



AGENDA

# A Transatlantic Agenda for the New European Commission

SEPTEMBER 2019

## Introduction

**Mr. Benjamin Haddad, Director, Future Europe Initiative**

**Mr. Jörn Fleck, Associate Director, Future Europe Initiative**

The new European Commission will take office on November 1, 2019, at a time of great challenge and strain for transatlantic relations. The last Commission's term was marked by existential challenges for the European Union (EU): instability in the neighborhood, Russian aggression against Ukraine, the migration crisis, the rise of populism—at home across the EU and abroad, most notably in the United States—and, of course, Brexit. The election of President Donald Trump, a president openly skeptical of the European Union and the European project, has brought uncertainty to the endurance of the Alliance.

The Atlantic Council is committed to strong US engagement with its allies in Europe, including with the European Union itself. For the last seventy years, the transatlantic relationship has been the cornerstone of the promotion of a rules-based international order, free trade, and multilateral institutions. In this respect, the unity and resilience of the European Union is a critical national interest of the United States. From navigating great power competition to shaping the rules of international trade and future technologies, a strong EU ought to be the go-to partner for the United States. The challenges emanating from China, for example, strike at the heart of the very definition of the kind of globalization, the type of rules the transatlantic community wants to uphold. If the United States wants to address these challenges, it will not succeed through unilateral action.

The Atlantic Council's Future Europe Initiative promotes transatlantic leadership and a strong Europe in a time of great power competition.

However, lamenting the populist backlash against the existing international order, or indulging in nostalgia or in naiveté about a post-2020,

post-Trump world returning to the old normal will not help the transatlantic partners respond to the challenges they face today. The transatlantic relationship and its institutions need to be rethought and reshaped to answer today's needs, confront threats, and address the grievances expressed by voters in recent years.

The incumbent European leadership deserves considerable credit for navigating the various crises and challenges that have afflicted the European Union since 2014. Few would argue that the Commission of Jean-Claude Juncker and the Member States have delivered visionary answers to the big questions facing Europe. But the EU has proven more resilient—and perhaps even more unified—in the face of formidable internal pressures and external shocks than many observers might have expected. If the Juncker Commission has lacked large, aspirational initiatives, it has done the less glamorous work of strengthening the EU's position on several critical issues and its global profile in a world increasingly characterized by great power competition.

Europeans have stayed united on sanctions against Russia since its illegal annexation of Crimea, the downing of flight MH17 over Ukraine, and the Russian-backed insurgency in the Donbas. Paris, Berlin, and Brussels are also leading the way to a more united and forceful response to China's increased assertiveness—notably, with the development of an investment-screening mechanism. On questions like energy security, the impact of the Energy Union's regulations has slowly eroded Gazprom's dominance of Europe's gas distribution, even if hurdles remain, starting with Nord Stream 2. The divisive issue of migration and the Union's asylum system has not been resolved, but Frontex, the EU's border-control agency, has been considerably strengthened. On privacy issues in the digital space, with the General Data Protection Regulation (GDPR), the EU has consolidated, if not expanded, its status as an international norms setter. Commissioner Margrethe Vestager has aggressively investigated alleged anti-competitive behavior from tech giants. In no other area has EU unity come more as a surprise than in the negotiations over the United Kingdom's exit from the Union, in which London was not able to divide the EU-27. Europeans have stood firm on the defense of the four freedoms guaranteed by the single market, and on the question of the Irish border. As these lines are written, it appears increasingly likely that Brexit will happen on October 31. It will then be urgent for all involved to rebuild the relationship between the United Kingdom and the continent, and to ensure the critical cooperation

on defense, security, and sanctions is preserved, despite the acrimony created by the drawn-out negotiation process. The United States should play a role as confidence builder in this process.

This is not to say that significant challenges don't remain for the EU as a new Commission prepares to take office. Political divisions—and, in some cases, cultural splits—continue to exist between northern and southern, eastern and western, small and large member states, from migration policies to eurozone reform and the model of European integration. Add to that rule-of-law procedures that have the potential of stoking tensions between Brussels and key Eastern European members. All the while, the internal dynamics of a post-Brexit EU are in flux, and new coalitions and power-balancing arrangements among Member States may make decision-making more complex. Similarly, while increased turnout and a lower-than-expected far-right showing stirred optimism after the latest EU ballot, the European Parliament will nonetheless have to settle into a new reality of greater fragmentation, requiring more effort to build majorities.

