on hydroelectricity. However, the Balkan countries that rely more heavily on coal also generate a substantial part of their electricity through hydropower. In 2020 hydroelectric power plants accounted for over 40% of the share of electricity generation

in Montenegro, over a third in Bosnia and Herzegovina, over a quarter in Serbia and 15% in North Macedonia. For heating purposes in the Western Balkans, according to official data, fossil fuels, primarily natural gas and coal, continue to dominate the mix.[1] At the same time, according to many sources, biomass has a significant share in household heating, which is usually underestimated and invisible in the official statistics.[2]

Fig. 7.2 - Western Balkans' primary energy mixes, 2020



Source: IEA

Regional Dependence on Energy Resource Imports from Russia

The Western Balkan countries are largely self-sufficient in coal. Lignite has been produced in nearly all countries, and regional production has grown by almost a quarter since the early 1990s.[3] Only Albania, which uses the smallest amount

[1] M. Kambovska, "Heating in the Western Balkans Overview and recommendations for clean solutions", CEE Bankwatch Network, May 2021.
[2] *Western Balkans: Directions for the Energy Sector*, Final Report, The World Bank, June 2018.
[3] "Production of lignite in the Western Balkans – statistics", Eurostat, August

of this fuel in the region, remains heavily dependent on coal imports (over 51% in 2020[4]), about two thirds of which came from Russia. The rest of the Western Balkan countries rely on domestic production.

The situation in the oil and gas sectors is quite different. The Western Balkan countries remain heavily dependent on oil and gas imports, with Russia being one of the most important sources. They import de facto 100% of regional consumption of oil and petroleum products and almost 82% of natural gas. In all the Balkan countries, Russia has been the sole supplier of natural gas. Serbia remains the largest regional importer of gas, accounting for approximately 80% of both regional consumption and imports of this fuel. By contrast, in the case of oil and petroleum products, Russia is directly responsible for just over 12% of regional supplies. Also here, the largest consumer of Russian oil in the region is Serbia, which is also the most heavily dependent on Russian supplies, which cover almost 25% of Serbian needs.[5]

Consequently, the region's energy dependence on Russia is at its highest in the relatively small natural gas market, and among the Western Balkan countries, Serbia remains the most heavily dependent on Russia for its energy imports.

Serbian Dependence on Russian Natural Gas

Serbia's dependence on Russian natural gas is multi-dimensional. As mentioned above, Russia is the sole supplier of over 80% of the natural gas consumed in the country. All gas pipelines supplying the Serbian market come from Russia. For decades, Serbia has been supplied with gas via a single route

2021.

[4] Own calculations based on Eurostat, "Imports of solid fossil fuels by partner country".

[5] Own calculations based on Eurostat, "Imports of oil and petroleum products by partner country".

– the one running through Ukraine and Hungary. In recent years the situation has changed. Since 2020, Russian crude has been reaching Serbia via the European leg of the TurkStream pipeline.[6] The TurkStream was a strategic Russian gas export project built to diversify away from Ukrainian transit routes. The Serbian section of TurkStream is to some extent controlled by Russia's Gazprom. It was exempted from competition rules (the obligation to guarantee third-party access, TPA rule),[7] and the 51% Gazprom-controlled company Gastrans (Gazprom is an indirect shareholder in Gastrans – through its Swiss-registered subsidiary South Stream AG) was responsible for the construction of the pipeline and was certified as an independent route operator.[8]

The case of Gastrans highlights another dimension of Serbian-Russian ties and energy-dependence, namely the high degree of formal and informal influence of Russia and Russian companies in the Serbian energy and natural gas sectors. This is illustrated by the fact that Dušan Bajatović, the head of Srbijagas – Serbia's state-owned gas company, which co-owns Gastrans (49%) – has been seen as an advocate of Russian interests in the country and in the Serbian energy sector[9] for many years. Mr Bajatović is also an important Serbian politician and his actions have contributed, among other things, to hindering progress in strategic areas for the Serbian gas sector for many years, including market liberalisation or diversification (e.g. by blocking EU-backed projects such as the Dimitrovgrad-Niš

[6] A. Łoskot-Strachota, M. Seroka, and M. Szpala, "TurkStream on the diversifying south-eastern European gas market", OSW, April 2021.

