

Europe Is Awake. But Is It Ready to Act?

European integration has progressively produced common instruments, but not common interests

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Abstract

President Trump's return, China's industrial rise and Washington's gradual military disengagement from Europe have confronted the European Union with its most demanding geopolitical environment since the end of the Cold War. Contrary to the widespread perception that Europe lacks the means to respond, this paper argues that the Union has progressively developed an increasingly sophisticated set of common instruments in fields ranging from economic governance and defence to industrial policy, trade and technological sovereignty. Yet these initiatives have delivered only mixed results.

Their effectiveness is constrained less by institutional shortcomings than by widening economic, fiscal, industrial and strategic divergences among Member States, which increasingly undermine trust and cooperation within the Council. Examining six policy areas, the paper shows that the Commission has sought to compensate for these divisions through a growing number of ad hoc initiatives, but that no European instrument – however innovative – can permanently substitute for the political consensus and economic convergence on which durable European cooperation ultimately depends. Ultimately, a stronger Europe requires stronger, more resilient and more convergent Member States.

Introduction

The current geopolitical environment is dominated by two giants: the United States and China. Their growing strategic rivalry has profoundly reshaped the international economic and political order, confronting the European Union with an environment in which economic interdependence is increasingly subordinated to geopolitical competition. The European Union must contend with the reality that neither of these powers is benevolent and that both place their own interests above all else – whether those interests align with the EU's or not. Europe is therefore no longer operating in a rules-based international environment alone, but in one where

market access, technology, energy and security are increasingly used as instruments of power.

Europe is waking up to a world where allies and rivals alike put their own interests first

The re-election of President Donald Trump illustrated this dynamic. Trump has consistently pursued an "America First" doctrine across multiple policy areas. On trade, he succeeded in bringing the EU to the negotiating table in order to correct what he views as a long-standing asymmetry in the relationship. On defence, he has pursued a gradual reduction of American military presence in Europe as part of a revamped NATO framework. Moreover, he has also made some deeply concerning comments – that go against all the established diplomatic rules of decorum – such as threatening to seize Greenland by all means necessary. More broadly, the United States has progressively redefined its alliances through the prism of national interest, signalling that European security and prosperity can no longer rely on assumptions that prevailed during the post-Cold War period.

China, meanwhile, has successfully upgraded its manufacturing base into increasingly sophisticated sectors, directly challenging industries in which EU Member States have traditionally excelled, such as automobile manufacturing, pharmaceuticals, chemicals and capital goods. Since mid-2025, China has exported more capital goods to Germany than it has imported from it. The EU has not merely opened its market to Chinese industry. It has, in effect, offered it up, allowing China to redirect part of the exports displaced by US sanctions towards Europe. For years, European private capital voluntarily financed a foreign industrial policy without ever imposing a condition of reciprocity. At the same time, China's growing technological capabilities, industrial planning and control over critical supply chains increasingly expose the structural vulnerabilities created by Europe's dependence on external production ecosystems.

Awake, but still fragmented

European Member States thus find themselves caught in an uncomfortable position which revives an important question: is Europe finally awakening

to the realities of power politics? Security and trade shocks have undoubtedly forced European leaders to confront their dependence on both the United States and China. Yet while the discussions surrounding sovereignty, strategic autonomy and coordination have intensified, concrete action remains far more limited. Europe, it would seem, has finally opened its eyes – but it has yet to get out of bed.

Yet this diagnosis only captures part of the current European reality. Over the past decade, and particularly since the Covid-19 pandemic and Russia's invasion of Ukraine, the European Union has progressively equipped itself with an increasingly sophisticated set of common instruments. From the Recovery and Resilience Facility and common borrowing, to the European Defence Fund, the Chips Act, the Industrial Accelerator Act, new trade-defence instruments and initiatives supporting technological sovereignty, the Union has demonstrated a growing willingness to intervene collectively in areas that were once considered almost exclusively national competences.

The central question is therefore no longer whether Europe is capable of acting collectively. Increasingly, it is. Rather, the question is why these increasingly ambitious instruments often struggle to produce the transformative economic, industrial and geopolitical effects that policymakers expect from them.

There is no federal European State, no federal budget, no federal army, no common foreign policy, nor any common industrial policy. While these powers were never conferred to the EU in the treaties, their absence need not be an obstacle to cooperation. The European Treaties nevertheless provide sufficient legal bases for significant coordination in many strategic fields, provided that Member States are willing to use them. Yet, Member States are currently incapable of producing a common strategic vision for the EU. European leaders have repeatedly favoured their own national interests, or that of their industrial base. European cooperation is too often considered as a means to pursue national objectives, rather than as a platform to construct common goals – whether they be economic or political in nature. The result is a recurring paradox that runs throughout this paper: the Union has progressively developed common instruments, while the political, economic and industrial convergence required to maximise their effectiveness has evolved far more slowly.

Economic divergences among the EU's major Member States and political uncertainty hinder European cooperation

The current inertia is not caused by a lack of awareness. On the contrary, the diagnosis is widely

shared across Member States: the European Union is falling behind its peers in terms of competitiveness and productivity. Over the last 20 years, the annual rate of GDP growth in the US was 1.9% against 1% in the Euro area. Over the same period, labour productivity increased by 1.2% annually in the US against 0.35% in the Euro area. The annual rate of investment in equipment (in terms of volume) has increased by 2.6% annually in the US against 0.9% in the Eurozone. This data is only an introduction to the broader diagnosis developed throughout this paper: Europe is progressively losing ground economically, industrially and technologically relative to its principal competitors.

The objective of this paper is not to argue that the European Union lacks policy instruments. On the contrary, many of the initiatives developed in recent years demonstrate that European integration continues to evolve. Rather, it argues that these instruments remain constrained by increasingly divergent fiscal positions, industrial structures, political priorities and strategic cultures among Member States. Europe therefore faces a convergence challenge at least as much as an institutional one.

The solutions to the current challenges are not limited to the creation of additional European programmes. They also require Member States to restore the conditions that make deeper integration both economically sustainable and politically acceptable. Member States must return to the path of economic convergence. First, Member States must put their house in order and address their own shortcomings. They must enhance productivity and stimulate innovation through productive investment. Public finances must align with the rules laid out in the Stability and Growth Pact (SGP). Tax and regulation burdens must also be reduced. A business-friendly environment is a *sine qua non* condition of Member States' individual successes. Only economically resilient Member States can sustain ambitious collective European policies over the long term. Only once these conditions are met can Member States return to the path of economic convergence and start cooperating more effectively on common strategic priorities.

This phenomenon is compounded by an unfavourable electoral calendar and political context. Italy and Poland are expected to hold general elections in the coming years, France remains in political deadlock ahead of the 2027 presidential election, and Germany faces growing speculation over the durability of its governing coalition. Member States are therefore even more unlikely to pursue genuine good-faith cooperation for fear of losing political power. In order to save

face, European leaders might wish to appear “tough” and present themselves as the protectors of national interests. Being too pro-EU can be seen as weakness for a certain portion of national electorates. Domestic political constraints therefore continue to shape European decision-making, often encouraging short-term national calculations over longer-term collective objectives.

The neoliberal turn of the 1980s, when the European Community embraced a more market-oriented approach and grew increasingly sceptical of state intervention

This is not the first time that attempts to revitalise European cooperation have fallen short over the past quarter century. The objectives set out in both the Lisbon Strategy and the Europe 2020 Strategy were never effectively translated into national policies. A significant gap emerged between these ambitions and the Community instruments designed to achieve them. The governance mechanisms relied primarily on intergovernmental coordination and produced few legally binding obligations for Member States. This permissive framework provided little incentive for governments to undertake the reforms necessary to meet common objectives.

At the same time, the market-oriented turn of the 1980s profoundly reshaped the European approach to economic policy. Industrial strategies centred on “national champions” gradually gave way to policies prioritising the completion of the Single Market, deregulation and the promotion of competition. This shift reflected the growing influence of market-oriented economic thinking. Confidence in the state's ability to steer industrial development steadily declined, as public intervention increasingly came to be viewed as liable to distort competition, misallocate resources and hinder innovation through bureaucratic inefficiencies. In this context, European integration contributed to delegitimising attempts to develop a coordinated industrial policy, as such initiatives were often perceived as disguised efforts to advance national interests. Public policy consequently focused on removing barriers to competition rather than shaping industrial structures or supporting strategic sectors.

More broadly, European integration gradually moved away from a model based on negotiated cooperation, compromise and Community preference towards one centred on the rules of the Single Market and enforced by the European institutions. State aid rules were progressively strengthened, significantly restricting governments' ability to support strategic industries. Competition policy came to prioritise consumer welfare and market efficiency over the emergence of European

industrial champions. Consequently, major industrial projects such as Airbus were developed outside the Community framework rather than through it. This evolution gradually weakened the political legitimacy of coordinated industrial policies and reinforced mutual distrust among Member States. Many of the debates examined throughout this paper – from European preference and defence cooperation to artificial intelligence and industrial policy – can be understood as attempts to rebalance this model without abandoning the benefits of the Single Market itself.

This shift has produced an uncomfortable paradox: while Member States publicly praise the benefits of European integration, they continue to prioritise national interests and resist the economic convergence on which deeper integration ultimately depends.

Indeed, the failure of Member States to design and implement a coordinated long-term strategy stems largely from nationally driven political and economic choices. Some Member States have adhered far more closely than others to the commitments laid down in the Stability and Growth Pact. The result has been growing economic divergence and increasingly distinct industrial structures, making the alignment of national interests ever more difficult. When countries face different constraints, they inevitably pursue different priorities. What appears as a necessary adjustment for one Member State may be perceived as an unacceptable concession by another. The same logic extends well beyond fiscal policy. Differences in industrial structures, energy mixes, defence priorities, financial systems and exposure to global trade all shape the willingness of Member States to support common European initiatives.

These divergences also raise an important question of timing. European decision-making relies on compromise, consensus-building and lengthy negotiations between Member States and the European institutions. Under normal circumstances, these procedures strengthen the legitimacy of collective decisions. Yet the geopolitical and economic environment is evolving far more rapidly than the Union's traditional decision-making process. The longer Member States take to reach common positions, the more vulnerable the Union becomes. The challenge is therefore not simply to accelerate European decision-making, but to reduce the underlying divergences that make consensus increasingly difficult to achieve.

If left unaddressed, these divergences pose a growing risk to the European project. European integration has long rested on the assumption that cooperation would naturally follow convergence.

Over the past decade, however, this dynamic has weakened considerably. France faces mounting fiscal challenges, while Germany must reinvent its economic model in response to higher energy costs and increasing competition from China. Other Member States face different combinations of demographic pressures, industrial restructuring or geopolitical exposure, further complicating the emergence of shared priorities.

A strong Europe requires strong Member States. European cooperation cannot compensate for persistent national weaknesses. Nor can European instruments fully achieve their objectives when the economic and political conditions required for their success differ fundamentally across the Union. European leaders have yet to demonstrate convincingly the added value of collective action in areas where European cooperation would clearly deliver better outcomes than purely national approaches.

In this context, it becomes imperative to re-establish a clear political narrative: the benefits of collective action must outweigh the costs of compromise. Europe should not be perceived as a relinquishment of sovereignty, but as a strategic platform – one to which powers are delegated in order to amplify collective influence in an increasingly competitive and fragmented global environment. The purpose of deeper European cooperation is therefore not to replace Member States, but to enable them collectively to exercise a degree of influence that none of them can realistically achieve alone.

The central argument developed throughout this paper is that Europe's principal challenge no longer lies in the absence of common instruments. Over the past decade, the European Union has progressively equipped itself with an increasingly sophisticated policy toolbox in fields ranging from economic recovery and industrial policy to defence, trade, energy and technological sovereignty. What remains insufficient is the degree of political, economic, financial and strategic convergence required for these instruments to operate at their full potential. The Union has become increasingly capable of acting collectively; Member States have proven far less capable of converging around the common priorities necessary to maximise the effectiveness of that action.

This paper examines this paradox of an increasingly aware but still fragmented Europe across six areas where the gap between rhetoric and action is most visible. Rather than assessing each policy area in isolation, the paper seeks to identify the common structural factors that repeatedly constrain European action despite the growing sophistication of Union-level instruments.

It first turns to economic governance, assessing whether NextGenerationEU, Europe's flagship instrument of solidarity, has delivered on its ambitions or merely postponed the reckoning with structural weaknesses and incomplete economic convergence among Member States (I).

It then examines how internal divisions among Member States have weakened Europe's response to external economic pressure, from the negotiations with the United States to the Mercosur deadlock (II), illustrating how differing national economic interests continue to shape the Union's common commercial policy.

The paper subsequently turns to energy, where national choices continue to generate collective vulnerabilities despite a functioning internal market (III). Although the Union has progressively constructed an ambitious Energy Union and significantly expanded its common policy instruments, divergent national energy mixes and investment strategies continue to constrain the emergence of a genuinely integrated European energy market.

It then assesses the state of European defence cooperation, a policy area still shaped primarily by national frameworks rather than a common strategic vision (IV). Here too, the Union has considerably expanded its financial and industrial instruments, yet differences in fiscal capacity, industrial organisation and strategic culture continue to limit the development of a truly integrated European defence ecosystem.

The paper further revisits the long-standing debate over European preference, arguing that China's industrial rise makes the case for a coordinated European response more urgent than ever (V). The emergence of instruments such as the Industrial Accelerator Act illustrates that the European Union is progressively reintroducing elements of industrial policy and economic preference. Nevertheless, the effectiveness of these initiatives ultimately depends on Member States' willingness to reconcile divergent industrial and commercial interests.

Finally, it considers Europe's missed technological revolutions, from artificial intelligence to robotics, as the clearest illustration of what is at stake should Europe fail to translate its awakening into common action (VI). The technological challenge demonstrates particularly clearly that Europe does not primarily lack scientific talent, financial resources or policy initiatives. Rather, it struggles to concentrate resources, accept geographical concentration, mobilise patient capital and converge around a limited number of shared technological priorities.

Taken together, these six chapters point towards a common conclusion. Europe has entered a new phase of integration in which the question is no longer simply whether common action is possible, but whether Member States are prepared to create the conditions under which such action can succeed. The future of European competitiveness, strategic autonomy and industrial resilience will therefore depend less on the creation of additional instruments than on the political willingness to use existing ones more coherently, more rapidly and with a greater degree of economic and strategic convergence.

1. Next Generation EU: Strong Ambitions but Limited Results Thus Far

1.1 An unprecedented response to unprecedented times: an example of cooperation and solidarity

On the 21st of July 2020, in response to the unprecedented Covid-19 pandemic, the European Council agreed on a large-scale recovery instrument: Next Generation EU (NGEU). The programme pursued two main objectives. First, it aimed at supporting the recovery of Member States most affected by the pandemic. Second, it sought to strengthen the EU's long-term growth potential by fostering investment and structural reforms, thereby enhancing resilience to future shocks.

It also marked a major institutional innovation: for the first time, the European Union engaged in large-scale common borrowing on capital markets. While loans remain the responsibility of beneficiary Member States, the grant component is financed through EU-level borrowing and ultimately serviced via the EU budget, thereby introducing a form of partial fiscal solidarity across Member States.

NGEU mobilises around €723 billion¹ in 2018 prices, including approximately €385.8 billion in loans and €338 in grants primarily channelled through the Recovery and Resilience Facility (RRF). Given its scale and ambition, the programme was widely expected to trigger a durable improvement in productivity and growth, particularly in weaker economies. Some commentators even called it a potential Hamiltonian Moment for Europe².

1.2 The largest recipients of NGEU, Spain and Italy, have thus far shown contrasted results

Whilst the first assessments remains preliminary due to implementation lags, the current NGEU data allows for a preliminary analysis. Indeed, a significant share of funds has already been disbursed (68% as of June 2026), and forward-looking indicators offer a first look into the effects of NGEU on recipients' economies.

Six years after the outbreak of the Covid-19 pandemic, and following the disbursement of a substantial share of NGEU funds, one would expect to observe the first signs of a structural improvement in economic performance. Yet the available evidence suggests that such a transformation has yet to materialise. Growth projections for 2026 and 2027 remain modest across the main beneficiary countries, with little indication of a lasting improvement in their growth potential.

Italy and Spain, the largest recipients of NGEU funds, illustrate these limitations. Spain is allocated approximately €79.8 billion in grants and €83.2 billion in loans, while Italy receives around €54.1 billion in grants and €99.1 billion in loans. Both economies experienced a strong rebound in 2021 and 2022, largely driven by post-pandemic reopening effects. However, this rebound has not translated into a sustained strengthening of their long-term economic performance.

TABLE 1.
Real GDP growth dynamics (%)

Year	Spain	Italy
2021	5.0%	6.5%
2022	5.8%	3.7%
2023	2.5%	0.9%
2024	2.4%	0.7%
2025 (f)	2.1%	0.6%
2026 (f)	2.3%	0.5%
2027 (f)	1.9%	0.5%

Source: IMF World Economic Outlook, April 2026

While Spain continues to outperform Italy in the short term, both economies are projected to converge towards modest growth rates. Italy's growth is expected to remain at around 0.5% in both 2026 and 2027, underscoring the absence of meaningful acceleration despite the scale of NGEU support.

1. European Commission. (2021). Recovery plan for Europe. European Commission. https://commission.europa.eu/strategy-and-policy/recovery-plan-europe_en

2. A Hamiltonian moment for Europe? Demystifying Next Generation EU and the EU's recovery funds. (2022, March 25). EUROPP. <https://blogs.lse.ac.uk/europpblog/2022/03/25/a-hamiltonian-moment-for-europe-demystifying-next-generation-eu-and-the-eus-recovery-funds/>

Productivity developments reinforce this assessment. In Spain, labour productivity increased only modestly – around 0.5–0.7% on an annual basis between 2019 and 2024 – while it remained broadly stagnant or slightly negative in Italy over the same period.

Spain has been comparatively effective in translating EU funds into short-term economic activity, supported by faster implementation and strong employment growth. Italy, by contrast, has faced more difficulties in disbursing its funds due to its complex multi-layered administrative framework. In neither case, however, is there yet convincing evidence that NGEU has fundamentally altered the underlying drivers of long-term growth.

More fundamentally, these results highlight a core weakness of the programme. Financial transfers, even at significant scale, cannot substitute for domestic reforms or compensate for weak administrative capacity, structural rigidities and an unfavourable business environment. Recent evidence, particularly in the case of Italy, suggests that a significant share of post-pandemic fiscal resources has been deployed towards temporary support measures rather than productivity-enhancing investments, thereby limiting their long-term impact on growth. The effectiveness of NGEU ultimately depends on national implementation capacity, the quality of investment, and the political willingness to undertake reforms.