It is now time for a political European Commission, much like the one the Juncker team initially set out to be. At home, the new college of commissioners under President Ursula von der Leyen will likely focus on an EU more protective of its citizens' social and economic demands. Abroad, amid greater uncertainty surrounding its traditional US ally and great power competition, the EU will have little choice but to develop its capabilities and assume a larger role. The new European leadership will have to wield the considerable instruments at its disposal to exert political influence on the international stage: the normative power of its single market, its regulatory instruments in areas like energy security and digital policy, and its burgeoning defense investments (with PESCO and the European Defense Fund) to defend the interests and security of its citizens. This should start on the periphery of the European Union: in Ukraine, the western Balkans, and North Africa, where rival powers are increasingly vying for influence.

This memo gathers the contributions of several Atlantic Council experts on a variety of issues such as defense, foreign policy (Russia, China, western Balkans, North Africa), sanctions, trade, energy, etc. The authors have been encouraged to both assess the current challenges facing the EU and its incoming leadership in their specific area of expertise, and to explore the opportunities for transatlantic cooperation that exist in each field.

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Geostrategic considerations and an internal effort to promote greater policy cohesion have spurred a renewed interest in EU defense cooperation. <https://unsplash.com/photos/SCgE-uLumj4>

# Security and Defense

## Strategic Autonomy

**Ms. Sophia Besch, Non-Resident Senior Fellow, Future Europe Initiative**

***What are the key challenges facing the EU in the specific policy area you are writing about?***

The EU is nowhere near reaching its goal of strategic autonomy in the defense-policy field, too great are the capability gaps and too broad the divergence between Member States' threat perceptions and strategic assessments.

Geostrategic considerations and an internal effort to promote cohesion have spurred a renewed interest in EU defense cooperation, but—particularly in Western European countries—the remoteness of any military threat means that creating domestic political support for higher levels of defense spending remains difficult.

With the United Kingdom leaving the Union, the likelihood of operational cooperation happening outside the EU's frameworks increases.

New initiatives on defense-industrial cooperation have yet to prove their worth. On building up the EU's capabilities, the Union will have to learn by trial and error how to balance support for European defense firms with getting the best equipment for its money. Industries and governments might decide that EU conditions to access defense-fund money are too cumbersome and invasive, and not bring future big-ticket capability projects under the EU umbrella. The Commission will need to prove that it is able to take on board industry feedback, as well as military advice. Europe will also not be able to create a strong defense-industrial base without a more joined-up and predictable arms-export policy.

***What are the internal political dynamics within the EU, and among key Member States, related to these issues?***

If one follows the EU adage that nothing happens without compromise between France and Germany, the EU



has a problem. The mood between Paris and Berlin is at a low point on defense matters – Paris is disappointed in Berlin's reluctance to invest in the EU's operational capacity; Berlin resents the French extra-EU defense initiatives.

The most assertive rhetoric on strategic autonomy, often coming from French officials, does not reflect the compromise reached at the European level.

On the issue of an EU single market for defense, countries such as Sweden, Poland, Romania, the Netherlands, and the Czech Republic, whose national defense industries specifically need to maintain close links to US—and British—defense companies, have raised objections when the EU's plans have overly favored European defense companies.

***What do you think should be the EU's priority actions/ issues/ projects in the specific policy area?***

Europeans need to show that their defense efforts will yield results. The projects currently under discussion have little immediate payoff in terms of operational capability. The key will lie in the European capacity to invest in defense projects that directly address capability shortfalls, identified through the NATO Defense Planning Process and the European Union's new planning instrument, the Coordinated Annual Review on Defense.

The EU also should prioritize work on its relations with third countries, most importantly the UK, which should be granted a special status in the field of defense-industrial and operational cooperation. A common, and enforceable, EU arms-export regime is not an imminent reality. But, the development of EU defense initiatives and the increasing role of the Commission in defense policy suggest the first tentative steps toward this end may be taking place. EU Member States should attempt to reach a shared view on the security context of arms exports—embracing useful input from extra-EU initiatives, like the European Intervention Initiative—improve reporting by Member States, tighten dual-use regulation and end-use controls, and reach intergovernmental export agreements.

***What are the key implications for US decision-makers and US-EU cooperation in this field?***

EU officials who are committed to the transatlantic defense partnership were taken aback by what they

perceive as unfair attacks from the US administration on the EU's recent defense projects. The efforts of US defense firms in Brussels to influence participation criteria in the defense fund, as well as President Donald Trump's personal focus on the 2 percent rule, have fueled a damaging narrative in some European countries that the US priority is to sell its own kit and increase dependency, rather than help European allies become stronger defense partners.