[7] Which was criticized inter alia by EU's Energy Community see "Serbia's TurkStream branch to impede competition -EU watchdog", *Reuters*, 7 March 2019.

[8] For more see Łoskot-Strachota, Seroka, and Szpala (2021) and Energy Community Secretariat, Opinion 1/2019 on the exemption of the Gastrans natural gas pipeline project from certain requirements under Directive 2009/73/EC by the Energy Agency of the Republic of Serbia.

[9] See European Platform for Democratic Elections https://www.fakeobservers.org/biased-observation-database/details/bajatovic-dusan.html

link with Bulgaria). Finally, Russian companies also hold significant stakes in key sectors of the Serbian economy, as exemplified by Gazpromnieft's control (and Gazprom's stake) in the energy company NIS (Naftna Industrija Srbije), an important exporter and one of the most profitable companies in the country, which includes Serbia's only refinery[10] (some 20-25% of the oil consumed in the country also comes from Russia). Gazpromnieft acquired a 51% majority stake in NIS in a controversial 2008 "package" of energy agreements between Serbia and the Russian Federation. It is believed to have ensured its dominant position in the Serbian energy sector by giving preference to Russia and paying low prices for its assets. As a result of this deal, Russian companies took control of Serbia's fuel sector, gas supply and storage (there was also an agreement on building the Serbian section of South Stream and a gas storage unit), and were given exclusive rights to explore for oil and gas on Serbian territory.[11]

Another result of the aforementioned deal is that Gazprom still holds a 51% stake in Banatski Dvor, Serbia's only gas storage facility.

Cooperation with Moscow in relation to natural gas also brings tangible benefits to Belgrade. Thanks to the construction and launch of the TurkStream pipeline, Serbia has become a transit country – gas flows through its territory to Hungary and other countries, thus bringing in transit revenues for the Serbian state budget. TurkStream also resulted in Serbia paying relatively lower prices for Russian gas supplies (due to lower transportation costs). Since the outbreak of the Russian war against Ukraine, Serbia has remained one of the two European countries – the other is Belarus – that are not implementing sanctions against Russia, and has continued its existing trade cooperation with Russia, as far as possible. It is therefore also

[10] See Łoskot-Strachota, Seroka, and Szpala (2021).

[11] See M. Szpala, "Serbia: polityczne gry wokół prywatyzacji koncernu energetycznego" ("Serbia: political games around the privatization of an energy company"), OSW, August 2014.

one of the few European countries whose imports of Russian natural gas have remained largely unchanged. What is more, at the end of May 2022, a new three-year contract was signed with Gazprom for the import of 2.2 bcm of gas per year, at prices 100% tied to oil prices – a mechanism designed to guarantee their relatively low level and stability in the face of uncertainty, dynamic change and crisis in the markets.[12]

And Serbia's Quest for Diversification

Despite the above does, Belgrade is still looking to diversify its gas and oil supplies. On the one hand, the war and the energy crisis in Europe and around the world highlight the risks of unilateral dependence and of the strategic Serbian gas sector's strong links with the aggressor state. Russia has been openly weaponising its gas supplies in its relations with other European states and remains in an energy war with the Western countries. Furthermore, the future of its gas and oil exports, as well as its internal gas and oil sectors, remains unpredictable. For Serbia, the war also poses a dilemma that requires it to strike a balance between Russia, with which it has strong ties precisely in the gas sector, and the European Union and the US. Belgrade has been striving for years for integration with the EU, its key economic and political partner.