1.3 Delayed absorption and reform delivery on the behalf of Member States.

Beyond the specific cases of Spain and Italy, the implementation of NGEU as a whole has been slower than initially envisaged. A recent analysis conducted by the European Parliament's Research Service³ estimates that up to €95 billion of available funds may ultimately remain unused, thus reflecting persistent absorption challenges across several Member States. As of today, approximately €360 billion⁴ in grants and €217 billion⁵ in loans have been disbursed. At a time when Europe faces pressing investment needs in competitiveness, artificial intelligence, defence and energy, such implementation delays represent a significant opportunity cost.

An interim assessment⁶ conducted by the European Court of Auditors (ECA) in 2024 identified several

factors behind these delays. While external shocks such as the inflation episode and supply-chain disruptions caused by Russia's invasion of Ukraine together with an excessively accommodative monetary policy have complicated implementation, many obstacles are of domestic origine. These obstacles include administrative capacity and delays linked to public procurement and state-aid procedures. However, the ECA highlights in particular that "the cause of these delays is not the rules themselves but rather underestimation of the time needed to apply them when selecting the measures to be included in the RRP's." In several cases, measures initially included in national plans proved difficult to complete within the RRF's timeframe.

Beyond the scope of NGEU, the ECA's analysis reveals a broader structural weakness within the Union. The current capacity of several national administrations to design, implement and sustain ambitious reforms appears increasingly constrained. Rather than exposing the shortcomings of the European framework alone, NGEU has highlighted the declining implementation capacity of a number of Member States. The slow pace of implementation suggests that governments underestimated both the administrative complexity and the political commitment required to deliver large-scale reforms. More broadly, the repeated postponement of necessary reforms raises questions as to whether European governments have fully internalised the scale and urgency of the challenges they face.

1.4 The mitigated results of NGEU raise uncomfortable political questions: that of repayment

From a European perspective, NGEU also raises important questions regarding fiscal burden-sharing. While loans remain national liabilities, the grant component is financed collectively through the EU budget⁷, effectively creating a system of partial fiscal transfers.

The question of long-term repayment remains only partially resolved at the political level. While the servicing of common debt is expected to rely on future EU budgets and proposed new own resources, the composition and adoption of those revenue sources remain subject to ongoing political agreement among the Member States and EU

3. Binder, E., Destin Bobková, B., Mileusnic, M., Monda, M., & Prinz, H. (n.d.). IN-DEPTH ANALYSIS. [https://www.europarl.europa.eu/RegData/etudes/IDAN/2025/765765/EPRS_IDA\(2025\)765765_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/IDAN/2025/765765/EPRS_IDA(2025)765765_EN.pdf)

4. European Commission. (2023). NextGenerationEU. Commission.europa.eu. https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/nextgenerationeu_en

5. *Ibid.*

6. Special report 13/2024: Absorption of funds from the Recovery and Resilience Facility. (2024). European Court of Auditors. <https://www.eca.europa.eu/en/publications?ref=sr-2024-13>

7. European Commission. (2023). NextGenerationEU. Commission.europa.eu. https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/nextgenerationeu_en

institutions. As a result, the financial legacy of NGEU may become a source of tension between Member States, particularly if the expected gains in growth and convergence fail to materialise.

The programme raises a more fundamental question: can financial solidarity, in the absence of deeper economic convergence and aligned national policy choices, deliver the economic transformation it was designed to achieve? The limitations of NGEU point to a broader problem: shared financial instruments cannot, by themselves, overcome diverging public finance trajectories and patterns of industrial specialisation.

The experience of NGEU suggests that European solidarity cannot compensate for the absence of domestic reforms. Common borrowing and financial transfers can facilitate investment, but they cannot substitute for national responsibility. The success of any European initiative ultimately depends on Member States' willingness and capacity to undertake the structural reforms needed to strengthen their own economies.

In the end, the reimbursement of common borrowing requires an extension of the European budget – the instrument for intra-European solidarity – due to the higher sovereign rate environment compared to the start of NGEU. However, in order to extend the European budget, one must first ask the question: are European Member States willing to do so?"⁸

2. Internal Divisions and Lack of Cooperation in the Face of External Economic Pressures

2.1 The weak response to American trade demands: a reflection of national divergences and differing industrial profiles

In June 2025⁹, President Trump, considering that the US was receiving the short end of the stick in terms of global trade – and in line with his campaign promises – threatened to impose up to a 30% tariff on a variety of imported EU goods.

Unlike the United States or China, the European Union does not pursue a single national economic interest. While trade policy is formally an exclusive

EU competence, industrial structures, export exposure and political incentives remain overwhelmingly national. As a result, trade negotiations inevitably become an aggregation of national preferences rather than the expression of a genuinely European economic strategy.

The European Union is comprised of economies with differing industrial profiles, each with their own specialisations and varying levels of exposure to foreign markets. These differences became particularly visible during the negotiations with the United States. Rather than pursuing a strategy of escalation, the Commission opted for a negotiated settlement that broadly reflected the preferences of several export-oriented Member States, anxious to avoid a prolonged trade conflict. Commission President von der Leyen agreed to meet President Trump in Scotland mid July of 2025.

The agreement ultimately reached on 19 May 2026 remained considerably closer to the initial American position than many observers had anticipated¹⁰. The US agreed to reduce its planned tariffs on EU goods to 15%, down from an average of 30%¹¹. The EU not only accepted the removal of tariffs on most US goods – thereby giving it nearly unimpeded access to EU markets – it also committed to purchase \$750 billion worth of US energy and invest an additional \$600 billion in US infrastructure.

When faced with American demands, European states proved unwilling to weaponise what may be the Union's greatest source of leverage: access to the world's largest affluent consumer market. With more than 450 million inhabitants and some of the highest purchasing power globally, the European market is essential for American technology giants such as Google, Apple, Meta, Amazon, and Microsoft. It is estimated that the US has a €180 billion digital services surplus with the EU¹². In theory, the EU could have used regulatory pressure or the threat of restricted market access as a bargaining tool in negotiations with Washington. Yet such measures were never seriously considered. Part of this restraint reflected concerns that a broader confrontation could jeopardise access to critical digital infrastructure and technological services upon which European economies and public administrations have become deeply dependent.

The EU's weak response is all more striking considering that the Union possesses a purpose-built instrument for exactly this scenario. The Anti-

8. J. de Larosière. European common debt : is this Europe's Hamiltonian moment? Eurofi regulatory update, March 2026.

9. Dlouhy, J. A., Woodhouse, S., & Nardelli, A. (2025, May 23). Trump Threatens EU, Smartphones as Tariff Rhetoric Escalates. Bloomberg.com; Bloomberg. <https://www.bloomberg.com/news/articles/2025-05-23/trump-threatens-a-50-tariff-on-eu-goods-starting-in-june>

10. Commission welcomes political agreement on implementation of EU-US trade deal. (2026). European Commission - European Commission. https://ec.europa.eu/commission/presscorner/detail/en/ip_26_1103

11. (2025). Vie-Publique.fr. <https://www.vie-publique.fr/en-bref/299692-accord-sur-les-droits-de-douane-entre-lue-et-les-etats-unis>

12. Bickenbach, F., Holger Görg, & Liu, W.-H. (2026). Services at the Core: The Missing Piece of Transatlantic Trade Talks? Intereconomics. https://www.intereconomics.eu/contents/year/2026/number/1/article/services-at-the-core-the-missing-piece-of-transatlantic-trade-talks.html?utm_source=chatgpt.com

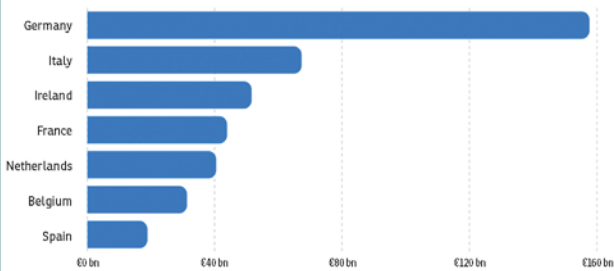
Coercion Instrument¹³, adopted in December 2023, grants the Union authority to impose countermeasures against any third country using economic pressure to interfere with EU policy choices – the precise situation the Trump tariffs represented. There were calls from within the European Parliament and certain Member States to activate it. The Commission chose to not activate it however, wary of escalating the dispute and facing pressure from export-dependent economies such as Germany or Italy, afraid of possible retaliation¹⁴.

The credibility of a deterrent depends entirely on the willingness to use it. By leaving the instrument dormant when circumstances most clearly warranted its activation, the EU signalled to partners and adversaries alike that its legal toolkit and its political will are not necessarily aligned. This stands in contrast to China's approach. Beijing demonstrated a far greater willingness to use its economic leverage during negotiations with Washington, notably through export restrictions on rare earths¹⁵ and other critical inputs. Whatever the ultimate outcome of the negotiations, China showed that economic interdependence can also be used as an instrument of geopolitical influence.

Part of the EU's unwillingness to provide a strong response to US demands stems from its security depends on its transatlantic ally. The US provides critical aid and infrastructure to Ukraine against Russia through intelligence¹⁶ and internet infrastructure thanks Elon Musk's Starlink satellites¹⁷. The EU's choice to outsource the defence of its home continent to the US exposes the Union to the whims and demands of its allies as well as limits geopolitical manoeuvrability.

Cracks quickly started to form in the European ranks, precisely due to the different industrial profiles of the Member States. This led them to pursue different objectives and outcomes from this deal, all in order to protect their own national industries. As shown in Chart 1, Germany and Italy are the largest European exporters of goods to the US, representing €157.7 billion and €67.3 billion respectively.

CHART 1.
EU goods exports to the United States by Country (2023)
Selected EU members states exporting goods to the US, based on Eurostat figures cited by Euronews.
In € billions



France, in contrast, only exports \$43 billion to the US despite being a larger economy than Italy. This data easily explains each party's position. These differences help explain the contrasting political positions adopted during the negotiations. Germany and Italy favoured a pragmatic and conciliatory settlement in order to minimise disruption to their export-oriented industries. France, by contrast, criticised the agreement as incompatible with European strategic autonomy and sovereignty. Ex Prime Minister François Bayrou openly criticised¹⁸ the deal and expressed his concerns to Commission President Von der Leyen. Critics also argued that the agreement disproportionately protected the interests of Germany's automotive and pharmaceutical industries.

The trade war was the opportunity for Member States to show and demonstrate the strength and credibility of the Union as an institution, but more importantly, as a political project. Instead, internal divergences and nationally-focused decision frameworks undermine the Union's ability to present a united front and to project power internationally. Instead, the negotiations exposed how divergent national interests continue to constrain Europe's ability to transform its economic weight into geopolitical influence.

The negotiations with the United States were not an isolated case. Similar divisions have characterised the Union's approach to other major trade negotiations, most notably the long-running Mercosur agreement.

13. The European Union's Anti-Coercion Instrument (Regulation (EU) 2023/2675) entered into force on 27 December 2023 to deter and respond to economic coercion by third countries. Although conceived partly in response to China's economic pressure on Lithuania in 2021, the mechanism had not yet been formally activated as of May 2026.

14. Corlin, P., & Tadeo, M. (2026, January 18). What is the EU's anti-coercion instrument, and how does it work? Euronews; euronews.com. <https://www.euronews.com/my-europe/2026/01/18/what-is-the-eus-anti-coercion-instrument-and-how-does-it-work>

15. Jackson, L., Lv, A., & Onstad, E. (2025, April 4). China hits back at US tariffs with rare earth export controls. Reuters. <https://www.reuters.com/world/china-hits-back-us-tariffs-with-rare-earth-export-controls-2025-04-04/>

16. Deprez, F., Miller, C., Foy, H., Fisher, L., & Hall, B. (2025, March 5). US cuts off intelligence sharing with Ukraine. @FinancialTimes; Financial Times. <https://www.ft.com/content/c58fcca-00c4-4fad-bc0a-0185b7415579>

17. SpaceX, USAID deliver 5,000 satellite internet terminals to Ukraine. (2026, June 4). Euronews; euronews.com. <https://www.euronews.com/next/2022/04/06/us-ukraine-starlink>

18. Monde, L. (2025, July 28). Droits de douane : François Bayrou dénonce une "soumission" après l'accord commercial entre Donald Trump et Ursula von der Leyen. Le Monde.fr; Le Monde. https://www.lemonde.fr/economie/article/2025/07/28/droits-de-douane-l-accord-entre-les-etats-unis-et-l-ue-apporte-une-stabilite-temporaire-mais-est-desequilibre-affirme-le-ministre-charge-de-l-europe_6624820_3234.html

2.2 The Mercosur deadlock: an example of Franco-German disagreement

The Mercosur deal deadlock is another example that highlights the growing rift between France and Germany. Both countries hold differing positions with regards to the agreement which can also trace its origin to diverging economic realities.

Germany's support for the agreement follows a clear strategic logic. As Europe's foremost industrial and export-dependent economy, Berlin views South American markets as a valuable outlet for its automotive, chemical, and machinery sectors. It is also an opportunity for Germany to diversify its supply chains.

In contrast, the Mercosur negotiations **exposed longstanding weaknesses within French agriculture that successive governments have struggled or refused to address**. French farms remain relatively small compared with large agricultural exporters outside Europe and are generally less consolidated than those in some highly competitive agricultural economies such as Denmark and the Netherlands¹⁹. Economies of scale achieved in several neighbouring countries have contributed to France's relative loss of competitiveness. French agriculture is also burdened by high labour and production costs, dense administrative regulation, and slower modernisation than in many of its international competitors. In contrast, South-American producers benefit from lower costs and are not subject to the same stringent environmental regulations as European producers are. This explains why many farmers viewed the agreement not simply as a trade deal, but as a direct threat to the viability of their economic model.

The result is that the Union's two anchor states approach the same negotiating table with genuinely incompatible interests. This is partly explained by two decades of diverging economic trajectories have left them with fundamentally different stakes in the global trading order.

The Mercosur negotiations illustrate a broader structural challenge facing the European Union. As domestic political pressures intensified, national governments increasingly prioritised short-term electoral considerations over longer-term European strategic objectives. While France emphasised the protection of its agricultural sector, Germany focused on securing export opportunities for its manufacturing industry. Both positions reflected legitimate national interests, yet together they made the emergence of a common European trade

strategy considerably more difficult.

More fundamentally, the Mercosur debate demonstrates that trade policy cannot be dissociated from the underlying economic structures of Member States. Countries that specialise in different sectors inevitably perceive the costs and benefits of trade agreements differently. In the absence of greater economic convergence, these divergent interests are likely to persist, making consensus increasingly difficult to achieve.

The Mercosur deadlock therefore illustrates a broader trend: whenever domestic political constraints become sufficiently important, European cooperation tends to give way to nationally driven decision-making. Such dynamics may be politically rational at the national level, but they weaken trust between Member States and make the emergence of a genuinely common strategic vision increasingly elusive.

Europe's challenge is therefore not the absence of economic power, but the absence of a sufficiently convergent economic base from which common strategic interests can emerge. The Union already possesses one of the world's largest markets and an increasingly sophisticated economic toolbox. Yet European strategic cohesion cannot simply be proclaimed; it must be built upon greater economic convergence among its principal Member States. As long as national economies face different constraints and pursue different priorities, national interests will continue to outweigh European ones, preventing the Union from fully translating its economic power into geopolitical influence.

3. Energy: National Choices and Collective Vulnerability²⁰

3.1 The internal electricity market works – even if further integration is still required

The progressive coupling of national electricity markets is one of the most tangible successes of European integration. Market coupling allows electricity to flow towards the highest-value use across borders, aligning prices between bidding zones and allowing Member States to draw on one another's generation rather than each maintaining costly reserves in isolation. According to ACER (Agency for the Cooperation of Energy Regulators),

19. The decline of French agriculture in Europe. (2026). Robert-Schuman.eu. <https://www.robert-schuman.eu/en/questions-d-europe/822-le-declassement-europeen-de-l-agriculture-francaise>

20. The authors thank Jean-Marie Andrès for his insightful comments on this section.

the welfare gains delivered by cross-border electricity trade amounted to roughly €34 billion in 2021 alone. Estimates by the Regulatory Assistance Project put the annual benefit of fully integrating European electricity markets at some €43 billion by 2030.

Indeed. Wind, solar, hydro and demand patterns do not peak at the same time across the continent. Iberian solar, Nordic and Alpine hydro, French nuclear and North Sea wind are complementary rather than competing assets. With sufficient interconnection, hours of low renewable output and high demand in one country can be covered by cheap surplus generation in another. Interconnection is, in this sense, the cheapest form of storage Europe possesses, and the cheapest form of security of supply. It is also the mechanism by which the renewable investments made by any one Member State generate returns for all of them.

The problem is that Europe has not built enough of it. The European Council set a target for Member States to reach an electricity interconnection level of at least 10% of installed generation capacity by 2020, raised to 15% by 2030 under the Governance Regulation of 2018. At the beginning of 2026, sixteen Member States had already exceeded the 2030 target. Nine remained below the threshold that was supposed to have been met six years earlier. The internal energy market is, in physical terms, still incomplete – and the gap is concentrated precisely in the regions where integration would deliver the most.

The Iberian Peninsula remains an electricity island, and the reasons for it are not purely technical

Spain is the clearest case. Its interconnection ratio stood at 3.62% in 2025 according to Commission calculations, the lowest in continental Europe and barely a third of the target Spain was meant to have met in 2020. Exchange capacity between the Iberian Peninsula and France is around 2.8 GW, for a Spanish system with more than 130 GW of installed capacity. Spain and Portugal have built large renewable fleets that they cannot fully export, while the rest of Europe cannot access cheap Iberian electricity at scale. Both sides lose.

The principal remedy, the Bay of Biscay interconnection, illustrates the difficulty. This partially submarine link between Gatika and Cubnezais, developed jointly by Red Eléctrica and RTE, will raise exchange capacity from 2.8 GW to 5 GW. It is a Project of Common Interest, co-funded by the Connecting Europe Facility to the tune of €578 million since 2018 and backed by a €1.6 billion European Investment Bank loan signed in June

2025. Its cost has been reassessed at €2.85 billion with a further €250 million provisioned for risk. It is expected to become operational in 2028 – some fifteen years after the project was first identified as a European priority.

Spain has for years accused France of slowing the pace. The accusation is not without foundation: France has a commercial interest in limiting the flow of cheap Iberian solar into a market where its nuclear fleet is the price-setting incumbent, and Paris has consistently prioritised interconnection projects to its north and east over those across the Pyrenees.

But the French objection has always had a second component. A synchronous grid is only as stable as its least well-managed constituent part. Interconnection does not merely transmit electricity, it also transmits disturbances. On 28 April 2025, mainland Spain and Portugal suffered the most severe blackout in Europe in over two decades, and the Iberian system lost synchronism with the continental grid within seconds.

The final report of the ENTSO-E (European Network of Transmission System Operators for Electricity) expert panel, published in March 2026 is unambiguous on where responsibility lies. As the chair of the ENTSO-E board put it, the problem was not renewable energy but voltage control. The panel identified deficiencies in voltage and reactive power management in the Spanish system, and an absence of real-time monitoring. It also noted that distribution system operators had no visibility over output from generators below 1 MW, and that the investigation itself was hampered by incomplete data.