The United States should want to support a European political narrative that would justify a sustained increase of the defense budget in these countries. It should also favor deepening EU-NATO coordination in capability planning, so that these additional resources can be used to stimulate greater European capabilities that are useful for transatlantic security. It should frame any NATO capability procurement efforts as noncompetitive to the EU's own work, so as to not endanger fledgling NATO-EU cooperation.

## European Defense

**Mr. Ian Brzezinski, Resident Senior Fellow,  
Transatlantic Security Initiative, Scowcroft  
Center for Strategy and Security and Future  
Europe Initiative**

The new European Commission taking office in Brussels this fall will inherit a long-standing challenge: US skepticism about the motivations and utility of European Union (EU) defense initiatives. For decades, many in Washington (and Europe) have suspected that the EU's forays into defense operations and capability development are an effort to diminish US influence, and to weaken the NATO Alliance. Others dismiss these efforts as inconsequential, noting that in the two decades following the 1998 French-UK Saint Malo Joint Declaration on European defense, little of significance has emerged from these European ambitions. Some conclude both assertions are true.

The initiation of a new Commission, one led by a respected German defense minister, provides an opportunity to refocus and reframe EU defense initiatives so that they more usefully address Euro-Atlantic security priorities, and thereby underscore EU commitment to transatlanticism and Europe's determination to carry its fair share of the defense burden.

Toward these ends, the Commission should consider the following opportunities.

**Reframing the Rhetoric of European Defense:**

“Strategic autonomy,” the current catchphrase for European defense, needs to be updated. It communicates a desire for distance, if not separation, from the United States, and generates unease about potential competition over military assets that NATO expects to have available in times of crisis or conflict. Different language (perhaps “strategic responsibility”) is needed to better signal commitment to shared objectives, including equitable transatlantic burden sharing.

**Contributions to NATO Capability and Operations:**

The European Commission should marshal its significant political influence and financial capacity to assist NATO in addressing its capability shortfalls and executing Alliance operations, including both missions and exercises. Three opportunities stand out.

- ◆ **NATO Defense Shortcomings:** The capability efforts facilitated through the Permanent Structured Cooperation (PESCO) and the European Defense Fund (EDF) should be far more ambitious. Their primary goals should be addressing key NATO capability gaps, the most urgent of which include air and missile defense, surveillance platforms, air-to-air refueling, and strategic lift. Filling these gaps is essential to NATO’s deterrent posture, and is thus essential to Europe’s security.
- ◆ **NATO’s Four Thirties Initiative:** In a like manner, the EU ought to consider how it can financially or operationally assist the fulfillment of NATO’s Four Thirties Initiative—an effort to be able to deploy, by 2020, thirty battalions, thirty naval-combat vessels, and thirty air squadrons on thirty days’ notice. An obvious possibility would be to offer some of the EU’s Battlegroups, multinational combined-arms battalions, assuming they are able to meet NATO interoperability and readiness standards.
- ◆ **NATO Operations:** The EU should also offer to deploy its Battlegroups to a NATO mission, such as NATO’s enhanced Forward Presence (eFP) mission in North Central Europe deterring Russian aggression, or to the Alliance’s Resolute Support mission in Afghanistan. (Since the creation of EU Battlegroups in 2007, not one has been sent on

a mission!) There is no clearer way for the EU to demonstrate its commitment and relevance to transatlantic security than participating in a demanding NATO operation.

**Military Mobility:** The current EU Commission proposed an important 6.5-billion euro effort to fund improvements in European transportation infrastructure essential to rapidly moving military forces across the continent. Highways, railroads, and bridges that can handle the weight and stress associated with military equipment are critical to the continent’s defense, and, thus, a significant transatlantic concern.

The new EU Commission should increase that funding, ensure these infrastructure projects are rapidly executed, and link the program to the Three Seas Initiative Central European countries launched to accelerate the development of north-south transportation infrastructure in the region between the Baltic, Black, and Adriatic Seas.

Government transitions present enormous opportunity to redirect and reframe key priorities. This is certainly true in the case of the European Union. When it takes office, the new European Commission should seize the moment to elevate the transatlantic motivations and foci of European defense.

## Cybersecurity

**Dr. Trey Herr, Director, Cyber Statecraft Initiative, Scowcroft Center for Strategy and Security**

The transatlantic relationship has been tested in the past several years, in no domain more, perhaps, than security. The recent American push to evict Huawei products and services from national telecommunications networks has landed awkwardly, with differing levels of uptake from US allies and partners across Europe. This discussion of who to trust—and how—has already begun to seep into the broader discourse and threatens to undermine critical relationships.