Serbia itself has become concerned about the stability and security of its gas supply from Russia. This concern stems from the suspension of Russian supplies to neighbouring countries through which gas flows to the Serbian market (including Bulgaria), as well as from the implementation of Western sanctions against Russia. These, among other things, have somehow affected the functioning of the company responsible

[12] According to Serbia's President these prices were expected to be at the range of 310-408USD/1000 m3, *Argus Media*, "Serbia signs new gas supply contract with Gazprom", 30 May 2022.

for operating the offshore part of TurkStream.[13] Serbia's oil sector has also been directly affected by Western sanctions. The entry into force in December 2022 of EU sanctions introducing an embargo on seaborne crude oil imports from Russia to the EU countries made it impossible to supply and transfer Russian oil from and through Croatian territory, which used to be the most important route supplying the Serbian market, including the NIS-owned refinery, to date.[14]

On the other hand, the crisis and the war are accelerating the pace of change in the region's gas markets and have been creating new opportunities, also for Serbia. LNG terminals are expanding their capacity (terminal in Croatia[15]) and new terminals are due to open soon (in Greece in 2023 at Alexandroupolis[16]). The integration of the regions gas markets and networks is also increasing, thanks in part to the new interconnectors (including the Bulgarian-Greek one which has been booked for almost 100% in December 2022,[17] and the acceleration of works on the Bulgarian-Serbian one[18]) and regulatory upgrades enabling the use of the Trans-Balkan route.[19] There are emerging opportunities for increasing gas imports from Azerbaijan by the entire South and East European market: Azeri exports to Europe reportedly rose by

[13] S&P Global, "TurkStream gas link operation 'secured' after Dutch permit return: Hungary", 19 October 2022.

[14] M. Szpala and A. Sadecki, "Serbia: the forced abandonment of Russian oil", OSW, October 2022.

[15] "Croatia plans to expand LNG terminal on Krk island", *Balkan Green Energy News*, 23 August 2022.

[16] "Launch of works on Alexandroupolis LNG terminal in Greece", *Balkan Green Energy News*, 3 May 2022.

[17] "Bulgaria-Greece gas link capacity booked at 94% in Dec", *SeeNews*, 11 January 2023.

[18] "Bulgaria begins work on Serbia gas link, sees operations by year-end", *Reuters*, 1 February 2023.

[19] Including for example in Moldova, see "Moldova Allows Using Virtual Reverse of Natural Gas through Ukraine to All Interested Companies - GTS Operator of Ukraine", *Ukrainian News*, 13 January 2023.

18% year-on-year to 11.4 bcm in 2022.[20] This potential will increase further with both investments in Azeri production and in the planned increase of the capacity of the Southern Gas Corridor, including the Trans-Anatolian Natural Gas (TANAP) Pipeline.[21] According to its political announcements, at least, Serbia seems to be interested in importing Azeri gas via a future link with Bulgaria,[22] which is currently under construction. An alternative option would be to import gas from Croatia via the planned interconnector: from the LNG terminal in Omisalj or via the Croatian gas pipeline network from Austria, Slovenia or Italy.[23] Lastly, Turkey's ambition to use the current crisis to speed up the creation of its own gas hub in Thrace, which has been under planning for two decades, also presents an opportunity to attract additional gas volumes for both Serbia and other South and East European countries. Turkey's hub ambitions are supported by concrete measures to increase its gas import capacities,[24] and to give European countries and companies access to Turkey's import and transport infrastructure (including five LNG terminals). This has been signalled by the agreement signed with Bulgaria[25] and comments on possible similar deals with other South and East European countries.[26]

[20] "Minister: Azerbaijan exports 11.4 bcm of gas to Europe in 2022", *Azernews*, 13 January 2023.

[21] "Türkiye, Azerbaijan to double TANAP gas pipeline capacity", *Daily Sabah*, 7 October 2022.

[22] "Serbia in talks with Azerbaijan to buy gas for next year", *Reuters*, 12 July 2022.

[23] Gas Interconnector Serbia – Croatia, Energy Community.

[24] See "Türkiye signs 10-year natural gas deal with Oman: Energy chief", *Daily Sabah*, 30 January 2023.

[25] L. Kobeszko, A. Łoskot-Strachota, and A. Michalski, "Bulgaria steps up its gas cooperation with Turkey", OSW, 11 january 2023.