Two conclusions follow. The first is that France's stated concern about importing instability was not a pretext invented to protect its market position: grid management capability genuinely varies between Member States, and the 2025 blackout demonstrated the consequences. The second is that this is an argument for cooperation, not for isolation. Among the factors the panel identified were differences in voltage regulation practices between systems. ENTSO-E has committed to developing a guideline of good practice on voltage support, and Spain has since revised its own operational procedures to allow renewable generation to contribute to voltage control, a reform completed in March 2026.

This is precisely where European action would be both legitimate and useful. Harmonised technical standards for voltage and reactive power management, common real-time monitoring obligations, mandatory data-sharing between transmission and distribution operators, and a

genuine European framework for grid operating practice would raise the floor across the Union and remove the most defensible objection to deeper interconnection. None of this requires transferring the choice of energy mix to Brussels, and none of it amounts to federalising energy policy. It requires Member States to accept that if their grids are to be joined, the standards to which those grids are operated cannot remain a purely national matter.

3.2 Individual choices that need to be owned up to

The choice of national energy mix remains a core sovereign competency of Member States, as enshrined in Article 194 of the Treaty on the Functioning of the European Union. Yet there are a number of specific instances where national decisions bear consequences for the Union as a whole in terms of security and climate credibility.

The first example in that respect is Germany's energy trajectory over the past two decades. Following the Fukushima disaster in 2011, the German government made the sovereign decision to accelerate the phase-out of its nuclear fleet, removing a stable, low-carbon and dispatchable source of electricity from its energy mix. To compensate for the intermittency inherent in the renewables it championed, Germany turned to gas-fired power plants as a balancing mechanism. This choice was made on domestic political grounds, and it was entirely within Germany's legal rights to make it. But its consequences were felt beyond Germany's borders.

The immediate consequences of Germany's reliance on gas are geopolitical. Not only was Germany strongly dependent on gas, it was especially dependent on Russian gas. This rendered Germany particularly vulnerable to political pressure from Moscow, and by extension, inhibited the Union's collective response to Russian foreign policy. An article by the Guardian dating from 2022 showed how Germany's gas dependency had been used as a tool of political and economic coercion by Russia. When Russia invaded Ukraine in 2022, the depth of Germany's exposure translated into a hesitancy that complicated the EU's ability to respond with the cohesion and speed that the moment demanded. Since then, Germany has made significant efforts to diversify its gas supply, but in doing so, it has to a considerable degree substituted Russian liquefied natural gas for American LNG. Given the current volatility in transatlantic relations, the question of whether this represents genuine strategic autonomy or merely a change of dependency is a legitimate one.

Another consequence is the climate issue. Germany's reliance on gas as a bridging fuel has measurably diminished the environmental benefits of its considerable investment in renewables. The greenhouse gas emissions profile of the German electricity sector remains substantially higher than that of France, which retained its nuclear capacity. France emits on average 50 gCO₂e/kWh for its energy production as opposed to Germany's 329 gCO₂e/kWh. This is not an argument for one energy model over another; both approaches carry legitimate costs and risks. It is, however, a reminder that the speed and manner of the transition matter, and that decisions made with primarily domestic considerations in mind can have lasting consequences for the Union's collective credibility on climate.

Italy demonstrates that this is a pattern rather than a German peculiarity

The second example is Italy, and it matters because it shows that the problem is structural rather than attributable to any single government. Italy abandoned nuclear power following a referendum held in 1987, in the aftermath of Chernobyl, and shut its last reactors shortly afterwards. As with Germany, the decision was democratically taken and legally unimpeachable. As with Germany, the gap was filled by gas.

The results are visible in every relevant indicator. Natural gas fuels roughly 44% of Italian electricity generation, close to three times the EU average, and more than 90% of the gas Italy consumes is imported. Italy's overall energy import dependency stands at approximately 75%, the highest of any major European economy – against roughly 68% for Spain, 66% for Germany and 45% for France. Having reduced its exposure to Russia after 2022, Italy has concentrated its supply on Algeria, which provided around a third of its gas imports in 2024, and Azerbaijan. The vulnerability has been relocated rather than removed.

Because gas is so often the marginal generator setting the wholesale price, Italian industry pays for this structure directly. Over the first four months of 2025, Italian wholesale electricity prices averaged around €136/MWh, against approximately €113 in Germany, €95 in France and €81 in Spain. An Italian manufacturer competes against a Spanish one while paying some two-thirds more for electricity. This is not a failure of the internal market; it is the internal market faithfully transmitting the consequences of a national decision. And when Italian competitiveness is invoked in Brussels as grounds for softening European climate instruments, the pattern is explicit rather than incidental: Italy led

a ten-Member-State push for weaker EU ETS²¹ (European Union Emissions Trading System) rules ahead of the July 2026 review, after Prime Minister Meloni had called in February for the system's outright suspension, and Rome joined Berlin in December 2025 in a formal declaration seeking to weaken the 2035 combustion-engine phase-out on behalf of its automotive sector. In each case, the Union is being asked to absorb the cost of a choice – the energy mix that makes Italian electricity so gas-price-sensitive in the first place – that it did not make.

The pattern is consistent across both cases. Large Member States have made energy mix decisions on domestic political grounds, entirely within their competence, and the Union has absorbed the consequences: weakened leverage against Russia, degraded climate credibility, elevated industrial energy costs, and a persistent political constituency for diluting common instruments. Article 194 allocates the decision nationally. It allocates none of the consequences.

3.3 When common instruments start to take effect, Member States dilute them

The third dimension of the problem is the most recent and, arguably, the most damaging, because it concerns the instruments the Union has actually built.

The strategic case for electrification is not only environmental. Electricity is the only major energy vector Europe can produce domestically at scale. Every barrel of oil and every cubic metre of gas that Europe does not consume is a unit of leverage removed from possible adversaries. Electrification is an industrial and security policy that happens also to be a climate policy. The Commission has recognised this, proposing in July 2026 an electrification target of 46% by 2040, against roughly 23% today. Meeting it would do more for European strategic autonomy than most of what is currently discussed under that heading.

The record of the past year runs in the opposite direction. In March 2023, the Union legislated that new cars and vans sold from 2035 would have to emit no CO₂ – a 100% reduction against 2021 levels. The measure was demanding by design: its purpose was to give European manufacturers a fixed, credible horizon around which to organise investment. On 16 December 2025, following sustained pressure from Germany, Italy and the European automotive industry, the Commission proposed replacing the 100% requirement with a 90% one, with the residual to be offset through EU-

produced low-carbon steel, e-fuels and biofuels. Plug-in hybrids, range extenders and conventional engines may continue to be sold beyond 2035. The Commission's stated rationale was technological neutrality and flexibility. The effect is that a deadline which had been fixed for twelve years became negotiable at the point at which it began to constrain behaviour.

Carbon pricing has followed the same trajectory. ETS2, extending emissions trading to buildings and road transport, was due to begin in 2027. In November 2025, during Environment Council negotiations on the 2040 climate target, a group of Member States secured its postponement to 2028, a delay confirmed in trilogue on 10 December. The same negotiation raised the permissible contribution of international carbon credits to the 2040 target from the 3% the Commission had proposed to 5%. Then, on 17 July 2026, the Commission published its review of the ETS itself. The proposal slows the rate at which the emissions cap declines; extends free allocation and carbon leakage protection for energy-intensive industries through 2040; reduces the annual benchmark tightening rate from 2.5% to 2% from 2030; adds, through a separate fast-tracked instrument, some €6 billion in additional free allowances for the 2026–2030 period; and halves the rate at which the Market Stability Reserve absorbs surplus allowances, from 24% to 12%.

Not all of this is retreat. From 2031, free allocation becomes conditional: 80% of a firm's allowances are released on approval of a verified decarbonisation investment plan, and the remaining 20% only once the resulting emissions reductions are demonstrated. The Commission has also proposed an Industrial Decarbonisation Bank with a €100 billion envelope, and – significantly – a requirement that at least half of future ETS revenue be ring-fenced for industrial decarbonisation. That last measure is a direct response to Member State behaviour. The ETS has raised over €270 billion since 2013, of which roughly three quarters flowed to national treasuries, and by the Commission's own accounting only around 5% has gone to industrial decarbonisation in sectors such as steel, chemicals and fertilisers. Member States treated a decarbonisation instrument as a revenue stream. The Commission is now obliged to legislate against that behaviour, which is itself an admission of how the system has been used.

The underlying dynamic will be familiar from the discussion of Next Generation EU. There, common borrowing was intended to finance transformation, and instead too often substituted for the domestic

21. The EU ETS is the European Union's cap-and-trade system for greenhouse gas emissions, under which regulated firms must hold tradable allowances covering their emissions, with the overall emissions cap decreasing over time to drive decarbonization.

reforms it was meant to accompany – an accommodating framework read as permission to defer rather than as an opportunity to reform at lower cost. The same mechanism is now operating on climate instruments. Each softening is individually defensible: European carmakers face genuine Chinese competition, energy-intensive industry faces genuine cost disadvantages, and households in lower-income Member States face genuine affordability constraints. But the cumulative signal to every regulated actor is that European deadlines move when they become expensive. That expectation is corrosive in a way no single amendment is, because it prices in future concessions and therefore reduces the incentive to invest ahead of them. The carbon price works: the Commission's own analysis attributes measurable abatement to it. Its efficacy is precisely why it is politically contested, and precisely what is diminished each time it is loosened.

A competence structure that guarantees externalities

The pattern across this section is not one of Member States behaving badly, though at times they have. It is a structural misalignment between how energy and emission decisions are taken in the Union and how their consequences are distributed.

Article 194 reserves the determination of the national energy mix to Member States, and there is a coherent political logic to that reservation. But nothing in the Treaty reserves the consequences. When Germany replaced nuclear with gas, the Union inherited the strategic exposure to Moscow. When Italy did the same, the Union inherited an industrial cost base that is now routinely invoked as grounds for diluting common instruments. When Spain's grid management proved inadequate to the generation mix it had built, the whole synchronous area was exposed within seconds. When France protected its market position by slowing interconnection across the Pyrenees, the Union forwent gains that ACER measures in tens of billions annually. And when European deadlines began to constrain national industries, those same Member States sought and obtained their relaxation.

The Union has built genuinely valuable common instruments in this domain: a coupled electricity market, a functioning carbon price, a body of infrastructure planning. What it has not built is any mechanism that obliges Member States to bear the collective consequences of their sovereign choices, or that prevents them from unwinding shared commitments the moment those commitments become costly. The remedy is not to federalise energy policy, which is neither achievable nor

obviously desirable. It is more modest and more difficult: to harmonise the standards to which interconnected systems are operated, to make common instruments genuinely resistant to renegotiation, and to accept that a sovereignty exercised without regard to its externalities is not sovereignty at the European level but its opposite.

The same tension, expressed through a different competence, structures European defence.

4. Fragmented Defence Architecture: When National Thinking Frameworks Win Over a Common European Vision

President Donald Trump has fundamentally reshaped the rules of global geopolitics. Nicolas Baverez²² argues in his opinion piece that the President's destabilisation of NATO, his threats to seize Greenland militarily, his strategic meanderings in Iran, and the broader dismissive, condescending tone adopted by the United States toward its long-standing allies have finally awakened the Old Continent. Yet despite the urgent necessity for Europe to unite, increase its independence vis-à-vis the United States, European countries remain more fragmented than ever. Diverging economic conditions and the inability of some Member States to adhere to commonly agreed upon fiscal commitments have rendered the alignment of interests particularly difficult.

4.1 Defence remains a national competency by design

Unlike trade, where the Treaties conferred the Union genuine supranational authority, defence was never transferred to Brussels in the same way. Under Article 42 of the Treaty on European Union, Member States retain primary responsibility for defence planning and capability development²³. The European Union is not a federal state, and consequently does not hold the regal prerogatives that a genuine common defence policy would require: the power to tax for defence purposes, to raise or command armed forces, or to bind Member States to a single procurement decision.

The practical consequence is that there is no common EU defence budget. Procurement choices, spending levels and equipment selection remain entirely national. According to the European Parliament's Research Service, EU Member States do not allocate defence resources through a single,

22. Baverez, N. "Il était encore une fois l'Union Européenne", Le Point, April 2026.

23. Clapp, S. (2026, June). EU joint defence capability development. EPRS, European Parliament.

centralised framework: budgets are determined and implemented by 27 national governments, generating fragmentation, duplication of capabilities, and lower efficiency in spending²⁴. The scale of the resulting diversity is considerable: EU armed forces collectively field more than 150 different weapons systems, compared with a few dozen in the United States, depending on the definition and categorisation used²⁵.

The current European defence industrial base suffers from a high degree of segmentation, with multiple competing national programs. For example, France continues to produce the Dassault Rafale independently, whilst Germany, Spain and Italy collaborate on the Eurofighter Typhoon. In addition, there are 12 main battle tank models in Europe²⁶, which illustrates the lack of standardisation in defence equipment.

This segmentation runs through the industry as much as through the equipment itself. Europe has no shortage of capable manufacturers such as Rheinmetall, Dassault, Thales, Leonardo. However, each remains geographically anchored to its own country, producing a wide range of competing national products rather than a small number of shared, continent-wide platforms. Certain segments have partially consolidated across borders: Airbus has become a genuinely multinational aerospace group, and MBDA²⁷ now integrates missile development across several countries. But this remains the exception rather than the rule. Much of the industry stays organised along national lines²⁸. The contrast with the United States is striking: where EU armed forces operate over 150 different weapons systems, the US relies on a much smaller, standardised set of platforms, which simplifies logistics, training and operational coordination²⁹.

As a consequence, this diversity of weapons systems creates real interoperability challenges and complicates joint operations, logistics, maintenance and training. It also limits economies of scale and weakens Europe's collective bargaining power as a buyer, contributing to higher unit costs across the board³⁰.

Because defence planning, procurement and industrial policy remain overwhelmingly national, Member States naturally continue to define their

security priorities through national rather than European lenses.

4.2 The consequences: Europe's strategic dependence on the United States

The fragmentation of the defence industrial base along national lines also has a further unintended consequence, that of dependency on the US

The European Parliamentary Research Service (EPRS) is specific about where the gaps between EU and US defence industries lie. Despite having a broad industrial base in terms of capability, the EU currently offers no domestic solution in several critical segments. These are medium-altitude long-endurance drones (MALE UAVs), tactical ballistic missiles, and long-range artillery rockets³¹. European air forces field capable "4.5-generation" platforms such as the Eurofighter Typhoon, the Rafale or the Gripen, but none reach full fifth-generation status, which is why a growing number of Member States have turned to the American F-35 instead³².

In 2025, thirteen European countries have acquired F-35 fighter jets, an aircraft whose operational autonomy remains dependent on US-controlled systems. While this dependence is partly operational and logistical rather than absolute, it nonetheless raises significant questions regarding long-term strategic autonomy and decision-making independence. More broadly, American technological supremacy remains close to total in key enablers of modern warfare in the field of intelligence, surveillance and reconnaissance, especially in space-based capabilities.

According to the EPRS, with sufficient political commitment and investment, Europe could develop most of these strategic enablers within roughly five years. Space-based intelligence, surveillance and reconnaissance is the exception, requiring five to ten years. The US operates 246 military satellites against 49 for European NATO members combined. The previous example underlines how important the gap is between the EU and the US is. This disparity is compounded by Europe's limited launch capacity and the absence of a continental spaceport³³.

This gap partly explains why according to recent

24. *Ibid.*

25. *Ibid.*

26. IFRI STUDIES Main Battle Tank: obsolescence or renaissance? Léo PÉRIA-PEIGNÉ SECURITY STUDIES CENTER No. 130 FOCUS STRATÉGIQUE. (2025). https://www.ifri.org/sites/default/files/2026-02/ifri_peria-peigne_main_battle_tank_2025.pdf

27. French Defence Industrial Company

28. Clapp, S. (2026, June). EU joint defence capability development. EPRS, European Parliament.

29. Clapp, S. (2026, June). EU joint defence capability development. EPRS, European Parliament.

30. Clapp, S. (2026, June). EU joint defence capability development. EPRS, European Parliament.

31. Clapp, S. (2026, June). EU joint defence capability development. EPRS, European Parliament.

32. Clapp, S. (2026, June). EU joint defence capability development. EPRS, European Parliament.

33. EPRS, op. cit., p.4.

data, around 60% of European defence imports have been sourced from the United States³⁴. Despite a growing the growing rhetoric of seeking strategic autonomy amongst certain Member States, EU countries are simply unable to distance themselves from the US, who remains a keystone in the defense strategy of many Member States.

Against this backdrop, the United States has started to reduce its military presence on European soil. On 26 May 2026, Der Spiegel revealed that a Pentagon envoy, Alexander Velez-Green, had briefed senior NATO officials in Brussels on plans to significantly cut the military assets Washington makes available to the alliance in a crisis³⁵. The cuts were significant: fighter jets available to NATO would fall by a third, strategic bombers would be halved, fewer destroyers would be set aside for European contingencies, and most strikingly, zero submarines and no reconnaissance drones would be provided at all, leaving European states to supply this hardware themselves³⁶. The briefing came alongside the withdrawal of roughly 5,000 US troops from Europe and the cancellation of a planned armoured brigade rotation to Poland. This constitutes the most substantial revision of American defence doctrine on the European continent since the end of the Cold War³⁷.

Washington has given two main reasons for its decision. European allies, many only now approaching the spending targets agreed at the 2025 Hague Summit, are told to convert new budgets into real capability rather than lean indefinitely on American hardware. At the same time, Pentagon planning is visibly reorienting toward a potential confrontation with China in the Indo-Pacific, where submarines, long-range bombers and carrier groups are the priority. US Secretary of State Marco Rubio made the shift explicit at a NATO foreign ministers' meeting in late May 2026, stating that fewer American troops would eventually be based in Europe than has historically been the case³⁸.

The matter of fact is that the EU is dependant on the US, both for military equipment, but also operational capacity. This makes the old continent vulnerable to the whims and changing interests of its historic ally. The shifting stance of the US regarding NATO is a case in point of why strategic autonomy is a must, that the EU should pursue now rather than later.

4.3 Europe has developed ad hoc financial instruments to promote a European approach in defence industry and procurement

New financial and institutional mechanisms have been established to foster greater coordination between member states. The European Defence Fund (EDF) is such an example. It is a programme with a budget of around €8 billion for 2021–2027, with €2.4 billion having already been disbursed. Funding is taken directly from the EU budget. The European Defence Fund operates by providing grants to multinational consortia of companies and research organisations engaged in defence research and capability development. The selected projects target priority areas such as AI, cyber, and naval systems. The initiative aims at fostering innovation and promote cross-border cooperation, thereby reducing fragmentation in the European defence industrial base. Most of the projects funded are part of multinational consortia or multinational projects.