The European Union (EU) can assert new leadership in cybersecurity by focusing on substantive policy development tied to operational output via exercises and interagency dialogue. This leadership should concentrate on developing and demonstrating a coordinated

European response to significant and harmful cyberattacks such as NotPetya, the enabling of scalable security technologies like cloud computing, and developing a consensus position on assessing and actively managing the risks posed by Information Technology (IT) companies subject to undue or unlawful influence by their home jurisdictions.

Taking the last first, the EU should leverage critical skills and expertise in the European Union Agency for Cybersecurity (ENISA) to develop a cross-national consensus position on the risks posed by companies like Huawei whose security guarantees and practices may be subject to malign influence by the Chinese state. Rather than engaging with the relatively sparse evidence offered by the United States in advocating outright bans or removal of Huawei technology, the EU has an opportunity to address the root cause of this concern and decide how to engage with a company that could be ordered to compromise otherwise secure technology. This is an important issue to grapple with, given the rash of dependencies on Huawei infrastructure across European telecommunications companies and the likelihood that this is not the last state-owned enterprise, Chinese or otherwise, to give rise to such concerns. Absolute consensus is unlikely but building a common rhetoric and better understanding of value systems in the decision-making process across the EU would be hugely beneficial.

Enabling the spread of cloud computing could lower long-term costs of IT ownership and operation but

more importantly, would allow for more rapid security changes—and at greater scale—than legacy infrastructure. The EU should move to drive cloud adoption in public and private sectors less as a financial priority than a security one—giving entities greater ability to update and securely operate their technology while preserving control and clear standards for the governance of data especially confidentiality. Driving new certification mechanisms on top of a bevy of international standards is unlikely to add value and more likely only to harm this adoption. As the EU becomes a larger market for these services, it also takes on outsize influence as a market actor driving change through and within the companies providing these services. This will serve to reinforce longer term efforts toward reforming technology governance like General Data Protection Regulation (GDPR) and its follow on projects.

Lastly, the EU must develop and demonstrate a coordinated response to significant and harmful cyberattacks. These incidents require action beyond that of a single state and assuring adversaries of the credibility of such multilateral action will be difficult. Exercising the legal authorities and political decision-making process behind such coordinated responses will demonstrate the EU's resolve. Such exercises will require detailed coordinating mechanisms and a sense of shared values and expectations before being put into operational practice. The best opportunity to do this work is well before a storm appears on the horizon.



Amid greater uncertainty surrounding its traditional US ally and great power competition, the EU will have little choice but to develop its capabilities and assume a larger role. <https://tinyurl.com/y4m9wbz5>

# Foreign Policy

## Russia Policy

**Ambassador Daniel Fried, Weiser Family  
Distinguished Fellow, Atlantic Council**

The European Union has done a credible job meeting the challenge of Putin's Russia, especially given differing views among EU Member States and the United States' uncertain Russia policy under President Trump. And a challenge it is: the Putin regime in its late phase presents a toxic combination of aggression—including armed attacks against Ukraine, the use of nerve gas to attempt assassination in the UK, and disinformation campaigns against many EU Member States—and a stagnant authoritarian kleptocracy at home, which leans on repression to maintain itself.

Given the Kremlin's current nature, the EU's policy framework toward Russia, launched in March 2016, seems sound. Its "five guiding principles" include: full implementation of the Minsk agreements (to resolve Russian aggression in eastern Ukraine); closer ties with

Russia's former Soviet neighbors (meaning no recognition of a Russian sphere of domination); strengthening EU resilience to Russian threats; selective engagement with Russia on certain issues, such as counterterrorism; and support for people-to-people contact. This balanced framework allows for resistance to aggression, including: maintaining significant sanctions; selected cooperation to stabilize relations; and an implied look toward a better future (through development of "people-to-people" ties). If the professionals in the Trump administration were able to publicly articulate their own approach to Putin's Russia, it would probably be similar.

Still, as with the United States, the EU's Russia policy seems reactive. There is no need to abandon the current EU policy framework and, in any case, the EU policy dynamic is not favorable for a bold new approach: with Brexit, Europe's champions of a strong Russia policy will lose a major voice. Poland has policy expertise on Russia, but its on-and-off feuding with the EU and sometimes-testy relations with Germany have weakened its ability to take what would otherwise be a natural lead. But, working within its existing policy



framework, the new EU leadership can lean into existing lines of policy to good effect.