[26] See twitt by Ragıp Soylu, Turkey Bureau Chief for Middle East Eye, https://twitter.com/ragipsoylu/status/1619969523888840704?s=20&t=EJrmVigf1nrXFQ_7Fjm_MA

Energy and the Process of Western Balkan Integration with the EU

The changing geopolitical situation is reshaping Russia's influence in the Balkans. The gradual reduction of its role in regional energy sectors, including the reduction of Serbia's gas dependence on Russia, has also been supported by EU activities, such as financial support to combat the negative effects of the energy crisis. The Western Balkans is perhaps the most vulnerable region in Europe to the effects of the current crisis, including to the high and dynamically changing electricity prices.[27] This is due to relatively limited options for diversification of energy sources and fuel switching and a high degree of dependence on electricity imports. In November 2022, the European Commission announced a €1 billion package, half of which is to be used for immediate assistance (planned to be launched in January 2023) and to protect households and small and medium-sized enterprises from the negative effects of the energy crisis and price increases. The remaining €500 million was to be made available in the short-to-medium term in order to accelerate diversification of the supply, renewable energy generation, enhancement of energy efficiency and progress with the energy transition.[28] Projects co-financed by EU funds in the short term would help to diversify the Western Balkan electricity mix by enabling an increased role for gas, including LNG. A key condition for EU support appears to include a conditionality clause which would ensure, among other things, that gas imported within the framework of EU-co-funded projects and investments should not come from Russia. Although all Western Balkan states except Serbia[29] have

[27] "Energy crisis in the Western Balkans: Measures undertaken amid energy price shocks", Balkan Green Foundation, September 2022.

[28] "Berlin Process Summit: EU announces €1 billion energy support package for the Western Balkans and welcomes new agreements to strengthen the Common Regional Market", European Commission, 3 November 2022.

[29] "Bosnia and Herzegovina adopted sanctions, but never implemented them",

joined the EU sanctions against Russia, the natural gas trade has not yet been subject to sanctions. In the medium term, the EU support package aims to increase the role of renewable energy in the region. The Western Balkan region has quite high potential for the development of solar and wind energy sources which could, in the longer term, not only reduce dependence on hydrocarbons and imports, but also reduce costs and price volatility and improve energy availability in the region.[30] It seems important to ensure that investment in green energy generation capacities goes hand in hand with investment in the development of electricity grids and the integration of regional markets.

For the success of the EU initiatives in the Western Balkans, it seems important to maintain the political weight attached to the processes initiated – inter alia, through initiatives of the EU Commission, but also those by the individual Member States – and not to disappoint the hopes of countries in the region for the acceleration of the process of integration with the EU. It is also important to turn the current activities and momentum into concrete projects involving regional actors and stakeholders on a binding basis. The EU-funded Energy Community can and should play an important role in navigating and managing the processes of diversification and implementation of the Western Balkans energy transition and linking it to the process of EU integration in the field of energy. The key issue here, however, would be to strengthen this institution, which currently remains heavily involved in coordinating EU energy assistance to Ukraine and Moldova and processes of adapting Ukrainian laws, regulations and institutions to the EU's requirements.

European Western Balkan, 4 June 2022.

[30] G. Cretti, A.A. Imeri, and S. Ristovski, "A Berlin Process for the energy Clingendael Alert security of the Western Balkans", Clingendael, November 2022.

About the Authors

Samir Beharić is a Research Officer at The Balkan Forum and a PhD candidate at the University of Bamberg in Germany. His human rights advocacy was recognized by the OSCE honoring him with the 2018 Max van der Stoel Award for his efforts in the prevention of further ethnic segregation of schools in Bosnia and Herzegovina. He served as the Lantos Congressional Fellow in the US Congress in Washington, D.C., as well as a Schuman Trainee at the European Parliament in Brussels. Beharić received his Bachelor's from the University of Sarajevo, and his Erasmus Mundus Joint Master Degree from the University of Vienna and Leipzig University.

Maja Bjeloš is a public policy analyst and researcher in the area of security and foreign policy with ten years of professional experience working for the Belgrade Centre for Security Policy. She has researched largely on various security issues, including the implementation of security aspects of the Brussels Agreement. She monitors Serbia's accession talks and negotiations with Prishtina as a member of the NKEU Working Group for Chapter 35. Mrs Bjeloš has academic background in international relations and international security from the Faculty of Political Sciences, Belgrade University.