Beyond collaborative research, the Union has also sought to strengthen Europe's defence innovation ecosystem. Following the commitments made in the 2022 Versailles Declaration and reaffirmed in the Strategic Compass, the Commission has progressively developed initiatives to accelerate the development and commercialisation of emerging defence technologies. Particular emphasis has been placed on artificial intelligence, quantum technologies, cyber and space capabilities, while encouraging greater participation by start-ups and SMEs. Alongside the European Defence Innovation Scheme and the European Defence Agency's Hub for European Defence Innovation, the Commission proposed the AGILE pilot programme in 2026 to accelerate the transition of innovative technologies from research to operational deployment. Together, these initiatives seek to reduce Europe's technological dependencies and ensure that the Union is able not only to finance defence capabilities, but also to generate them domestically.

The clearest sign that Brussels is moving beyond research funding and into the harder territory of joint procurement is the European Defence Industry Programme (EDIP). With a budget of €1.5 billion, EDIP is the first EU instrument explicitly designed to reach the downstream stages of the capability cycle, namely procurement and production. Thus far, a significant amount of its funding effort was

34. Global arms flows jump nearly 10 per cent as European demand soars. (2026, March 9). SIPRI.

35. US plans significant reduction of military provisions to NATO, Spiegel reports. (2026, May 26). Reuters, cited in Defense News. <https://www.defensenews.com/global/europe/2026/05/26/report-us-to-cut-strategic-bombers-and-warships-available-to-nato-in-a-crisis/>

36. *Ibid.*

37. US NATO Force Cuts: Implications for European Security. (2026). GLOBSEC. <https://www.globsec.org/what-we-do/commentaries/hollowing-out-shield-us-strategic-defence-equipment-reductions-and>

38. GLOBSEC, op. cit.

focused on research and development³⁹. EDIP ties funding to origin-of-content rules and establishes European Defence Projects of Common Interest, cooperative industrial initiatives intended to support capabilities the Union considers essential to its collective security⁴⁰. In March 2026, the Commission approved a €1.5 billion EDIP work programme: more than €700 million to expand production of missiles, ammunition and counter-drone systems, €260 million earmarked for rebuilding Ukraine's own defence industrial base, €325 million for collaborative European projects, and €240 million specifically to fund joint procurement by Member States and Norway, with a further €100 million reserved for defence start-ups and SMEs⁴¹.

The EU also puts funds directly at the disposition of Member States. The Security Action for Europe (SAFE) for example, is a much larger EU financial instrument providing up to €150 billion in support to Member States for defence investments. It offers long-term, low-cost loans to countries that submit national plans and typically engage in joint procurement of defence equipment with other EU partners, in order to reduce fragmentation. The initiative is funded through EU-level borrowing, with the European Commission issuing EU bonds on capital markets. The loans have a maturity of up to 45 years and are to be disbursed over the 2025–2030 period. It is important to note that SAFE works as an opt-in program. Consequently, countries like Italy with higher borrowing costs than that of the EU, chose to participate because the program represents an advantageous financing opportunity. For countries like Germany that have access to lower rates than the EU, they simply choose to opt out. As a result, cooperation remains limited and defence development capabilities largely follow national lines, which may limit the overall impact of the measure.

The International Monetary Fund (IMF) has specifically called for joint public procurement, warning European countries of the risks of pursuing rearmament independently. The IMF argues that European-level procurement is the most viable path to achieve Europe's strategic objectives, enabling capabilities that would be difficult, if not impossible, to attain individually. Common procurement would also lower financing costs, reduce reliance on imported goods, and could even boost European

GDP by 0.9%, should countries increase their defence spending by 1.3% of GDP by 2030.

As in the case of NGEU, the European Union has progressively developed an increasingly sophisticated financial toolbox to encourage cooperation. Yet these instruments remain incentives rather than substitutes for political coordination. Because defence planning and procurement remain national competences, European funding cannot by itself create a genuine European defence market.

On 8–9 June 2026, at the ILA Berlin air show, Chancellor Merz and President Macron jointly confirmed the end of FCAS (Future Combat Air System), the flagship Franco-German-Spanish programme for a sixth-generation fighter jet⁴². Nine years after its 2017 launch, and with an estimated €100 billion in projected costs, the programme had produced no prototype and no flying demonstrator. The cause was primarily managerial: an unresolved dispute between Dassault Aviation, which sought as much as 80% of the workshare on the core fighter, and Airbus, which represented both German and Spanish industrial interests and refused to accept a subordinate role⁴³. A German-led mediation process launched after a Macron-Merz dinner in Brussels in March 2026 concluded in April that a jointly built crewed fighter was no longer feasible. Germany's response, formalised the same week in a new national aviation strategy, was to commit to keeping Airbus at the centre of any future combat aircraft programme, while leaving the door open to joining the rival UK-Italy-Japan Global Combat Air Programme instead.

Barely two weeks later, however, the two governments moved to show that Franco-German defence cooperation had not collapsed along with FCAS. On 22 June 2026, Paris and Berlin agreed that Germany would acquire a 40% stake in KNDS, the Franco-German land-systems group behind the Leclerc and Leopard tanks, matching a reduced French stake of 40% (down from 50%), with the remaining 20% floated to institutional investors ahead of a dual Paris-Frankfurt listing⁴⁴. In their joint statement, the two governments framed the deal as consolidating their shared sovereignty over European land-systems manufacturing, rather than merely settling a corporate ownership dispute⁴⁵. Defence Minister Boris Pistorius called KNDS indispensable to the operational readiness of Germany's land forces.

39. EPRS, *op. cit.*, pp.7–8.

40. *Ibid.*, p.7.

41. *Ibid.*, p.7.

42. Germany, France abandon joint FCAS fighter after industry deadlock. (2026, June 8). Aerotime; Germany Kills €100 Billion FCAS Fighter at ILA Berlin. (2026, June 10). TechTimes.

43. *Ibid.*

44. France and Germany commit to equal shareholding in KNDS as potential IPO nears. (2026, June 22). Breaking Defense; Tank maker KNDS plans stock market listing, Germany to buy 40% stake. (2026, June 24). Defense News.

45. Breaking Defense, *op. cit.*

A similar dynamic is visible in the space sector. In October 2025, Airbus, Thales and Leonardo signed a memorandum of understanding to merge their satellite and space-systems businesses into a single pan-European space champion, aiming to end years of the three companies competing against one another while SpaceX's dominance grew⁴⁶. The European Commissioner for Defence and Space, Andrius Kubilius, has since publicly called on the EU's 27 Member States to work together toward genuine space independence, framing Europe's historically fragmented approach as a self-inflicted handicap⁴⁷.

None of this amounts to the governance structure a genuine common defence policy would require. But it does suggest that, even where flagship programmes fail publicly and expensively, the underlying political will to cooperate has not disappeared.

On 2 March 2026, in a speech delivered at the Île Longue submarine base in Brittany, President Macron announced France's new policy of "dissuasion avancée" or "advanced deterrence", describing it as an evolution of French nuclear doctrine. President Macron expanded on the concept of "les intérêts vitaux de la France" or "France's vital interests", to which he gave a European dimension⁴⁸. The idea itself is not new. Indeed, French presidents since François Mitterrand have periodically gestured toward it, and Macron himself first raised it in a 2020 speech.

Concretely, but this announcement went further, offering concrete steps: inviting willing European partners to take part in French strategic-deterrence exercises, envisaging the occasional deployment of French strategic air assets on allied territory, and opening the door to allied conventional forces supporting French nuclear-deterrence activities⁴⁹. Germany, Macron said, would be a key partner in this effort.

The French President did lay out some limitations to this new doctrine. There will be no shared decision-making regarding nuclear weapons, and no sharing of the definition of France's vital interests. Both remain the President of the Republic's alone⁵⁰. What Emmanuel Macron offered was signalling and presence.

By late May 2026, nine countries had responded favourably: the United Kingdom, Germany, Poland,

the Netherlands, Belgium, Greece, Sweden and Denmark, joined by Norway on the 27th of May⁵¹.

The initiative is explicitly presented as an extra guarantee, rather than a replacement of NATO deterrence. As the French Ministry of the Armed Forces has put it, the European dimension of French nuclear deterrence cannot replace NATO's extended deterrence⁵². In practice, the new "European dimension" of France's vital interests changes nothing about ownership and use of nuclear weapons, nor about Europe's continued reliance on the American nuclear guarantee delivered through NATO.

4.4 Despite good intentions, European defence cooperation still falls short

4.4.1 Diverging fiscal capacities limit a common rearmament effort

Germany's rearmament highlights one of the structural constraints facing European defence integration: Member States do not possess the same fiscal capacity to finance the unprecedented military effort now required. While the deterioration of Europe's security environment has generated a broad political consensus on the need to strengthen defence capabilities, the ability to translate this consensus into sustained investment varies considerably across the Union.

The scale of the challenge is substantial. Over the past three years, defence expenditure across the EU-27 has increased by approximately 40–50% in nominal terms, reaching around €381 billion annually in 2025. At the NATO Summit held in The Hague in 2025, Allies further committed to increasing defence-related expenditure to 5% of GDP by 2035, including at least 3.5% dedicated to core military capabilities and 1.5% to broader security and resilience objectives. Meeting this commitment would require an additional effort estimated at around €250 billion per year for the European Allies.

Yet this common objective masks fundamentally different national budgetary realities. Germany, benefiting from decades of fiscal discipline and comparatively strong public finances, enjoys significantly greater room for manoeuvre than most of its European partners. Under Chancellor

46. Forming a Pan-European Space Champion. (2025, October 23). GAM. <https://www.gam.com/en/our-thinking/european-equities-blog/forming-a-pan-european-space-champion>

47. Space defence: How is the EU boosting its military space capabilities? (2026, April 7). Euronews.

48. Discours du Président sur la dissuasion nucléaire. (2026, March 2). France Diplomatie. <https://uk.diplomatie.gouv.fr/fr/discours-du-president-sur-la-dissuasion-nucleaire>

49. *Ibid.*

50. *Ibid.*

51. Dissuasion nucléaire : quelle doctrine française ? (2026, May 28). Toutedurope.eu.

52. Toutedurope.eu, op. cit.

Friedrich Merz, Berlin is expected to mobilise an additional €500 billion over the next twelve years for defence, making Germany by far the largest contributor to Europe's rearmament effort. In 2022, Germany's military budget stood at €50 billion. By 2026, it will exceed €108 billion – double the French defence budget⁵³. Such financial capacity naturally places Berlin in a central position to shape the future direction of European defence.

Several European partners welcome Germany's renewed military commitment, which also responds to longstanding American calls for a more balanced sharing of the NATO burden. Nevertheless, the emergence of Germany as Europe's dominant military power also raises broader political questions. A rearmament programme of this magnitude inevitably influences the strategic orientation of the continent. The question is therefore not merely whether Germany should spend more on defence, but whether these decisions are sufficiently embedded within a genuinely European framework of consultation and capability planning. Without such coordination, Europe's largest military investment risks reinforcing national rather than European defence structures.

The contrast with France illustrates how divergent fiscal situations translate into divergent strategic possibilities. France has consistently advocated greater European strategic autonomy and remains one of the principal political promoters of a stronger European defence. In the economist C. Antonin's view, France increasingly appears to Germans as a country in a state of collapse – unable to control its public finances, to raise its educational standards, or to halt its deindustrialisation⁵⁴. Yet its financial position substantially limits its capacity to match these ambitions. Public debt now stands at approximately 118% of GDP, the budget deficit remains above 5% of GDP, while interest payments alone are expected to approach 3% of GDP by 2028. Although recent reforms of the Stability and Growth Pact provide temporary flexibility for defence expenditure, they do not fundamentally alter the country's deteriorating fiscal trajectory. Meeting NATO's 2035 spending objective would require France to increase its annual defence budget from approximately €57 billion today to around €95 billion, an objective that appears increasingly difficult to reconcile with the country's broader public finance constraints.

Italy illustrates that France's situation is not exceptional. With public debt approaching 135% of GDP and economic growth remaining subdued, Rome also faces severe limitations in financing higher defence expenditure. Despite recognising

the strategic necessity of rearmament, Italy even chose not to activate the EU's National Escape Clause because of its fiscal position. Like France, it therefore possesses the strategic imperative but lacks the budgetary capacity to sustain the level of defence investment that the new security environment requires.

The consequence is that Europe's rearmament effort is increasingly shaped not only by strategic choices, but also by unequal fiscal capacities. While all Member States formally share the same security objectives, they do not possess the same financial means to pursue them. This growing asymmetry inevitably complicates efforts to coordinate procurement, industrial planning and long-term capability development at European level. As in the field of economic governance, national budgetary realities continue to determine the scope of national policy choices. Greater European defence integration therefore requires not only common financial instruments, but also a greater degree of economic and fiscal convergence among the Union's principal Member States.

4.4.2 Diverging industrial strategies prevent the emergence of a genuine European defence market

Beyond fiscal disparities, European defence integration also remains constrained by fundamentally different national industrial strategies. Although recent EU initiatives such as the European Defence Fund, EDIP and SAFE encourage cross-border cooperation, procurement decisions ultimately remain national. Governments continue to view defence industries not only as providers of military capabilities but also as strategic national assets that support employment, technological sovereignty and industrial competitiveness. As a result, defence procurement continues to be driven primarily by domestic political and industrial considerations rather than by the objective of building a genuinely integrated European defence market.

Germany's ongoing rearmament illustrates this dynamic. While Berlin has become the principal financial engine of Europe's military build-up, its procurement strategy remains overwhelmingly national. Much of the additional defence spending is expected to benefit Rheinmetall, which has rapidly emerged as Europe's largest defence manufacturer. Beyond supporting its domestic industrial base, Germany has also continued to rely heavily on American and Israeli suppliers for major capability acquisitions. The acquisition of the F-35 Lightning II is particularly illustrative. Although the aircraft guarantees interoperability within

53. C. Antonin, Challenges, "Ce que la crise de l'automobile allemande dit de l'aveuglement industriel européen".

54. C. Antonin, Challenges, "Ce que la crise de l'automobile allemande dit de l'aveuglement industriel européen".

NATO and provides immediate access to fifth-generation capabilities, it also reinforces Germany's dependence on American defence technology at a time when the European Union is seeking to strengthen its strategic autonomy. Meanwhile, one of France's few globally competitive industrial sectors remains largely absent from Germany's rearmament effort, with French defence products accounting for only a marginal share of German procurement. As C. Antonin puts it: "The word 'France' has completely disappeared from the defence discourse of strategists on the other side of the Rhine⁵⁵." Overall, Berlin's procurement choices continue to prioritise national capability development and transatlantic interoperability rather than the emergence of genuinely European industrial champions.

The collapse of the Future Combat Air System (FCAS) programme further illustrates the structural difficulties of reconciling national industrial interests. Initially launched in 2017 as the flagship Franco-German-Spanish programme to develop a sixth-generation combat aircraft, FCAS was expected to become a cornerstone of European defence integration. Instead, after nearly a decade of negotiations and an estimated programme value approaching €100 billion, the project effectively collapsed in 2026 following irreconcilable disagreements over industrial leadership and workshare. Dassault Aviation insisted on maintaining control over the future fighter aircraft, while Airbus, representing German and Spanish interests, rejected any subordinate role. The dispute ultimately reflected far more than corporate rivalry: it exposed the persistent difficulty of reconciling competing national industrial priorities, even when governments formally share the same strategic objective.

Yet the failure of FCAS should not be interpreted as evidence that European industrial cooperation is impossible. The restructuring of KNDS demonstrates that Member States remain capable of building genuinely integrated industrial structures when political interests sufficiently converge. In June 2026, France and Germany agreed on a new ownership structure for KNDS, placing both governments on an equal footing while reaffirming their joint commitment to preserving European sovereignty in the field of land systems. Similarly, the decision by Airbus, Thales and Leonardo to consolidate parts of their space activities into a common European space champion reflects an increasing recognition that industrial fragmentation has become strategically unsustainable in sectors characterised by intense global competition. These initiatives suggest that European industrial

integration remains possible, but only when governments are willing to accept compromises over national ownership and industrial leadership.

This tension between national interests and European integration is perhaps best captured by Franziska Brantner's call for *Nie wieder allein* ("Never again alone"). Writing in 2026, F. Brantner⁵⁶ argues that Germany's growing military and industrial power inevitably generates unease among its European partners for historical reasons. A German rearmament conducted primarily through national procurement channels and centred on domestic champions risks creating not a stronger European defence, but a stronger German defence. Her response is not to limit Germany's ambitions, but rather to embed German power more deeply within irreversible European structures, ensuring that future capability development, procurement and industrial decisions are genuinely shared. In her view, post-war Germany's traditional commitment to restraint must evolve into a commitment to integration: German power should never again be exercised alone, but always within binding European frameworks.

Ultimately, the evolution of Europe's defence industry confirms a broader pattern already observed in economic governance and trade policy. The European Union has progressively developed financial instruments capable of encouraging industrial cooperation, yet these instruments cannot override national industrial preferences. As long as defence industries remain closely tied to national economic interests and governments continue to regard procurement primarily as an instrument of domestic industrial policy, European defence cooperation will remain constrained by competing national priorities. The principal obstacle is therefore no longer the absence of European instruments, but the persistence of divergent national industrial strategies.

These industrial divergences are themselves rooted in deeper political differences regarding the purpose of European defence. Beyond procurement choices and industrial policy, Member States continue to hold fundamentally different conceptions of Europe's strategic role.

4.4.3 Diverging strategic cultures continue to shape national defence policies

Even if Europe were to overcome its fiscal and industrial fragmentation, a more fundamental obstacle would remain. European defence cooperation ultimately depends not only on common capabilities, but also on a common

55. C. Antonin, Challenges, "Ce que la crise de l'automobile allemande dit de l'aveuglement industriel européen".

56. Brantner, F. (2026, June 4). L'Allemagne doit sortir du déni | Le Grand Continent. <https://legrandcontinent.eu/fr/2026/06/04/allemande-plus-jamais-seuls-brantner/>

understanding of the threats facing the continent and of the political objectives that military power should serve. On this point, Member States continue to hold profoundly different strategic cultures, reflecting their geography, historical experience and foreign policy traditions.

France has long been the principal advocate of greater European strategic autonomy. As discussed in the previous section, President Emmanuel Macron's proposal to give France's nuclear deterrent a stronger European dimension illustrates an ambition to strengthen Europe's capacity to act independently whenever its vital interests are at stake. Although carefully presented as complementary to NATO rather than a substitute for the American nuclear guarantee, the initiative nevertheless reflects a longstanding French conviction that Europe should progressively acquire the means to ensure its own security rather than relying indefinitely on external protection.

This vision is not universally shared across the Union. For many Central and Eastern European Member States, particularly Poland and the Baltic States, the Russian threat remains immediate and existential. Their strategic culture has been shaped by decades of Soviet domination and reinforced by Russia's invasion of Ukraine. Consequently, NATO – and above all the American security guarantee – remains the indispensable cornerstone of European security. From their perspective, greater European defence cooperation is desirable only insofar as it strengthens the Atlantic Alliance rather than providing an alternative to it. Strategic autonomy is therefore often perceived less as a strategic necessity than as a potential source of uncertainty regarding continued American engagement.