**Ukraine:** President Volodymyr Zelensky was elected to put the country on a less corrupt footing, breaking the stranglehold of an oligarch-dominated economy and state institutions that serve it. The EU cannot take responsibility for Zelensky's decisions, but can back him if he makes the right ones. The French and Germans, the West's leads in the Minsk process, should consider working with the new Ukrainian team and the United States on renewed efforts to put Minsk implementation on track, and prepare to intensify sanctions if the Kremlin does not work in good faith.

Supporting Ukraine should be a joint EU-US project. A Ukraine developing along the successful lines of the post-communist Central Europeans and Baltics a generation ago would mark a huge success for Ukraine and the transatlantic community, and a blow against Putinism.

**Energy:** Nord Stream II remains an open sore dividing Germany from Ukraine, Poland, the Baltic States, and the United States. It is bad policy—increasing Europe's dependence on Russian gas and helping Putin split Europe between energy-satisfied and energy-vulnerable EU Member States—and, therefore, politically corrosive for the EU. The European Commission, long skeptical about Nord Stream, has found itself frustrated. But, its new leadership may feel empowered to push for a Nord Stream solution.

If the Commission cannot convince Germany to abandon the project, it should push for Germany to help intensify current efforts to mitigate the downside risks for Central Europeans whom Nord Stream could damage, e.g., by supporting even more investment in liquefied-natural-gas (LNG) facilities and pipeline projects to reduce the consequences of dependence on Russian gas. (Germany and the EU would be in a stronger position urging Poland to accelerate its reduction of dependence on coal if they were doing more to make Poland less vulnerable to Russian gas pressure.) The EU, with German support, should also take a lead in helping Ukraine free itself from Russian gas (a process already well underway) and deal with the financial consequences of Russian cutoffs of its gas transiting Ukraine (currently about \$2 billion per year).

For its part, the United States should not look at Nord Stream as a convenient cudgel to beat Germany, or

as an unwise wedge between Germany and Central Europe, but should work with the new Commission, pushing for the best possible arrangements to turn Nord Stream from a strategic and political liability to a merely mediocre idea.

**Counter-disinformation:** Kremlin-sponsored disinformation has targeted not only the more vulnerable EU Member States but those, such as Spain and Greece, that once assumed such actions had nothing to do with them. The EU is well ahead of the United States in framing a counter-disinformation strategy (through its Action Plan and Code of Practice) negotiated with leading social media companies. The new Commission now needs to implement it, which may lead to establishing a new regulatory framework for social media, intended to strengthen integrity and transparency (rather than focusing purely on content). This could best be done in concert with the United States, which would extend the power of parallel approaches, but could be done unilaterally.

**"People-to-people" ties:** This is a polite way of describing programs to reach out to Russian society; the EU (and the United States) should expand these programs. Recent demonstrations in Moscow and elsewhere in Russia suggest that the Putinist social contract of political authoritarianism in exchange for rising living standards may be fraying—or worse. The problem is likely to get worse; absent another spike on oil and gas prices, the Putinist model of a leader-run kleptocracy with massive expatriation of wealth cannot deliver sustained economic growth. Reaching out to Russian society is not a euphemism for seeking "regime change." Rather, it is a recognition that Russian society may come to determine Russia's future, and that Europe and the United States have an interest in investing in that society.

The EU and United States should supplement these efforts with intensified reforms to curtail the corrupt channels Putin and his cronies use to park their ill-gained funds in Western banks and high-end real estate.

This is not a creative time in dealing with the Russian regime; Putin and his team are not apt to seek strategic improvement in relations, except under conditions neither the EU nor United States can or should accept (e.g., no recognition of Russian domination of Ukraine). The most promising current avenue for stabilizing ties might include strategic stability, both in the

operational sense of enhanced regular dialogue—especially military dialogue—to avoid military incidents and clarify intentions, and possibly arms control, for which the Putin regime may have more interest following reports of difficulties in its development of exotic (and destabilizing) missiles. Such talks usually involve a US lead, but ought to be the subject of US-European consultations.

A more propitious time for reaching out to the Russian government may come when Russian authorities realize that their current course of principled confrontation with the West and “permanent stagnation” at home (to use a phrase now heard even in official Russian circles) has failed. Should that moment come, as it has in Russia’s past, Europe and the United States should be prepared to respond.