Bojan Elek is Deputy Director of Belgrade Center for Security Policy. For more than a decade he has been researching and working on European Union enlargement policy

and Serbia's European integration, with a special focus on monitoring reform in the rule of law and security. He also has an interest in regional security cooperation, particularly regarding the reconciliation process between Belgrade and Prishtina. Through his engagement with several networks of civil society organisations, he is committed to familiarizing citizens with public policy and contributing to greater public participation in decision-making. He studied at University of Belgrade, George Mason University, Central European University and University of Edinburgh.

Giorgio Fruscione is Research Fellow at the ISPI's Europe and Global Governance Centre, in charge of the Balkans Desk. Before joining ISPI, he has been living for years in the Balkans, working as freelance journalist for several Italian and international media outlets, like *EastWest*, *Venerdì di Repubblica* and *Balkan Insight*. Since 2010, he has also been deputy director and news correspondent from the *Balkans for East Journal*. He holds a Bachelor degree in International Relations and Human rights from the University of Padova and a Master of Arts in Interdisciplinary Research and Studies on Eastern Europe from the University of Bologna, with a master thesis on the Yugoslav socialist system of self-management.

Tefta Kelmendi is the Coordinator for the Wider Europe programme at the European Council on Foreign Relations. Prior to joining ECFR, she worked as a diplomat at Embassy of Kosovo in France, where she was responsible for Kosovo's relations with French-speaking countries and integration in international organisations. She has previous experience working with the Ministry of European Integration of Kosovo on human rights policies, with a particular focus on minority rights and integration. Mrs Kelmendi holds a Master's degree in International Security from Sciences Po - Paris School of International Affairs (PSIA).

Milena Lazarević is one of the founders and Programme Director of European Policy Centre (CEP), an independent, non-governmental, think tank based in Belgrade, Serbia. A proven expert in the field of public administration reform and European affairs, in 2014-2015 Milena acted as the Special Adviser to the Serbian Deputy Prime Minister. She started her career as a civil servant in the EU Integration Office of the Serbian Government. She is one of the authors of the Template for a Staged Accession to the European Union, a comprehensive proposal for reforming and reinvigorating the EU's enlargement policy. Mrs Lazarević obtained her BA degree in European Studies and International Relations at the American University in Bulgaria as a Soros scholar, and her MA at the College of Europe, on a King Baudouin Foundation scholarship.

Agata Łoskot-Strachota is a Senior Research Fellow at Warsaw based think tank OSW (Centre for Eastern Studies), which is a Polish public, state-funded analytical institution. Mrs Łoskot-Strachota acts as a Coordinator of OSW's research project "Energy in Europe". In her own work beside European affairs & EU Energy Union she focuses also on European gas market and policy developments EU – Russia energy relations, energy situation of Central, Eastern and South-Eastern Europe and role of gas in energy transition. She is a member of the Polish Energy Security and Climate Expert Council, external contributor in multiple think tanks (Bruegel, NUPI) as well as commentator in Polish & foreign media.

Sava Mitrović works as a researcher at the European Policy Centre (CEP), Belgrade. He obtained his Bachelor's and Master's degrees in International Relations at the Faculty of Political Sciences in Belgrade as the best student in his year, and he is currently pursuing PhD degree at the same faculty. His professional specialisation started at the Centre for International Public Policy, where he managed several projects as the coordinator of the International Cooperation

Sector. Sava won "PhD Predrag Simić" competition for the best-written paper in the field of Balkan relations, as well as the competition of the Ministry of European Integration for the best paper on the EU. He also published scientific papers in some of the prestigious Serbian journals, such as Political Review, International Politics, and others.

Vuk Vuksanović is a Senior Researcher at the Belgrade Centre for Security Policy (BCSP) and an Associate at LSE IDEAS, a foreign policy think tank within the London School of Economics and Political Science (LSE). He got his PhD in international relations at the LSE in 2021 on the topic of Serbia's balancing act between Russian and the West, which he is currently converting into a book for "Bloomsbury Publishing". His research deals with great power politics in several regions, ranging from the Balkans, Turkey and the Middle East, as well as foreign and security policies of Russia, China and the US. He produced academic publications on these topics and policy publications in the UK, the EU and the US. He is a regular commentator for Serbia and international media.