Germany occupies an intermediate position. While successive governments have gradually embraced the need for a stronger European defence capability, Berlin has traditionally defined its security policy within a firmly Atlantic framework. This partly explains Germany's continued reliance on American military equipment, including the acquisition of the F-35, and its emphasis on interoperability within NATO. Even as Germany becomes Europe's leading military spender, its strategic outlook remains closely linked to the transatlantic alliance rather than centred on the pursuit of autonomous European military power.

These differences extend well beyond relations with Russia or NATO. They also shape Member States' broader foreign policy choices. The reactions to the 2025–2026 crisis involving Iran provide a revealing illustration. While Spain openly criticised the United States' intervention as contrary to international law, Germany adopted a considerably more Atlanticist position. Such divergences demonstrate

that Member States frequently interpret the same geopolitical event through different political, legal and strategic lenses.

NATO's own institutional structure further reinforces these national approaches. European countries participate in the Alliance as sovereign states rather than through a consolidated European pillar. Defence planning, operational commitments and strategic decision-making therefore continue to be exercised primarily at national level. Although the European Union has considerably strengthened cooperation in defence research, industrial policy and financing, it still lacks a genuinely common strategic culture capable of guiding collective decisions in times of crisis.

Ultimately, these divergent strategic cultures help explain why European defence integration remains inherently more complex than cooperation in many other policy areas. Even where financial instruments encourage common investment and industrial cooperation progresses, Member States continue to define their security interests through different historical experiences, geographical priorities and alliance preferences. As a result, Europe does not simply face a deficit of military capabilities or defence financing; it also lacks a sufficiently shared strategic outlook. Until Member States converge not only economically, but also in their perception of threats and their conception of Europe's role in the international system, national defence policies will continue to prevail over a genuinely common European strategy.

The evolution of European defence therefore confirms the broader argument developed throughout this paper. Over the past decade, the European Union has progressively equipped itself with an increasingly sophisticated set of financial, industrial and procurement instruments designed to foster cooperation among Member States. Yet these instruments cannot compensate for the absence of convergence among Europe's principal economies. Fiscal capacities remain uneven, industrial priorities continue to diverge, and defence planning and procurement are still overwhelmingly determined at national level.

More fundamentally, Member States do not share a common strategic culture. They do not perceive the same threats nor attach the same importance to NATO, or even assign the same political purpose to defence policy itself. The Franco-German relationship illustrates this divergence particularly well. Whereas France has traditionally approached defence primarily as an instrument of political sovereignty, strategic autonomy and geopolitical influence, Germany has increasingly viewed it through the prism of industrial policy, economic competitiveness and transatlantic integration.

These approaches are not mutually exclusive, but they reflect different conceptions of what European defence is ultimately intended to achieve. Similar differences can be observed across the Union, where Eastern Member States understandably prioritise territorial deterrence against Russia, while others place greater emphasis on crisis management, the Mediterranean neighbourhood or the preservation of the international legal order.

Europe therefore lacks not only a more integrated defence industrial base, but also a shared understanding of the political purpose of European defence. Financial incentives can encourage cooperation, industrial consolidation can reduce fragmentation, and joint procurement can generate economies of scale. None of these developments, however, can by themselves produce a genuinely common defence policy in the absence of agreement on the threats Europe faces, the interests it seeks to protect and the political objectives that military power should ultimately serve.

Ultimately, Europe does not primarily lack defence instruments, industrial capabilities or financial resources. It lacks the degree of economic, political and strategic convergence required to transform national rearmament efforts into a genuinely common European defence capability. As this paper has argued in the fields of economic governance, trade policy and defence alike, the principal obstacle to deeper European integration is no longer the absence of common instruments. It is the persistence of divergent national interests. Until Member States converge not only on how to invest, but also on why they invest and for what strategic purpose, European defence will remain the sum of twenty-seven national policies rather than the expression of a genuinely common European strategy.

5. European Preference: Reviving and Old Warning to Meet a New Threat

5.1 European industrial decline and the early calls for European preference

5.1.5 Completing the Single Market without appropriate protections might benefit foreign exports more than it promotes domestic industries in the EU

In 2025, the IMF called for a further deepening of the Single Market, noting that the barriers that

persist between Member States function as a form of invisible internal tariff. The IMF estimated to be equivalent to a levy of around 45% on manufactured goods and far higher on services⁵⁷. Removing those barriers is, in principle, one of the surest ways to raise European competitiveness.

Yet completing the Single Market today carries a risk that would not have existed twenty years ago. In a number of the sectors where internal barriers still bite, the firms best placed to capture the newly integrated market are not European but foreign, and Chinese in particular. The Union has few genuine "European champions" of continental scale, and it runs a substantial and widening goods deficit with its main trading partner. Tearing down internal walls without external perimeter would, in effect, hand the enlarged market to the most competitive outside supplier.

In 2025, total EU-China goods trade reached \$828 billion⁵⁸, making the EU China's second-largest trading partner, while China is by far the EU's largest single source of imports, accounting for 22.3% of all EU imports in 2025. The trade relationship has become deeply asymmetric: the EU ran a goods deficit of roughly €360 billion with China in 2025⁵⁹, or €1 billion a day, putting a potential of 29 million jobs at risk, stated European commissioner Stéphane Séjourné⁶⁰.

Europe is directly threatened by China's industrial capacity. The very situation Maurice Allais warned would arise under limitless free trade sixty years ago. The Single Market is ripe for the picking. The task is therefore twofold: remove the internal barriers that hold European firms back, while building an external perimeter high enough to equalise the playing field without tipping into outright protectionism all the whilst deepening industrial and financial integration (Banking Union, the Savings and Investments Union) that would give European firms the scale to compete.

5.1.2 Allais's early warning: open the European market, but don't offer it up

The intellectual roots of European preference long predate the current regulatory debate. Maurice Allais, French recipient of the Nobel Prize in Economics (awarded in 1988), was one of its most consistent and prescient advocates. His trajectory on this question is, however, frequently misunderstood. Allais began as a convinced European federalist: in his 1960 work *L'Europe Unie, route de la prospérité*, he championed the removal of internal tariff barriers and the free movement of goods, capital and persons between Member States,

57. International Monetary Fund. (2025). Europe needs to build on its Single Market to boost growth. IMF Regional Economic Outlook / staff analysis.

58. China-EU – international trade in goods statistics. Eurostat, Statistics Explained.

59. *Ibid.*

60. Johnston, I. (2026, May 28). EU to broaden import quotas and tariffs against China. Financial Times.

viewing economic integration as a precondition for prosperity. Yet his position evolved substantially from the 1970s onwards. As global trade liberalisation accelerated, Allais grew increasingly alarmed at what he saw as the perverse consequences of unrestricted openness to economies operating under radically different cost structures. He attributed the persistent rise in European unemployment directly to the liberalisation of trade with low-wage countries, arguing as early as 1974 that competition from economies where wages were a fraction of European levels amounted to an unfair structural distortion, one that conventional comparative advantage theory failed to account for.

For M. Allais, the solution was not autarky, but what he termed reasonable protection: a moderate external tariff shield allowing Europe to maintain the conditions for a genuine internal free market whilst preserving its social model and industrial base. He was explicit that European preference should not be confused with protectionism in the pejorative sense. As S. Rakotoarison⁶¹ noted, Allais believed the European Community had an obligation to protect its economic security, "not by establishing itself as a fortress, but by surrounding itself with a reasonable level of protection." He also insisted that monetary union and political union had to advance in parallel. The error, in his view, was that the Maastricht Treaty had locked in economic convergence without the political architecture to manage its consequences. On this basis, he criticised the Treaty in 1992 not out of hostility to European integration, but because he feared the monetary union was being constructed on foundations that would generate exactly the kind of economic fragmentation this paper describes.

Despite drawing criticism from many a commentator, his warnings in hindsight about the social consequences of unchecked trade liberalisation, and the need for political integration to precede monetary union, appear accurate. The situation described in the preceding section, namely a European market open to an industrial competitor operating under fundamentally different rules is, in many ways, the precise outcome he spent decades warning against.

5.1.3 A shift in economic doctrine occurred in the 1980's and contributed to the current situation

Antonin Bergeaud explains in his book *La prospérité*

retrouvée the reasons behind Europe's current industrial weakness. According to the author, the success of post-war European industrial policy rested on "an effective articulation between three elements"⁶²: a highly qualified scientific workforce, a long-term logic of major strategic projects, and clear public leadership, often expressed through public procurement. This combination helped create the conditions for the emergence of internationally competitive industries and technological capabilities across a range of sectors.

The author argues that a decisive shift occurred during the 1980s. In his account, "the famous policies of national champions gradually disappeared in favour of horizontal policies centred on the single market, deregulation and the promotion of competition"⁶³. This evolution reflected the growing influence of liberal economic ideas and an increasingly widespread belief that governments were poorly positioned to direct industrial development. The role of public authorities consequently evolved away from sector-specific intervention and toward the maintenance of a neutral legal framework, market openness, and support for generic research activities. Industrial restructuring was expected to follow market signals rather than strategic public direction.

This transformation was, in the author's view, reinforced by European integration itself. He argues that "the construction of Europe contributed to reinforce mutual distrust between Member States and delegitimising any attempt at coordinated industrial policy"⁶⁴, often because such initiatives were perceived as disguised instruments for advancing national interests. This climate of distrust encouraged the development of European rules that strictly limited state intervention in the economy. Under Article 107 of the Treaty on the Functioning of the European Union, state aid is in principle prohibited unless it falls within narrowly defined exceptions and receives approval from the European Commission. As a result, governments found it increasingly difficult to provide large-scale support to firms or sectors deemed strategically important without demonstrating a broader objective of common European interest⁶⁵.

The author acknowledges that this approach helped modernise the business environment and preserve competition within the European market. However, he contends that it also led to "a gradual abandonment

61. Maurice Allais, *protectionniste raisonnable et physicien d'raisonnable*. (2010, October 19). AgoraVox. <https://www.agoravox.fr/actualites/economie/article/maurice-allais-protectionniste-83095>

62. Bergeaud, Antonin. *La prospérité retrouvée : les leviers de la croissance au XXI^e siècle*. Paris : Odile Jacob. 2026. p.105.

63. Bergeaud, op. cit., p.108.

64. *Ibid.*

65. Bergeaud, op. cit., p.109.

of any structured industrial strategy⁶⁶." The decision of the European Commission to block the proposed merger between Alstom and Siemens is presented as a particularly illustrative example. Although the companies argued that the merger would create a European "Airbus of rail" capable of competing with major Chinese firms, competition concerns ultimately prevailed.

More broadly, the author argues that the European Union adopted what might be described as a predominantly negative conception of public intervention in the economy. Public authorities were expected primarily to correct market failures rather than define long-term technological or industrial priorities. Within this framework, support was largely confined to fundamental research and "pre-competitive" innovation, upstream from commercial deployment and often weakly connected to concrete industrial objectives. In the author's assessment, this orientation ultimately resulted in chronic underinvestment in industrial capabilities, fragmented initiatives across national and European levels, and the absence of a common governance structure capable of carrying major strategic projects.

The consequence of such policies today is that European industry is playing by fundamentally different rules to that of China. European industrial policy remains in the hands of Member States. The EU may promote coordinated initiatives and set up additional funds, but it does not have the authority to create and pursue a unified industrial policy. It is neither legally able to territorially plan industrial capacity, nor promote and subsidise industrial efforts that could be considered of European sovereign interest. Whilst industrial planning and development relies nearly entirely on market efforts in the European Union, China plays an active role in setting national priorities and developing industrial capacity.

5.1.4 Europe's cautious turn towards preference

The current European preference debate is, in many ways, an institutional recognition of the concerns Allais first articulated half a century ago. On 4 March 2026, the Commission put forward a regulation proposal titled the "Industrial Accelerator Act" (IAA), which is intended to enshrine the concept of European Preference into European law. While the proposal marks a significant shift in the Union's economic approach its effectiveness will likely be hampered by persistent divergences between Member States.

The European Commission has nonetheless taken a cautious step forward. In her 2025 State of the

Union address, Commission President Ursula von der Leyen formally committed to introduce "made in Europe" criteria in public procurement. This represents a significant departure from the Union's traditional posture of non-discrimination and open competition. This commitment was formalised in the Single Market Strategy adopted in May 2025, and subsequently anchored in a concrete legislative initiative: the IAA, published on 4 March 2026, with key material procurement provisions targeted to apply from 1 January 2029.

Concretely, European preference reshapes the incentive framework when granting subsidies or awarding public contracts in certain strategic sectors. The IAA is not a protectionist instrument in the traditional sense. It does not outright prohibit non-European firms from bidding on public contracts. Rather, it incentivises public authorities to favour firms operating in Europe that respect certain selected criteria. In this sense, it bears a closer resemblance to the "reasonable protection" Allais advocated: not a fortress, but a selective and calibrated tilt of the playing field in favour of European producers.

5.2 European Preference, a first attempt at addressing industrial decline

5.2.1 The IAA legislative proposal seeks to fulfil four key objectives

The IAA in its current version would only apply to selective industries. The Commission has chosen to support industries that are in its view currently facing significant competitiveness pressures. These mainly include energy-intensive manufacturing (steel, cement, aluminium, chemicals), "net zero" technologies and the creation of automobile components. There are multiple strategic reasons that underpin the Commission's thought process.

First, there is an urgent imperative to reduce strategic dependencies. The Commission has come to recognise, in the wake of the Covid-19 crisis and the energy shock triggered by Russia's invasion of Ukraine, that many of its industries are acutely reliant on foreign suppliers at some point in their value chain. This is particularly acute in defence and in clean energy technologies, sectors where supply disruption carry more than mere economic consequences.

Second, a need to support the clean transition. Public procurement represents a significant share of demand in sectors central to decarbonisation, such as energy, transport, and infrastructure. By favouring suppliers that meet higher environmental

66. *Ibid.*

standards, the EU can reduce the carbon footprint of public spending while creating incentives for firms across the value chain to invest in cleaner production processes.

Third, the IAA is a response to the asymmetric competitive conditions that European producers face vis-à-vis their American and Chinese counterparts. The United States Inflation Reduction Act of 2022 introduced massive subsidies and preference rules for US-made clean energy products, directly disadvantaging European manufacturers. China operates a fundamentally closed procurement system in many sectors, with European firms facing systematic discrimination. As the IAA's proponents (notably France) have argued: what Europe is proposing is not exceptional; it is simply what others are already doing.

Fourth, the EU is pursuing an objective of reindustrialisation. The current ambition is to raise manufacturing's share of EU GDP from around 14.3% today to approximately 20% by 2035. In this context, instruments such as public procurement are seen as demand-side levers to stabilise and expand industrial production within Europe, by providing predictable markets for firms operating in strategic sectors.

5.2.2 The IAA will affect public procurement by implementing Union-origin rules in certain key sectors

In its current proposed form, the IAA would introduce minimum requirements relating to "low-carbon" production and, in certain cases, to "Union-origin" content for products benefiting from public support or procurement. These requirements are calibrated differently across the three sectors identified below.

In energy-intensive industries – including steel, cement, aluminium, chemicals and related materials – contracting authorities would be required to allocate a defined share of procurement to a minimum share of "low carbon" products. The proposal envisages thresholds in the order of 25% for steel and aluminium. For materials such as cement and concrete, lower initial thresholds (around 5%) are combined with Union-origin requirements. For net-zero technologies, such as solar photovoltaic systems, wind turbines, batteries, heat pumps and electrolyzers, the mechanism operates primarily through component-based origin requirements. Projects benefiting from public funding would need to incorporate a minimum number of key components manufactured within the Union, with the requirement tightening over a transition period of several years. In the automotive

sector, and in particular for electric vehicles, vehicles would need to be assembled within the Union and meet a minimum share of EU-origin value, estimated at around 70% of the ex-works price, excluding certain components in the early stages⁶⁷.

5.2.3 Early disagreements and diverging interests between Member States risk watering down the proposal

The discussions surrounding the European preference proposal have not been smooth. There have been over 40 draft versions of the IAA, generating heated debates both within the Commission and across the EU-27. The fault lines that have emerged in this debate are, fundamentally, a reflection of the same divergences that run through this paper as a whole.

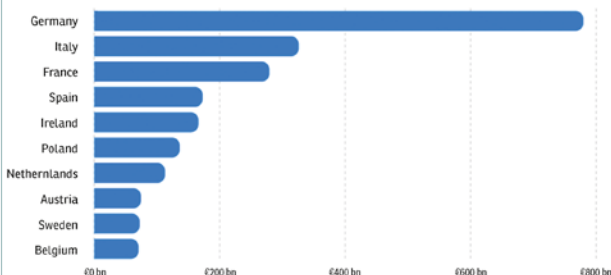
The leading advocate for European preference has consistently been France, whose industrial tradition and longstanding commitment to strategic autonomy make it a natural champion of the concept. Paris has pushed for a strict "Made in EU" interpretation of origin rules, to maximise direct support for European production and employment. Opposition, however, has been significant and comes from structurally different directions. Export-oriented industrial economies, such as Germany, the Netherlands, and to a degree the Nordic states, are the most reluctant. Their concern is straightforward: as large exporters to the United States, Asia and beyond, they fear retaliatory measures if the EU is perceived to be closing its own procurement markets. Germany has argued for a "Made with EU" model that would include trusted trade partners. This approach would significantly dilute the preferences France is pushing for.

Smaller Member States without significant domestic industrial bases (many Eastern European countries, the Baltic states) face a distinct concern. For them, the risk is not retaliation but supply contraction: if European preference criteria reduce the pool of eligible suppliers, these states may find themselves with fewer options, higher costs, and reduced access to best-in-class technology. They have no domestic champions to protect, and their interests lie in keeping procurement markets as open and competitive as possible. These divisions echo the EU-Mercosur debate, with France favouring strong internal preference and protection, while Germany and other export-driven states push for openness and broader market access.

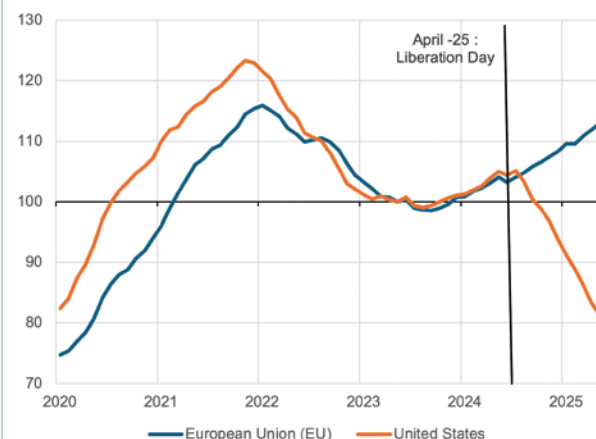
67. Industrial Accelerator Act Proposal, COM(2026) 100 final. See the summary table in the Annex of this paper.

CHART 2.