## Counter-Disinformation

**Ambassador Daniel Fried, Weiser Family  
Distinguished Fellow, Atlantic Council**

To its credit, the European Union (EU) has developed an outline of a workable counter-disinformation policy consistent with freedom of expression. The new Commission’s task will be to make it real: to implement the EU’s counter-disinformation initiatives in a consistent and sustained way, and to thoughtfully develop regulatory norms to support social media transparency and integrity, seeking thereby to reduce the scope for foreign disinformation. When and if the US administration develops its own thinking on counter-disinformation, the EU should welcome transatlantic collaboration on counter-disinformation, seeking to build with the United States (and possibly other key democratic governments) what could amount to global standards and best practices.

The EU’s counter-disinformation policy emerged in 2018. Its elements include: a “Code of Practice” concluded with major social media companies; a Rapid Alert System to expose disinformation in real time; a recommendation to increase the EU’s budget for counter-disinformation efforts, hopefully including greater support for the EU’s EastStratCom unit based in Brussels; and a set of ideas such as the creation of a European network of independent fact checkers, efforts to identify reliable information suppliers, and investment in social resilience.

These EU efforts have been supplemented by national efforts by various Member States (e.g., France and Sweden).

Implementation is just getting started, with the Rapid Alert System seemingly at an initial stage and the European Commission still examining the efforts of social media companies to adhere to the recommendations and spirit of the Code of Practice. But, a slow start is to be expected when dealing with the disinformation challenge, which is substantively complex and on which the views of EU Member States vary.

The prospect of US-EU cooperation against disinformation is mixed, due partly to the often-contentious atmosphere around US-EU relations, a product of the Donald Trump administration’s general skepticism of (and occasional hostility toward) the EU, and partly to the political sensitivities at the top of the US administration with respect to Russia policy in general, and Russian disinformation and election interference in particular.

These factors are likely to persist throughout the Trump administration. Thus, while launching a major transatlantic initiative to develop a common set of policies to counter disinformation is a good idea, and one that would have been a natural go-to point for past US administrations, that may now prove impossible. If it does, as an alternative, US-EU cooperation to combat disinformation could start with discreet, perhaps disaggregated, areas of common effort—a bottom-up strategy that will perforce be slower, but may be the best available way to combine EU and US strengths to challenge and limit disinformation, whether from the Vladimir Putin regime or other authoritarians.

## Shaping a Transatlantic Response to China’s Assertiveness

**Mr. Benjamin Haddad, Director, Future Europe Initiative**

In the last years, the transatlantic relationship with regards to China has faced a major paradox. Indeed, both sides of the Atlantic have shown a parallel awakening to the challenge faced by the practices of Xi Jinping’s China, whether its unbalanced trade practices such as intellectual-property and technology theft, disguised

subsidies to companies, hardened authoritarianism at home, growing international assertiveness from the development of the Belt and Road Initiative (BRI), or the militarization of the South China Sea. And yet, this newfound vigilance has not translated into increased cooperation or converging policies. On the contrary, the dialogue related to China has been focused on disagreements such as some European governments' apparent openness to granting fifth-generation (5G) licenses to Huawei, an option that US officials say would threaten transatlantic intelligence sharing.

The Trump administration has put great power competition at the heart of its strategic outlook in its 2018 National Security Strategy. But, while engaging allies should be at the top of its agenda to shape a global response to China's assertiveness, the administration has pursued a unilateral track when dealing with Beijing, withdrawing from the Trans-Pacific Partnership (TPP), using trade tariffs to push for a new deal rebalancing the economic relationship between both countries, and showing little interest in joining its partners in making its case against trade violations at the World Trade Organization (WTO). The response to the challenge posed by China's rise will define the very nature of globalization and the norms shaping it, from artificial intelligence and data privacy to the respect for multilateral trade rules. In this respect, the EU is a critical partner for the United States.

Europeans' own divisions didn't help in making the case, with some countries more eager for deeper engagement. In early 2019, Italy became the first country to sign a memorandum of understanding with China to join BRI with planned infrastructure development in the Trieste Port. Central and Eastern European states have courted China in the "16+1" format while countries that have been on the receiving end of Chinese investments, such as Greece, have parted ways with the European consensus on issues such as Chinese human-rights violations. According to some estimates, China is investing nine times more in Europe than in the US.

Europe's response to China has been dispersed and belated, but increasingly forceful. Some European leaders, such as Emmanuel Macron, have tried to promote a united approach, such as when the French president invited Chancellor Angela Merkel and Commission President Jean-Claude Juncker to join him in a summit with President Xi Jinping in Paris in March. Merkel's Germany, as China's first trading partner, had led the way in taking a closer look at the risks to sovereignty

posed by certain investments. In a document published in March 2019, "EU-China: A Strategic Outlook," the European Commission took stock of China's new status and assertiveness, calling for a "more realistic, assertive and multi-faceted approach" with a country that is both a "cooperation partner" and a "systemic rival promoting alternative models of governance." Europeans show an increased awareness that while trade with China brings welcome economic benefits, it can come with an objective of exerting political leverage. Thus followed the development of an EU-wide investment screening scheme, pushed by Paris and Berlin, in the form of a mechanism to "exchange information and raise concerns" linked to investments in sensitive sectors (examining the effect on critical infrastructure, supply of energy and raw material, freedom of the media, etc.) and allowing the Commission to issue an opinion on the value of such investments. While the investment scheme is progress, it is still left to Member States to decide whether they will follow through with the investment. Only fourteen out of twenty-eight countries have national investment-screening mechanisms.

Europeans' response has not been limited to the economic and normative spheres. France and the United Kingdom have joined the United States in conducting freedom-of-navigation operations in the South China Sea. In April 2019, China accused a French warship of entering its waters illegally while passing through the Taiwan Strait while Paris reaffirmed its commitment to freedom of navigation. But, Europeans don't have to go all the way to the Pacific to find traces of increased Chinese influence. In March 2019, Enlargement Commissioner Johannes Hahn expressed concern that the EU had "underestimated" China's reach in the Balkans, while Europeans have completely abandoned Central Asia to China's BRI projects.

Much more could be done to promote a unified European response to defend its sovereignty against Chinese influence, while staying open to trade and cooperation on global issues, such as the fight against climate change. The US approach, treating the EU as "worse than China" and using a confrontational approach on Huawei—rather than helping mend European divisions—has been counterproductive and shortsighted.

### Opportunities

The priority should be for US policymakers to recognize the added value brought by Europeans in this

systemic challenge. European policymakers should continue to make this case to Washington, despite legitimate and unavoidable differences, but much can be done at the European level. The new Commission should adopt a whole-of-EU approach to dealing with China, using its considerable economic and diplomatic leverage to defend its norms with such policies as

- ◆ continuing to invest in European defense (e.g., Permanent Structured Cooperation (PESCO), European Defence Fund (EDF) and increase defense spending across the board;
- ◆ defining a common approach to Huawei, taking into consideration national security concerns while exploring European alternatives;
- ◆ facilitating the development of European “champions” on infrastructure, technology, or energy, currently barred from competing on the world stage by competition regulation;
- ◆ reinvesting diplomatically in the European neighborhood, especially in the Balkans and in Central Asia, using the multifaceted tools of EU foreign policy (e.g., diplomatic engagement, trade, visa facilities, support for the rule of law);
- ◆ continuing to make the case for a common approach on trade practices with US policymakers; and
- ◆ bolstering investment screening, drawing example from the powerful Committee on Foreign Investment in the United States (CFIUS), with the option of making Commission recommendations binding.

## The Balkans

### Mr. Damir Marusic, Non-Resident Senior Fellow, Future Europe Initiative

At a time when the transatlantic relationship is beset by tensions unprecedented in the post-Cold War era, the western Balkans may appear to represent a region best forgotten—a geopolitical basket case, riven with corruption and ethnic animosity. Though it once appeared poised to join the European Union and the greater West, the region is now largely seen as a disappointment. The countries of the western Balkans

are thought of as a messy periphery of core Europe, a troublesome region to be endlessly managed, rather than a set of countries with discrete problems to be tackled. And, if the region’s problems even admit of solutions, the prevailing tacit consensus is that these solutions will need to be found by Europeans alone.

In truth, however, the region represents something of a low-hanging fruit, both for achieving concrete progress on the ground and for improving transatlantic relations. The historic name deal between Greece and the Republic of North Macedonia represents something of a case study. It is notable that the deal was brokered during the first two years of Donald Trump’s time in office, a period marked by heated rhetoric flying out of Washington over NATO allies’ defense spending, over trade balances, and over energy supplies. True, this breakthrough required bravery and vision on the part of local leaders. But, it could not have come to pass without the hard work of US and EU diplomats working side by side, keen to show that transatlantic cooperation and coordination were alive and well (despite evidence to the contrary at higher levels of government).