Manufacturing value added in the EU by country
Estimated manufacturing gross value added for selected EU countries



Source : Eurostat national accounts / ESTAT nama 10_a_10 dataset
values in € billions

CHART 3.

Source: Economics, based on IMF data

5.2.4 A firm step forward, yet insufficient on its own

The Industrial Accelerator Act is a step in the right direction, and it should be recognised as such. It represents a meaningful, if cautious, advance: a first institutional acknowledgement that Europe must act if it is to remain an industrial power, and that the European Union can bring added value by acting on a supranational level. Yet its impact risks being significantly undermined by the timeline of its implementation. With full entry into force only scheduled for 2029, and given the Union's well-documented tendency toward delays, its effectiveness may be substantially diluted in practice. In the context of Europe's relative industrial decline and the increasingly urgent need for reindustrialisation, such a protracted timeline is difficult to justify.

Yet it would be a serious mistake to treat the IAA as a solution to the challenges facing European industry. The underlying problems run deeper than procurement rules can address. Industry represents an ever-decreasing share of European GDP, and European firms struggle to attract capital in a business environment still characterised by high tax burden, regulatory complexity, and energy costs that remain structurally elevated compared to American and Chinese competitors. The urgency, therefore, is not only to deploy instruments like the IAA, but to mend public finances and return to the path of economic convergence – the product of decades of divergence and the absence of the political union which was a prerequisite for sustainable integration, as underlined by M. Allais. A strong European Union cannot be built on weak Member States.

5.3 China: industrial competition, strategic dependence and the limits of European coordination

5.3.1 China enters potential trade negotiations from a position of considerable strength

Over the past quarter century, China, as the "factory of the world", has risen to become a core trading partner of the EU, while simultaneously emerging as one of the principal competitors of European industry. When Washington imposed tariffs of up to 145% on Chinese goods in April 2025, it contributed to a partial redirection of Chinese goods from the US to the EU. Despite the October 2025 truce, US tariffs ran at an average of roughly 34%, which is more than ten times the 2-3% rate Europe applies to Chinese goods⁶⁸. Recent trade data are consistent with a partial redirection of exports: Chinese exports to the United States fell by approximately 20% over the course of 2025, whereas exports to the European Union increased by around 8%. This shift cannot be attributed solely to US tariffs, however. It also reflects China's considerable production capacity and the growing efforts of Chinese firms to expand their presence in international markets.

5.3.1.1 A case study of Chinese industrial strength: the automobile industry

The automotive industry illustrates this dynamic vividly. China-made vehicles accounted for 6.4% of EU car sales in 2025. In 2005, China accounted for 8% of global automobile production; twenty years later, that share had reached 41% China exported over 922,000 passenger cars to Europe in 2025, up 29% year-on-year⁶⁹. The speed of this advance is

68. World Trade Organization. (2025). WTO Tariff and Trade Data.

69. Reuters Staff. (2026, June 2). China's carmakers expand their presence in Europe. Reuters.

without contemporary precedent: unlike Japanese or Korean carmakers, Chinese firms are entering simultaneously, at massive scale, and with the full backing of state industrial policy. In 2025, close to 20% of EVs sold in Europe were built in China⁷⁰. This rapid increase in imports of China-made electric vehicles is partly connected to the substantial gap between China's domestic sales and its total production capacity. Chinese domestic car sales amounted to approximately 23.9 million vehicles, compared with estimated production capacity of up to 50 million vehicles. Although estimates of overcapacity vary, this imbalance creates a strong incentive for manufacturers to develop export markets⁷¹.

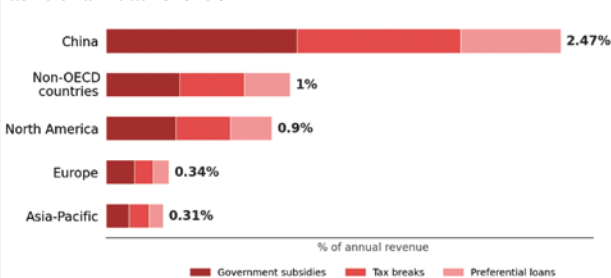
China's industrial advance cannot be attributed solely to state support. It also reflects the scale of its domestic market, highly integrated supply chains, rapid innovation cycles and intense competition among Chinese producers. Public intervention has nevertheless accelerated this development and reinforced China's position in several strategic industries.

National subsidies also have a role to play in the dominance of Chinese industry. According to OECD data, Chinese industrial subsidies (direct grants, tax relief and preferential-rate loans) averaged around 2.5% of company revenue across strategic sectors between 2004 and 2025, against roughly 0.9% in North America and just 0.34% in Europe⁷². Chinese firms therefore compete in the European market while benefiting from a level and combination of state support that European producers generally cannot access on comparable terms. Such assistance does not entirely explain their competitiveness, but it reinforces their ability to invest, increase production and absorb lower margins during periods of international expansion.

CHART 4.

Massive public support for Chinese companies

Industrial subsidies* received between 2005 and 2024, as % of annual revenue



* Average for 15 key industrial sectors, by location of company headquarters
Source: OECD

5.3.1.2 China plays by its own rules: the WTO framework is facing growing challenges

Europe increasingly finds itself trapped between a rules-based ideal and a geopolitical reality in which the rules no longer inhibit the major powers' ambitions. The paralysis of the WTO dispute settlement system since 2019 has hollowed out the enforcement mechanism that once underpinned confidence in multilateral trade governance. At the same time, China's economic model has moved further away from the liberal assumptions embedded in the WTO framework. The WTO's own 2024 Trade Policy Review noted growing state encouragement for import substitution in high-tech sectors, while the US Trade Representative's 2024 report characterised China's approach as a "predatory" non-market system that mobilises state power to secure dominance in strategic industries. Europe continues to anchor its industrial policy within multilateral trade rules, while China's economic model exposes the difficulty of applying disciplines designed for a less state-directed global economy.

5.3.1.3 Rare earths: China's leverage in the trade war

In the context of growing global trade tensions, China's dominant position in critical raw-material supply chains gives Beijing significant economic leverage and could influence the final design of the IAA's provisions on foreign investment. China extracts around 60% of global rare earth elements, separates and processes around 90% of them, and manufactures around 94% of the magnets containing rare earths used in clean energy, electric vehicles, and a wide range of other industries. For Europe, the exposure is almost total: the EU sources 98%⁷³ of its rare-earth magnet demand from Chinese suppliers, with similar dependencies extending to magnesium, gallium, and germanium – metals vital for semiconductors and defence technologies. Economists at the European Central Bank estimate that over 80% of large European firms are no more than three intermediaries away from a Chinese rare earth producer. In response to US tariffs, and citing national security grounds, Beijing introduced two waves of export controls on rare earth elements in April and October 2025. When Beijing tightened export licences, magnet exports to Europe fell by three-quarters, forcing several European carmakers to halt production. The second wave has since been suspended until November 2026.

70. Kana, I. (2026, May 22). The European cars made in China. Financial Times. (Draft figure: reconcile the 19% in the source with the 20% cited in the plan).

71. Ibid.

72. OECD, Quantifying industrial subsidies, cited in Les Echos.

73. Draghi, M. (2024). The future of European competitiveness Part A. European Commission.

These measures highlight how the existing concentration at critical stages of production can give the dominant supplier the capacity to use export restrictions as an instrument of economic pressure. European industrial resilience therefore requires not complete self-sufficiency, which would be unrealistic, but greater diversification, strategic inventories and the development of alternative processing capacity.

5.3.1.4 The cost of inaction could erode the last of Europe's industrial capacity

In S. Keynes' view⁷⁴, China's huge export machine is not just producing cheap goods for European consumers, it is also weakening Europe's industrial base, particularly in Germany, where manufacturing output has struggled as Chinese exports have surged. Keynes argues that this creates several risks at once: the loss of industrial jobs, greater dependence on Chinese supply chains, and a reduced ability for Europe to scale up production in a geopolitical or military crisis. For that reason, tariffs are increasingly being viewed not simply as protectionism, but as tools to reduce overdependence and encourage companies to diversify supply chains. She also acknowledges the downsides – higher prices, disruption for businesses, and the risk of Chinese retaliation – but argues that refusing to act may ultimately make the European economy weaker and more vulnerable to coercion in the long run.

5.3.1.5 The European Union wishes to achieve meaningful advances on the dossier by October 2026

The IAA does not arrive on a blank page. Faced with the surge in Chinese imports, the Union has already deployed a handful of conventional trade-defence instruments. The clearest example is the automotive sector. In October 2024, following a thirteen-month anti-subsidy investigation, the Commission imposed definitive countervailing duties on Chinese-made battery electric vehicles, on the grounds that the Chinese EV (electric vehicle) value chain benefited from unfair state subsidies⁷⁵. These duties are levied on top of the standard 10% car tariff and vary by manufacturer according to the degree of subsidy and cooperation: 17.0% for BYD⁷⁶, 18.8% for Geely, and 35.3% for SAIC⁷⁷, with a 20.7% rate for other cooperating producers and 7.8% for Tesla vehicles exported from China⁷⁸.

Set against comparable measures elsewhere, these

rates are strikingly moderate. The United States quadrupled its tariff on Chinese EVs from 25% to 100% in 2024; Canada matched the 100% figure the same year⁷⁹. Even at the top of the EU's range, a SAIC vehicle faces a combined duty of around 45% which is less than half the American and Canadian rate. Rhodium Group analysts had estimated that duties would need to reach 40–50%, and higher still for vertically integrated manufacturers such as BYD, merely to offset the Chinese cost advantage; the definitive 17% imposed on BYD falls well short of that threshold. The measures were also politically fraught: when Member States voted in October 2024, only ten backed the Commission, twelve abstained, and five – including Germany – voted against, wary of Chinese retaliation against their own exporters. Beijing duly retaliated, opening anti-dumping investigations into EU brandy, pork and dairy that targeted France, Spain, the Netherlands and others. The European response – imposing tariffs on Chinese battery-electric vehicles in 2024 – has had a real but limited effect. Chinese manufacturers simply pivoted toward plug-in hybrids, which are not subject to the taxes.

The episode illustrates the central difficulty facing European trade policy. The economic benefits of protection and the costs of retaliation are not distributed evenly among Member States. Countries with substantial automotive exports to China assess the risks differently from those whose industries compete directly against Chinese imports. A common instrument therefore produces different national calculations even before it is implemented.

Beyond the automotive file, the Union has tightened its defences elsewhere. A new Steel Overcapacity Regulation, in force from 1 July 2026, cuts tariff-free import quotas by roughly 47% relative to 2024 levels and doubles the out-of-quota duty from 25% to 50%, explicitly to counter global overcapacity and the trade diversion that follows from restrictions imposed in other markets⁸⁰. Yet even here the direct effect on China is limited, precisely because years of pre-existing anti-dumping and countervailing duties have already compressed direct Chinese steel exports to the EU to only 3–5% of China's total flat-steel exports.

74. S. Keynes. (2026, May 28). Why Europe must embrace tariffs. Financial Times.

75. Commission Implementing Regulation (EU) 2024/2754 of 29 October 2024. See also: EU imposes duties on unfairly subsidised electric vehicles from China. European Commission, 29 October 2024.

76. Chinese automobile manufacturer.

77. Chinese automobile manufacturer.

78. Commission Implementing Regulation (EU) 2024/2754; S&P Global Mobility (2024); Cleary Foreign Investment and International Trade Watch (October 2024).

79. The European Union's countervailing duties on electric vehicles from China: disputes and prospects (2025); on the US Section 301 review of May 2024 and Canada's October 2024 measure.

80. Regulation (EU) 2026/1384; Council of the EU press release, 13 April 2026; Crowell & Moring client alert, July 2026.

5.3.1.6 China has a colossal investment footprint In the EU and the IAA is the EU's attempt to combat it

The challenge is not limited to trade flows. On the investment side, Chinese FDI into Europe rose 67% in 2025 to reach €16.8 billion, with Europe absorbing nearly a quarter of all Chinese outbound investment globally, much of it directed at precisely the technology and infrastructure sectors that European policymakers are now trying to protect⁸¹.

Such investment creates a complex policy dilemma. Chinese investment can bring capital, employment and additional production capacity to Europe. At the same time, local assembly does not by itself ensure that technological control, research activities, key components or high-value decision-making are located within the Union. A purely geographical "Made in Europe" criterion could therefore be satisfied without significantly reducing Europe's underlying technological dependence.

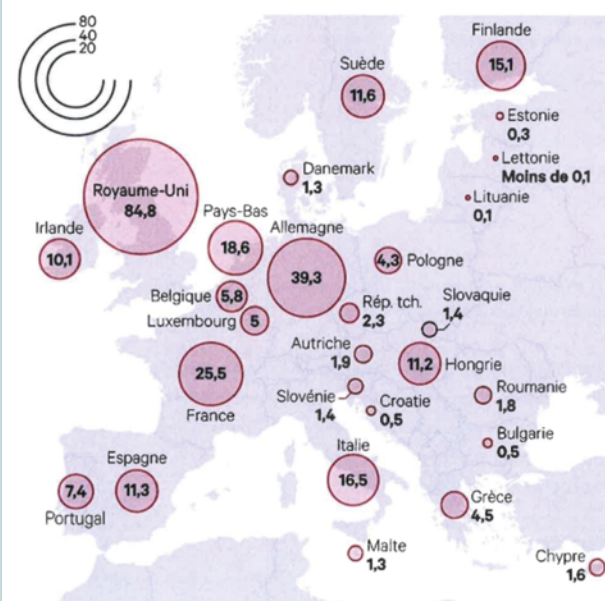
The Commission's answer to the industrial imbalance is embedded in the IAA. Beyond the reforms to public procurement rules, the IAA proposes a targeted foreign direct investment screening. The IAA would explicitly limit foreign ownership and investment in critical industries, such as battery technologies, electric vehicles, solar photovoltaic technologies and critical raw materials. More specifically, large foreign investment tickets (circa €100 million) coming from countries that control over 40% of a critical industry's global capacity would require additional authorisation from public bodies⁸². The purpose of the IAA is therefore to ensure that investments benefiting from access to the European market contribute meaningfully to European industrial capacity rather than functioning primarily as final-assembly operations dependent on imported technology and components. The logic behind this measure is straightforward: procurement rules alone are insufficient because they can be circumvented through ownership. Indeed, a Chinese firm that acquires or establishes a European production facility would satisfy "Made in EU" origin requirements while preserving full industrial and technological control. The IAA's FDI provisions are designed to close that loophole.

Beijing's response was swift and unambiguous. On April 24, 2026, China's Ministry of Commerce declared that the IAA's restrictive requirements on foreign investment and "EU-origin" clauses

CHART 5.

Chinese Investment in Europe

Cumulated Chinese FTI, by country, in €bn, between 2000 and 2025



* Only transactions above 5 million dollars are taken into account.
Sources: Les Echos (2026), Rhodium Group

constitute significant investment barriers and institutional discrimination⁸³. The Ministry officially expressed concerns and openly threatened countermeasures should the EU adopt the draft law unchanged. Beijing's specific legal objection is that by subjecting countries with more than 40% of global production capacity to stricter rules, the IAA creates a discriminatory category that effectively targets China and China alone, in violation of the WTO's most-favoured-nation principle. This dispute illustrates a broader institutional problem. Measures designed to respond to extreme concentration in strategic sectors will often have a disproportionate effect on the country responsible for that concentration. The EU must therefore demonstrate that its criteria are objective, proportionate and linked to identifiable economic-security risks rather than to the nationality of investors alone.

The irony, noted by EU Trade Commissioner Šefčovič, is that the WTO rules Beijing is invoking were written in 1995 for a world that no longer exists.

5.3.1.7 Complementary tools to the IAA

The IAA is only one component of the nascent European strategy. Beyond foreign investment screening and procurement restrictions, the Commission is also examining more direct instruments. Internal discussions have reportedly

81. Chinese investment rises to 7-year high – Chinese FDI in Europe: 2025 Update. (2026, May 20). Merics.

82. Industrial Accelerator Act Proposal, COM(2026) 100 final, Chapter IV, Arts. 17–21.

83. MOFCOM Spokesperson's Remarks on the EU's Proposed Industrial Accelerator Act. (2026). Mofcom.gov.cn.

considered requiring supplier-dependent firms in strategically sensitive sectors to diversify their sourcing: companies could be required to source critical inputs from at least three distinct suppliers, while capping purchases from any single provider at roughly 30 to 40 per cent of total supply⁸⁴. In parallel, the Commission is seeking to mobilise the EU's network of more than seventy free trade agreements to deepen industrial partnerships and redirect investment towards alternative supplier countries, and has floated using existing safeguard mechanisms and tariff-rate quotas more aggressively by reallocating preferential access towards "trusted partners"⁸⁵.

This approach reflects a broader shift from complete autonomy towards "de-risking": the objective is not to sever economic relations with China, but to reduce excessive concentration by constructing a more diversified network of suppliers and industrial partners. Such a strategy also underlines the importance of defining which countries qualify as trusted partners and what degree of reciprocal market access Europe should require in return.

Alongside these proposals, the Commission wishes to reexamine the current merger guidelines in order to take into account geopolitical realities. Historically, the Commission's assessment focused primarily on the European dimension of competition, often overlooking global market dynamics – the approach that led it to withhold authorisation for the Alstom-Siemens merger, aimed at ensuring the ability to rival the Chinese giant CRRC. The case illustrates the tension between two legitimate objectives. Competition policy seeks to protect European customers against excessive market concentration, while industrial policy increasingly seeks to create firms of sufficient scale to compete against state-supported global rivals. A revised framework could give greater weight to innovation, future market developments, global competition and economic security without assuming that every cross-border merger automatically serves the European interest. Considering the economic threat posed by China, a reviewed guideline on mergers could be conducive to the creation of more European Giants. Commission President von der Leyen explicitly stated last February⁸⁶ that the EU needs more "champions". Whilst the current Director-General of DG COMP – the Irishman Anthony Whelan – appears close to Ursula von der Leyen and thus more likely to favour European Champions, given

the leeway afforded to the authorities in interpreting and applying the text, no one can be certain how effective this impetus will be.

Negotiations enter a decisive phase as Member States remain divided over the appropriate response. These structural instruments are being assembled against the clock. In July 2026, the EU and China launched a China–EU Trade and Investment Consultation Mechanism, with Trade Commissioner Maroš Šefčovič setting an October 2026 deadline for "tangible results" on the three issues Brussels considers most pressing: the bilateral trade imbalance, Chinese export controls on critical raw materials, and intellectual-property protection⁸⁷. Analysts remain sceptical that Beijing has offered any binding commitment, and the mechanism risks becoming a forum for managing tensions rather than resolving them.

The Union has nonetheless paired dialogue with concrete action. The steel measures already described (the 47% quota cut and the 50% out-of-quota duty in force from July 2026) are the clearest example of trade defence rather than mere talk. But the more revealing development concerns European unity, or the lack of it. In the run-up to these measures, five Member States (France, Spain, the Netherlands, Italy and Lithuania) pushed for a tougher line against China. Germany declined to cosign, calling instead for deeper industrial ties with Beijing⁸⁸.

Germany's position should not simply be interpreted as a refusal to defend European industry. It reflects the structure of an economy whose major industrial firms remain deeply dependent on exports, and supply chains linked to China. Measures likely to provoke retaliation consequently impose particularly visible costs on German manufacturers. France and several other Member States, by contrast, place greater emphasis reducing strategic dependencies and preserving the Union's capacity to act independently.

This is the same structural pattern identified throughout this paper. On issues where a united European position would carry the greatest weight, divergent national economic models produce divergent assessments of the costs and benefits of collective action.

The challenge posed by China therefore confirms the broader argument developed throughout this paper. The European Union has progressively equipped itself with trade-defence instruments,

84. Bounds, A. (2026, May 18). EU plans to force companies to buy parts from non-Chinese suppliers. Financial Times.

85. *Ibid.*

86. Statement by President von der Leyen with President Costa following the informal EU leaders' retreat. (2026). European Commission.

87. (Draft placeholder - to be finalised with a primary source closer to drafting, as this is the most fast-moving material in the section).

88. (Draft placeholder - to be finalised with a primary source, e.g. Financial Times/Politico reporting on the five-state démarche).

investment conditions, procurement criteria and policies intended to reduce strategic dependencies. Yet the effectiveness of these instruments remains constrained by divergent national economic interests. Member States do not assign the same weight to industrial sovereignty, consumer prices, export access or the preservation of commercial relations with Beijing.

As economist Céline Antonin puts it: "Faced with this reality, three urgent priorities present themselves to Europe. The first: to articulate trade policy with industrial policy. Tariffs are only a useful tool if they accompany an offensive strategy to upskill in electric and software technologies. The second: to make Sino-European industrial agreements conditional on genuine reciprocity. The third: to give itself a clear horizon. China has just adopted a five-year plan for 2026–2030, while Europe still debates whether to maintain the 2035 deadline for electric vehicles."

6. Europe's Missed Revolutions: From AI to Robotics

Europe is falling behind in several of the technologies that are increasingly determining economic competitiveness, industrial leadership and strategic power. This is not the first time the Union has struggled to convert scientific excellence into firms capable of competing at global scale. As the United States and China consolidate their positions across computing infrastructure, foundational AI models and industrial applications, Europe risks becoming increasingly dependent on technologies designed, financed and controlled elsewhere. Financing is as much part of this challenge as technological capability itself: deep and integrated capital markets are indispensable if innovative firms are to grow from laboratory breakthroughs into globally competitive companies.

6.1 Europe is losing the AI race due to less R&D spending and fewer financing opportunities

6.1.1 A widening R&D and investment gap between Europe and its economic rivals

The most straightforward measure of Europe's lag is investment. Although the following figures refer to overall research and development expenditure rather than AI-specific investment alone, they provide a useful indication of the resources

available to sustain technological innovation. American dominance in R&D is overwhelming, China's spending is growing rapidly, while Europe has progressively fallen behind. In 2024, R&D expenditure represented approximately 3.5% of GDP⁸⁹ in the United States, 2.7% in China and only 2.1% in the EU-27.

According to CaixaBank Research⁹⁰, the United States accounts for around two-thirds of the world's AI-related computational capacity, while China accounts for roughly 20%. The European Union accounts for just 5%.

This investment gap translates directly into technological output. Between 2021 and 2025, the United States produced 331 notable AI models, China 108 and the European Union only 44. The United States hosts approximately 5,427 data centres compared with 1,461 across the EU. These figures should nevertheless be interpreted with caution, as the number of data centres does not necessarily reflect the amount of computing power available. Increasingly, competitive advantage depends on access to hyperscale facilities equipped with advanced AI accelerators rather than on the simple number of installations.

Europe's greatest weakness lies not in semiconductor manufacturing as a whole, where firms such as STMicroelectronics, Infineon and NXP remain globally competitive in several market segments, nor in semiconductor equipment, where ASML occupies a world-leading position. Rather, Europe is almost entirely absent from the design of the most advanced AI accelerators and high-performance graphics processing units (GPUs), which have become the critical hardware underpinning frontier artificial intelligence. Europe retains a strong scientific base, with AI publications broadly comparable to American levels on a per-capita basis, but it continues to struggle to translate scientific excellence into industrial leadership and globally competitive firms.

6.1.2 The gap exists as much in financing as it does in research

The shortfall is not confined to public R&D spending. European venture capital deployed €66.2 billion in 2025 – only 22% of the amount invested in the United States that year, despite the two economies being of comparable size. Between 2014 and 2023 the cumulative gap was even more striking: €89 billion invested across the EU compared with more than €1 trillion in the United States.

The disparity is particularly acute at the stage that matters most for scaling AI and deep-tech companies:

89. OECD overall R&D growth stable; government R&D budgets decline and reorient towards defence. (2026). Oecd.org. <https://www.oecd.org/en/data/insights/statistical-releases/2026/03/oecd-overall-rd-growth-stable-government-rd-budgets-decline-and-reorient-towards-defence.html>

90. Monthly Report. (2026, May 14). CaixaBank Research <https://www.caixabankresearch.com/en/monthly-report/511/may-2026/present-and-futures-new-ai-economy>

late-stage and growth financing, where the pool of large European investment funds capable of writing nine-figure cheques remains limited.

The consequence is visible at the very top of the market. As the Draghi Report on European competitiveness observed, no EU company with a market capitalisation above €100 billion has been created from scratch during the past fifty years, whereas all six American companies valued above €1 trillion emerged during the same period.

European institutional investors – notably pension funds and insurance companies, which collectively manage some of the world's largest pools of long-term savings – remain comparatively underrepresented in venture and growth capital, reflecting a combination of prudential regulation, institutional investment practices and the continuing fragmentation of European capital markets. As a result, many of Europe's most promising firms raise their largest financing rounds, list on foreign stock exchanges or are ultimately acquired outside the Union, with a corresponding transfer of intellectual property, value creation and future returns.

This financing gap illustrates one of the broader themes developed throughout this paper. Europe does not lack savings; it lacks the institutional mechanisms capable of transforming those savings into long-term investment in innovative firms. The challenge therefore concerns not only the quantity of available capital, but also its mobilisation and allocation across the Union.

6.1.3 The United States and China have developed two distinct models of technological leadership

The United States has built its leadership through a combination of structural advantages that are difficult to replicate rapidly. As CaixaBank Research notes, the country benefits from "an innovative ecosystem based on elite universities and a concentration of STEM and international research talent," complemented by sustained public support through civilian agencies such as the National Science Foundation and defence institutions such as DARPA. This ecosystem is reinforced by exceptionally large technology companies possessing substantial financial resources, global platforms and a high tolerance for risk.

Equally important, American capital markets provide abundant financing at every stage of corporate development, from venture capital to public equity markets. This allows firms not only to innovate, but also to scale rapidly while remaining headquartered within the United States.

Relatively favourable tax conditions and a regulatory environment characterised by limited

intervention during the early phases of technological development have further contributed to this dynamic. The result is an integrated AI ecosystem spanning computing infrastructure, semiconductor design, foundation models and downstream applications, with American firms occupying leading positions throughout the value chain.

China has adopted a markedly different – but equally effective – model. Whereas the United States relies primarily on private entrepreneurial dynamism supported by deep financial markets, China has pursued a strategy based on long-term state coordination. Where Europe thinks in terms of fragmented value chains, China has built a complete ecosystem coordinated by the state over the long term. Artificial intelligence has been identified as a strategic national priority, with subsidies, preferential financing, tax incentives and public procurement all directed towards accelerating technological development.

As CaixaBank Research notes, China's objective is not simply to compete at the scientific frontier, but to strengthen "key links in the global industrial value chain, technological self-sufficiency and national security." This approach is particularly evident in manufacturing. China installed approximately 276,300 industrial robots in a single year, compared with 50,300 across the entire European Union and 37,600 in the United States.

China's technological rise cannot, however, be attributed solely to state intervention. It also reflects the scale of its domestic market, highly integrated industrial ecosystems, rapid innovation cycles and intense competition among Chinese firms. Public support has accelerated this process, but it has done so on the basis of an industrial system already capable of achieving substantial economies of scale.

6.1.4 Europe possesses strong scientific assets but continues to struggle with fragmentation and risk aversion

Europe's difficulties are both structural and political. The European Union possesses genuine strengths: world-class universities, internationally recognised research institutions, highly qualified scientists and a large internal market.

However, as CaixaBank Research observes, Europe suffers from "insufficient supranational coordination and limited prioritisation of its framework programmes." Its financial system remains considerably less oriented towards high-risk investment than its American counterpart, while the continuing fragmentation of capital markets limits firms' ability to scale rapidly across the continent.

Beyond financing, fragmentation also affects entrepreneurship itself. A company seeking to expand across Europe must still navigate multiple legal, tax and administrative frameworks before achieving the scale that an American firm can access within a single domestic market. Europe's difficulty therefore lies less in generating innovation than in transforming innovation into continent-wide industrial champions.

The regulatory environment may compound these structural challenges. The AI Act, while pursuing legitimate objectives relating to safety, transparency and fundamental rights, introduces obligations at an earlier stage of market deployment than the more decentralised American approach.

The issue is not regulation per se. Appropriate safeguards are indispensable if public confidence in AI is to be maintained. The challenge is to ensure that compliance requirements remain proportionate and do not discourage experimentation, investment and commercial deployment, particularly among smaller firms with limited administrative capacity. The central question is therefore whether Europe can combine effective regulation with sufficiently rapid innovation and industrial scaling.

Unlike the United States, where regulatory intervention has generally occurred ex post and remains relatively fragmented, or China, where regulation focuses primarily on politically sensitive uses while leaving industrial development comparatively unconstrained, the European Union has chosen to establish a comprehensive regulatory framework at an early stage of market development.

This approach reflects Europe's broader preference for shaping markets through regulation. While such a strategy can establish global standards, it cannot by itself compensate for lower levels of investment, fragmented capital markets or insufficient industrial scale. As in the fields of energy, defence and industrial policy, Europe has progressively developed sophisticated regulatory instruments. The central question is whether these instruments are accompanied by the financial resources, political choices and industrial concentration necessary to compete with the United States and China.

6.2 Behind the ambition of technological sovereignty, Europe remains dependant on foreign technological ecosystems

6.2.1 Europe's digital infrastructure continues to rely heavily on non-European technologies

Europe's dependency on non-European technology

is pervasive. Google accounts for around 90% of European internet searches. Amazon Web Services, Microsoft Azure and Google Cloud together represent approximately 70% of cloud computing services in the European Union. Nvidia controls roughly 80% of the global market for advanced graphics processing units (GPUs), the specialised processors that have become indispensable for training and deploying frontier AI models.

These figures illustrate that Europe's dependence extends across several layers of the technological stack: digital platforms, cloud infrastructure, advanced semiconductors and computing capacity. The issue is therefore not simply one of software or hardware, but of control over the critical infrastructures on which artificial intelligence increasingly depends.

This dependence extends even into sectors where Europe has deliberately sought to strengthen its technological sovereignty. The JUPITER supercomputer, developed under the European High Performance Computing Joint Undertaking (EuroHPC JU) and frequently presented as evidence of Europe's technological ambition, relies extensively on Nvidia⁹¹ for its computing capacity. Although the project represents a major European investment in high-performance computing, it also illustrates the continuing dependence of European public infrastructures on non-European suppliers for the most advanced AI hardware.

When Nvidia substantially increased prices for advanced AI accelerators, European public projects immediately faced higher acquisition costs, highlighting the strategic vulnerability created by dependence on a limited number of suppliers. Europe's sovereign computing ambitions therefore remain constrained by technologies largely designed and manufactured elsewhere.

6.2.2 The European Union has progressively developed instruments to strengthen technological sovereignty

As in the fields of defence, industrial policy and trade, the European Union has not remained inactive. Over the past few years it has progressively assembled an increasingly comprehensive set of instruments intended to strengthen Europe's technological capabilities.

The European Chips Act, launched with the explicit objective of increasing Europe's share of global semiconductor manufacturing to 20% by 2030, represents one of the most ambitious industrial initiatives ever undertaken by the Union.

Nevertheless, achieving this objective has proved

91. Boone, J. (2026, January 17). IA, quantique, défense... Les supercalculateurs Eviden, dernier bastion européen de souveraineté numérique. Les Echos. <https://www.lesechos.fr/tech-medias/hightech/ia-quantique-defense-les-supercalculateurs-eviden-dernier-bastion-europeen-de-souverainete-numerique-2210257>

considerably more difficult than initially anticipated. A 2025 audit by the European Court of Auditors concluded that the financial resources directly mobilised under the Chips Act, together with the existing governance arrangements, were unlikely on their own to place the European Union on a credible trajectory towards the 20% objective⁹². Europe's structural dependence on non-European semiconductor ecosystems therefore remains substantial.

The lesson is not that the Chips Act has failed, since its principal target remains 2030, but rather that the scale of the challenge exceeds the resources currently available under the programme.

The picture is therefore sobering – but the race is not over. As CaixaBank Research argues, artificial intelligence remains “in its early stages”, and technological leadership is not necessarily determined during the first phase of a technological revolution. Europe retains internationally recognised scientific institutions, advanced industrial capabilities and a large internal market. The question is whether these assets can be mobilised sufficiently rapidly and coherently to remain competitive.

6.2.3 The Commission's response: from the Chips Act to the AI Continent Action Plan

The Commission's most recent response is the AI Continent Action Plan, unveiled in April 2025.

The strategy rests on five pillars: computing infrastructure, access to data, sectoral adoption, digital skills and regulatory simplification. It is supported by InvestAI, presented as a €200 billion mobilisation of public and private investment.

Taken together, these initiatives demonstrate that the European Union has progressively expanded its technological policy toolkit. Europe therefore does not lack initiatives or policy instruments. Rather, the question is whether these initiatives provide sufficient financial concentration and industrial prioritisation to compete with the scale of American and Chinese investments.

The infrastructure component illustrates this challenge particularly well.

Thirteen AI Factories, built around existing national supercomputers, are already operational and provide computing resources for researchers and start-ups.

The more ambitious AI Gigafactories, intended to host hyperscale computing infrastructures capable of training frontier AI models are still in the project

implementation phase. More than seventy expressions of interest have reportedly been submitted by sixteen Member States, yet, more than a year after the announcement of the initiative, no final selection has been made.

This delay illustrates one of the recurring characteristics of European industrial policy. While Member States broadly agree on the objective of strengthening Europe's technological capabilities, agreement becomes more difficult when decisions require concentrating very large investments in a limited number of locations.

The Commission has subsequently complemented the infrastructure agenda with the Apply AI Strategy, designed to accelerate AI deployment across strategic sectors such as healthcare, manufacturing and defence, as well as with the Digital Omnibus Package, which seeks to simplify certain compliance obligations under the AI Act.

Taken together, these initiatives constitute a coherent framework for coordination, infrastructure development and technology diffusion. However, they remain closer to an enabling strategy than to a fully integrated industrial policy. Unlike the United States or China, the European Union has not yet combined concentrated technological priorities, large-scale new budgetary resources, sustained public demand and long-term financing around a limited number of strategic technological champions.

A further difficulty is that Europe cannot simply assume that the dominant US technology companies will behave as neutral infrastructure providers. As C. Cafarra shows⁹³, US tech giants have shown themselves incapable of playing “nice” over the past decades. Their business models and market power give them strong incentives to preserve dependence on their platforms and ecosystems. Regulation can constrain some of these practices, but it cannot by itself create European alternatives. The more durable response is therefore to build domestic EU capabilities and infrastructure – in cloud computing, AI, data, robotics, semiconductors and software – so that European firms and governments have credible alternatives to the US platforms on which they increasingly depend.

6.2.4 France illustrates both Europe's strengths and its structural limitations

Within the European Union, France has emerged as one of Europe's most dynamic AI and deep-tech ecosystems.

92. NEWS-SR-2025-12. (2025). European Court of Auditors. <https://www.eca.europa.eu/en/news/NEWS-SR-2025-12>

93. C. Caffara (2026, August, 18) “L'Europe doit commencer à reconstruire”, Le Grand Continent.

It is home to Mistral AI, currently valued at approximately €6 billion and one of the very few European companies developing competitive frontier large language models. Beyond Mistral, France has also developed a particularly strong ecosystem in quantum technologies, with firms such as Pasqal, Alice & Bob, Quandela, Quobly and C12 positioning themselves among Europe's leading innovators.

Public investment has followed. Between 2021 and 2025, France committed approximately €1.8 billion through the France 2030 programme to artificial intelligence and deep technologies⁹⁴. In May 2026 President Emmanuel Macron announced an additional €1.5 billion investment package.

These investments illustrate that several Member States are pursuing ambitious national strategies. France is not unique in this respect: Germany, the Netherlands, Sweden and others have also developed significant national programmes. The broader challenge is that these initiatives remain primarily national rather than genuinely European.

Mistral AI itself illustrates both the strengths and limitations of Europe's technological landscape. The company demonstrates that Europe remains capable of producing globally competitive firms. At the same time, its financing requirements also highlight the exceptional scale of capital now required to remain competitive in frontier AI, reinforcing the importance of integrated European capital markets capable of supporting firms throughout their growth cycle.

6.2.5 Battery gigafactories illustrate the difficulty of transforming public support into industrial scale

The development of battery gigafactories reflects many of the broader challenges confronting European technological sovereignty.

Global lithium-ion battery production capacity exceeded 2,500 GWh in 2025, with China accounting for more than three quarters of global capacity and over 80% of production. European capacity is projected to increase significantly – from approximately 238 GWh in 2025 to around 773 GWh by 2030 – but remains well below Chinese industrial scale, supply-chain integration and cost competitiveness.

Chinese battery production costs remain more than 30% lower than those observed in Europe.

The collapse of Northvolt illustrates these structural challenges. Once regarded as Europe's battery champion, the Swedish company entered bankruptcy proceedings in March 2025 after experiencing

production delays, rising costs, supply-chain disruptions and changing market conditions.

Northvolt's failure should not be interpreted solely as evidence of shortcomings in European industrial policy. The company also faced firm-specific operational and manufacturing difficulties, particularly in scaling production to commercial levels. Nevertheless, the episode illustrates the extraordinary financial, technological and managerial challenges associated with building entirely new industrial ecosystems capable of competing with long-established global leaders.

Europe has not lacked public support. The European Union allocated approximately €643 million to five battery gigafactory projects, while France provided €659 million in state aid and facilitated up to €600 million in European Investment Bank financing for a single facility in Dunkirk.

These figures nevertheless remain modest when compared with the scale of public support mobilised in China or with the investment incentives created by the United States' Inflation Reduction Act.

More than half of Europe's planned battery factories are now considered at risk of delay, downsizing or cancellation.

The broader lesson extends well beyond batteries. Building globally competitive technological industries requires sustained investment over long time horizons, tolerance for failure and the capacity to continue supporting firms after initial construction. The European Union has progressively developed financial instruments to encourage these investments. Yet the effectiveness of those instruments remains constrained by fragmented financing, dispersed industrial strategies and the absence of sufficiently concentrated technological priorities. Artificial intelligence is only the first stage of a broader technological transformation. Increasingly, the strategic value of AI will depend less on large language models alone than on its integration into physical production systems, advanced manufacturing and autonomous machines. In that sense, robotics may become the next decisive test of Europe's ability to translate technological capabilities into industrial leadership.

6.3 Robotics is the next test of Europe's sovereignty

Artificial intelligence is not limited to large language models, generative applications or digital services. Its most consequential economic effects may ultimately arise from its integration into

94. Boone, J. (2026, May 22). L'Etat dégage 1,5 milliard d'euros d'investissements dans le quantique et les semi-conducteurs. Les Echos. <https://www.lesechos.fr/tech-medias/hightech/letat-degage-15-milliard-deuros-dinvestissements-dans-le-quantique-et-les-semi-conducteurs-2232899>

physical systems: factories, logistics networks, vehicles, medical devices and autonomous machines. Robotics therefore represents a natural extension of the AI revolution and a particularly important test of Europe's ability to transform scientific and industrial capabilities into technological leadership.

Unlike in frontier AI models or advanced GPUs, Europe does not enter this competition without significant assets. The continent retains internationally competitive capabilities in automotive engineering, industrial automation, machine tools, sensors, embedded systems and advanced manufacturing. European firms and research institutions therefore possess many of the industrial foundations required to compete in robotics. The strategic challenge is whether these capabilities can be combined rapidly enough with artificial intelligence, semiconductors, batteries and advanced materials before non-European platforms establish dominant positions across the entire technological stack.

6.3.1 Humanoid robotics illustrates the convergence of AI and industrial production

The development of humanoid robots capable of performing complex physical tasks in industrial environments has attracted growing interest from automotive manufacturers, logistics companies and technology investors.

Several major industrial groups are already experimenting with humanoid or mobile robotic systems in factories and warehouses. These trials remain at an early stage and should not be interpreted as evidence that mass deployment is imminent. They nevertheless indicate the direction of technological development: increasingly capable AI systems are moving from purely digital environments into physical production processes.

This shift matters because the commercial value of artificial intelligence may increasingly depend on its capacity to interact with the physical world. A firm that controls the software, computing infrastructure, sensors and operating systems used by industrial robots could acquire a strategic position comparable to that of the dominant digital platforms during the first internet revolution.

The scale of the potential market remains highly uncertain. Current estimates value the humanoid robotics market at only a few billion dollars, while some projections suggest that it could reach several tens of billions by the middle of the next decade and considerably more over longer time horizons.

Such estimates should be treated with caution. Long-term forecasts extending to 2050 depend on uncertain assumptions regarding technological progress, production costs, safety, energy consumption, labour-market acceptance and regulation. Their significance lies less in their numerical precision than in the possibility that robotics may become a general-purpose technology affecting manufacturing, logistics, healthcare, defence and household services.

As the automobile helped structure industrial development during the twentieth century, robotics could become one of the technologies around which significant parts of twenty-first-century production are organised.

6.3.2 Robotics could reinforce Europe's existing industrial strengths

This technological transition is particularly relevant for Europe because robotics is closely connected to sectors in which the continent retains a substantial industrial base.

European manufacturers remain competitive in automotive production, industrial machinery, factory automation and precision engineering. These capabilities provide a potential advantage that Europe does not possess to the same extent in consumer digital platforms or frontier AI infrastructure. Robotics may therefore represent a field in which European industrial experience can complement, rather than merely follow, advances developed elsewhere.

Europe's objective should not necessarily be to reproduce every component of the American or Chinese technological ecosystem. It could instead concentrate on areas where the interaction between AI and advanced manufacturing creates a comparative advantage: industrial robotics, collaborative robots, medical robotics, autonomous logistics, agricultural machinery and specialised systems operating in demanding professional environments.

Such a strategy would also be consistent with the structure of the European economy, which remains more industrial than that of the United States and is characterised by a large number of specialised manufacturing firms. The diffusion of robotics and AI through these firms could generate productivity gains even if Europe does not produce the world's dominant general-purpose AI model.

6.3.3 Robotics would create demand across strategic technological value chains

The importance of robotics extends beyond the production of robots themselves. Advanced robotic systems require high-performance processors, sensors, electric motors, batteries, specialised

materials, secure cloud infrastructure and large quantities of industrial data.

A credible European robotics strategy could therefore create demand across several strategic value chains in which Europe is currently seeking to reduce its external dependencies. It could support investment in semiconductors, battery technologies, edge computing, industrial software and advanced materials while providing a concrete market for European research and manufacturing.

This demand-side dimension is particularly important. European industrial policy has often focused on subsidising production capacity without ensuring that firms will subsequently benefit from sufficiently large and predictable markets. Coordinated public procurement, common standards and large-scale deployment programmes in areas such as healthcare, defence, transport and critical infrastructure could provide the initial demand required to scale European technologies.

Robotics could therefore serve as an organising industrial objective rather than simply as another sector eligible for dispersed European funding. It would connect existing initiatives in AI, semiconductors, batteries and advanced manufacturing around a concrete set of applications.

6.3.4 Europe still faces important structural constraints

Europe's industrial strengths do not guarantee technological leadership. Many of the most advanced AI models, GPUs, cloud services and robotic software platforms remain controlled by American or Chinese companies.

European robotics firms may consequently become dependent on foreign suppliers for the most valuable layers of the technology, even when the final machines are assembled within the Union. As in the case of batteries or electric vehicles, geographical production alone does not necessarily amount to technological sovereignty if the software, processors, intellectual property and critical components remain controlled elsewhere.

The sector also faces the financing difficulties identified throughout this chapter. Developing and commercialising complex robotic systems requires substantial investment, long testing periods and the capacity to absorb repeated technical failures before reaching industrial scale.

These characteristics make robotics particularly dependent on patient capital. European venture-capital markets remain poorly equipped to finance companies through the long and capital-intensive transition from prototype to mass production.

Promising firms may therefore face the same trajectory observed in other deep-tech sectors: early-stage research in Europe, followed by foreign financing, relocation or acquisition when substantial growth capital becomes necessary.

Market fragmentation raises an additional obstacle. Differing safety rules, labour-market practices, liability regimes and procurement procedures can make the deployment of a robotic system across several Member States more difficult. A genuinely European robotics market would therefore require not only research funding, but also common standards, regulatory coordination and cross-border demand.

The main risk is not that Europe lacks technological capabilities, but that it fails to combine them

Europe missed much of the first digital-platform revolution and is struggling to keep pace in frontier artificial intelligence. Robotics, however, remains a more open field in which the Union retains meaningful scientific and industrial assets.

The risk is therefore not simply that Europe will fail to invent competitive technologies. It is that its capabilities will remain divided among national research programmes, industrial clusters and financing systems that are individually too small to shape global markets.

A European robotics strategy would require the Union and its Member States to agree on a limited number of common priorities, concentrate resources around the strongest industrial ecosystems and create shared markets through procurement and deployment. It would also require accepting that the principal production sites and research clusters cannot be distributed equally across all Member States.

Robotics thus anticipates the political problem examined in the following section. The central obstacle to European technological sovereignty is not a lack of talent or industrial expertise, but the difficulty of making collective choices about where to invest, which technologies to prioritise and how to share the benefits of geographically concentrated success.

Artificial intelligence is the most obvious field in which Europe is facing technological competition today. Robotics may be the next. If Europe fails to connect its existing industrial strengths with AI, semiconductors and patient capital, it risks becoming dependent not only on foreign digital platforms, but also on the machines and operating systems that will increasingly organise physical production.

6.4 Europe lacks the capacity to make concentrated technological bets

The core problem is not that Europe lacks scientific talent, private savings or technological ambition. It is that the Union and its Member States remain structurally unable to transform these assets into a limited number of collective industrial priorities. France, Germany, the Netherlands, Sweden and several other Member States have developed ambitious national programmes in artificial intelligence, quantum technologies, semiconductors, batteries and robotics. Yet these programmes follow their own path, are insufficiently coordinated and remain subscale relative to the investments mobilised in the United States and China.

Frontier technologies require more than the broad distribution of research grants. They require continent-wide strategies, patient capital, large and predictable markets, and the political capacity to concentrate resources on a limited number of technological trajectories. In other words, they require the ability to choose.

6.4.1 The European Union has developed instruments, but not yet a fully integrated technological strategy

The European Union already possesses a substantial range of instruments intended to support research and innovation. These include Horizon Europe, the European Research Council, the European Innovation Council, EIC Pathfinder, EuroHPC, InvestEU, the Joint Undertakings and the Important Projects of Common European Interest.

These instruments should not be dismissed. They finance scientific excellence, support high-risk projects and have helped build European capabilities in areas such as high-performance computing, quantum technologies, hydrogen, microelectronics and batteries. The Union therefore does not lack programmes or institutions.

The difficulty is that these instruments do not yet form a coherent system capable of supporting a technological priority from fundamental research to industrial deployment and global scale. Responsibilities remain divided between the Commission, Member States, national promotional banks, private investors and multiple European programmes, each operating under different objectives, timelines and selection procedures.

The Union continues to perform most effectively in areas where it has clear legal authority: establishing common rules, coordinating national policies and distributing funds through negotiated programmes. The AI Continent Action Plan reflects this institutional logic: multiple pillars, several

financing channels and a broad framework for coordination.

What it does not yet provide is a concentrated industrial strategy based on a small number of clearly defined technological missions, large-scale new resources, integrated procurement and long-term support for firms capable of reaching global scale.

The problem is therefore not simply that the Union regulates too much or spends too little. It is that regulation, research funding, industrial support, demand creation and capital-market policy remain insufficiently integrated.

6.4.2 Europe needs capabilities closer to the DARPA model

What Europe lacks is often described as a European DARPA.

The United States Defense Advanced Research Projects Agency has supported some of the most consequential technological developments of the past seventy years. Its significance lies not only in the amount of money it distributes, but in the institutional model it applies.

DARPA organises funding around clearly defined technological missions. Its programme managers are given substantial autonomy, projects are selected for their potential strategic impact, and funding can be redirected or terminated rapidly when results prove insufficient. The agency also operates within a broader American ecosystem that connects research funding with defence procurement, private investment and large domestic markets.

The European Union already possesses institutions that incorporate some elements of this approach. The European Innovation Council finances high-risk innovation, EIC Pathfinder supports emerging technologies, the European Research Council funds frontier science and the Joint Undertakings coordinate public and private investment in strategic sectors.

None of these institutions, however, fully reproduces the DARPA model. They do not simultaneously combine empowered programme managers, clearly defined technological missions, flexible contracting, the rapid termination of underperforming projects, sustained public procurement and the ability to concentrate resources over long periods on a small number of objectives.

Creating a new agency would not, by itself, resolve this problem. A European DARPA without substantial resources, political backing, procurement mechanisms and the authority to make selective

choices would risk becoming another layer within an already complex institutional landscape. The objective should therefore be less to copy an American institution formally than to reproduce the capabilities that make it effective.

6.4.3 Technological leadership requires concentration rather than geographical balance

Frontier technologies exhibit strong agglomeration effects. The most successful ecosystems combine universities, specialised researchers, suppliers, testing facilities, investors and large industrial customers within a limited number of locations.

It is therefore neither economically realistic nor technologically efficient to distribute every strategic investment equally among twenty-seven Member States. An AI gigafactory, a semiconductor cluster or a quantum-computing ecosystem cannot be divided into twenty-seven equivalent national components without losing many of the benefits created by concentration.

Several European research programmes are formally based on scientific excellence rather than geographical quotas. Nevertheless, the broader political economy of EU expenditure frequently encourages broad participation, multinational consortia and a visible distribution of benefits across Member States.

These objectives are politically understandable and can promote cohesion. Yet they may conflict with the speed, scale and concentration required to compete at the technological frontier. The result is often a compromise in which resources are distributed widely enough to secure political agreement, but not concentrated sufficiently to produce global leadership.

The dilemma is therefore not simply whether Europe should spend more. It is whether Member States are prepared to support investments whose principal laboratories, factories and employment effects may be located elsewhere in the Union.

6.4.4 The gains from concentration must be made collectively acceptable

A more concentrated European technological policy would inevitably produce unequal geographical outcomes. Some regions would host the main research centres, manufacturing facilities and high-value employment, while others would benefit more indirectly.

This does not mean that the benefits must remain exclusively national. Europe could combine concentrated production with shared ownership, access and financial returns.

Projects financed through common European borrowing or a genuinely European investment fund could give all participating Member States a financial interest in their success. Common procurement could guarantee that technologies developed in one region are deployed throughout the Union. Cross-border supply chains, shared research infrastructures and open access to computing capacity could distribute some of the benefits beyond the principal host territory.

The political compromise should therefore not be geographical equality in the location of every asset, but a credible system for sharing the strategic and economic returns generated by concentrated investment.

Without such arrangements, national governments will continue to evaluate European industrial initiatives primarily through the question of where the factory, laboratory or headquarters will be located: As long as success elsewhere in Europe is perceived as a national loss rather than a shared European gain, the Union will remain unable to make the selective investments required by technological competition.

6.4.5 Fragmented capital markets reinforce fragmented industrial policy

The same fragmentation characterises private financing. European venture-capital and growth-equity markets remain substantially smaller than those of the United States, particularly for the large financing rounds required by deep-tech firms.

National institutions such as Bpifrance, KfW, the Tibi initiative and WIN provide valuable support, but they continue to function primarily as parallel national pipelines rather than components of a single continental financing market.

A European company may therefore receive early-stage support within its home Member State, but still struggle to finance industrial expansion across the Union. When the largest investment rounds become necessary, American or other non-European investors frequently provide the capital, often accompanied by pressure to relocate activities, list abroad or accept foreign acquisition.

The proposed 28th regime, or EU Inc., seeks to create a single optional European corporate status and could reduce some of the legal and administrative barriers encountered by firms operating across borders.

This would represent a meaningful step towards a more integrated entrepreneurial environment. It would not, however, resolve the underlying scarcity of large European growth funds, nor would it create by itself a unified capital market capable of

financing strategic firms from laboratory research to industrial scale.

Europe has therefore built neither a fully integrated institutional system for selecting technological missions nor a sufficiently deep continental capital market for financing the firms that emerge from them. The two weaknesses reinforce one another: fragmented public strategy produces fragmented demand, while fragmented private finance limits the capacity of firms to respond at scale.

6.4.6 The principal obstacle is political rather than technical

The political obstacle is well understood. A genuinely effective European industrial policy would require directing substantial resources towards the ecosystems most capable of transforming them into technological and industrial leadership.

This means that some Member States, cities and regions would benefit more directly than others. National governments accountable to domestic electorates have little incentive to support such concentration unless they can demonstrate that the resulting gains will be shared more broadly.

The result is a recurring European compromise: a large number of priorities, programmes and participating institutions, but insufficient concentration around any one objective.

This is not merely a technical problem of programme design or a budgetary problem of insufficient expenditure. It is a problem of political convergence. Member States have not yet agreed on which technological capabilities Europe must control, where investment should be concentrated, how much risk should be accepted, or how the resulting benefits should be distributed.

The inability to answer these questions explains why European technological sovereignty often remains more declaratory than operational. The Union can announce strategies and create financing instruments, but their effectiveness remains limited when Member States continue to protect national industrial priorities and resist common decisions with unequal territorial consequences.

6.4.7 Technological sovereignty ultimately depends on Europe's capacity to choose

Artificial intelligence is the most visible test of whether the Union can overcome this pattern. Robotics, quantum technologies, semiconductors and future computing systems will present the same challenge.

Europe does not need to dominate every technological value chain. It does, however, need to

identify the capabilities that are indispensable to its economic security and strategic autonomy, and then mobilise sufficient resources to build or preserve them.

That requires a limited number of clearly defined technological missions; large-scale and patient financing; closer integration between research, industrial policy and public procurement; a genuinely continental market for venture and growth capital; and political mechanisms capable of sharing the returns from geographically concentrated investment.

The technological challenge therefore confirms the broader argument developed throughout this paper. Europe does not primarily lack talent, savings or policy instruments. It lacks convergence on the strategic choices required to use them effectively.

Until Member States accept that shared strategic gains may require unequal national outcomes, Europe will remain rich in scientific expertise and financial resources but dependent on technologies financed, scaled and governed elsewhere. Such dependence is incompatible with the strategic autonomy the Union claims to pursue.

Conclusion

The European Union has demonstrated a remarkable capacity to adapt to successive crises. Confronted with challenges for which the Treaties provide only limited competences, the European Commission has progressively developed a growing number of ad hoc instruments in fields such as industrial policy, defence, energy, trade and technological innovation. While these initiatives have strengthened the Union's capacity to respond collectively, they cannot fully compensate for the absence of deeper political consensus and the widening economic divergences among Member States.

Ultimately, Europe's competitiveness and strategic autonomy will depend less on the multiplication of common instruments than on the ability of Member States to strengthen their economic, financial, industrial and political convergence. A stronger Europe requires stronger Member States, but it also requires a renewed commitment to collective action. Only by reconciling national interests with a shared European vision will the Union be able to transform its growing institutional capacity into lasting economic resilience and geopolitical influence.

No European instrument, however innovative, can permanently substitute for the economic convergence and mutual trust on which European cooperation ultimately rests.

need to change our mindset.

If we fail to make the fundamental changes required by this new economy, we will continue to lose ground year after year.

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A formidable explosion of new or renewed inventions has been taking place for decades.

We have to acknowledge it: Europe has not been at the origin of these innovations. The train has passed without Europe moving.

In past technological revolutions – and in particular those involving the steam engine, electricity, and the telephone – Europe was at the heart of inventions and industrial achievements. The United States was certainly very active, but Europe was very much present. Yet this was a Europe that was not united: Germany, the United Kingdom, and France developed their production and investment according to their own particular strengths and capabilities.

The question that arises – and it is an uncomfortable one – is this: would Europe be more present if, as in the 19th century, it remained a Europe of sovereign states?

We must dare – as this paper does – to ask the question: is an institutionally unified Europe a better vehicle for innovation? The reader of this paper will judge for themselves, but the diagnosis is not optimistic.

If we want – and there are many good reasons to do so – to maintain the European approach, because unlike the steam engine, interconnection is now at the heart of success, and breakthrough innovations are extremely costly, then states must change their attitude. The paper above sets out the direction that should be taken.

Will we be capable of doing so? That is the fundamental question being raised. But generalizations and additional European funding are not the key to the problem. The key is to accept the concentration that is inherent in the existence of large companies in innovative sectors.

We have shown that we are capable of successfully competing with Boeing in the aerospace sector – but we did so outside the European institutions. Why, then, should we not be capable of creating Airbuses for artificial intelligence, robotics, the Internet, etc.?

Why not?

The reader of this paper will find no valid reason to conclude that we are incapable of doing so. But we