The compromise, however, did not come out of nowhere. Months before the historic Prespa Agreement was signed, Montenegro joined NATO, its full membership ratified by the same Trump administration that has, at other times, appeared to go out of its way to vilify the Alliance. The win by transatlanticists in Montenegro put wind in the sails of those working to unblock the seemingly intractable name issue plaguing neighbors to the south. Now Prespa, in turn, provides momentum for tackling other “unfinished business,” of which there is plenty in the western Balkans.

The cold standoff between Serbia and Kosovo has persisted for more than a decade since Kosovo declared independence. Recent signs of interest by both sides to bridge the admittedly sizable divides that separate them—no doubt inspired by the above-mentioned momentum—have collapsed for the time being, in no small part because the West has found it hard to speak with one voice on the issues involved. And, beyond Serbia-Kosovo looms Bosnia and Herzegovina, a country beset by a mix of deep political dysfunction, economic stagnation, and criminal corruption, ultimately rooted in a toxic constitutional arrangement that entrenches nationalist grievance as a viable tool for electoral mobilization. Bosnia’s tightly knotted and interrelated



pathologies, in particular, send old Balkan hands into despondency.

The incoming Commission should ignore these counsels of despair. The momentum that Europe has been able to achieve on the ground in the Western Balkans in partnership with the Trump administration is very real, and despite the setback in Serbia-Kosovo, can still be leveraged for further breakthroughs. A coordinated push with Washington on getting Belgrade and Pristina to a final agreement is the obvious next step. A normalized relationship with Serbia would encourage Kosovo's politicians to look to horizons rather than their immediate interests. Also, removing "Kosovo" as a festering issue within Serbian politics would go a long way to revitalize Westernizing perspectives within that country, by unblocking its path to full EU membership.

If Serbia normalizes politically, solving the thicket in Bosnia becomes conceivable, if not exactly easy. Help will have to come from EU and NATO member Croatia, which has not been playing a constructive role in the country of late. And, the malign influence of Russia, especially in Bosnia's Republika Srpska, will have to be brought to heel if success is to be achieved. As the ultimate guarantor of security and stability in the region, and the wielder of a credible "stick" to go along with the EU's many "carrots," the United States will play a key role in making all this happen.

Finally, cooperation with the United States should be pursued not only with an eye toward solving "unfinished business." After all, the green shoots that have recently emerged in the western Balkans have not sprung from very deep roots. The region needs economic prosperity above all else, and painful economic reforms have to be met with the credible promise of investment. Between the Berlin Process and the Three Seas Initiative, a positive vision for a region fully integrated into a greater Western community is slowly coming into focus.

## Security Challenges to Europe's South

**Mr. Karim Mezran, Director and Resident Senior Fellow, North Africa Initiative, Rafik Hariri Center for the Middle East**

Until a few years ago, the idea of a "threat from the south" to Europe would have been considered with a condescending smile or mere indifference. In the years since the eruption of the Arab Spring revolts, this attitude has changed dramatically. Every European leader has become aware of the grave challenges at the southern border of Europe caused by the instability of the political systems in the North African countries. Particular attention is paid to the phenomena of illegal migration and terrorism.

The situation in Libya appears to be the most important point of concern—not only because of the large number of clandestine immigrants smuggled into Italy, and from there into the other European countries, but also due to the fear that terrorists may be hidden within their ranks. Instead of standing as a unified front and adopting common policies to face such threats, the European countries more directly affected by the two phenomena—France and Italy—have pursued policies more closely associated with their own narrow visions of national interest. France, hoping to gain strategic and commercial advantages, has thrown its support behind the former general of Muammar al-Qaddafi's army, Khalifa Haftar, and his Libyan National Army (LNA) in his quest to conquer the whole of Libya by eliminating the competing militias present in the country—especially the Islamists—and occupying Libya's capital, Tripoli. Italy, on the contrary, stands behind the UN-established and internationally recognized Government of National Accord (GNA). Most of Italy's interests, political as well as commercial, are found in the western part of the country. Other European countries, to a certain degree, have behaved in the same way, supporting this or that faction according to their own interests, or simply out of convenience.

The situation in Libya reached new levels of tension and insecurity in early April 2019 with the attack launched on Tripoli by Haftar. The offensive was initiated despite UN Secretary General António Guterres' presence in the capital. Even in this case, the international community reacted in disarray, with France and Russia

standing by Haftar and the United Kingdom and Italy vocally denouncing the aggression. The United States, after a bold initial statement condemning Haftar's move, modified its position. There is no doubt that the fragmentation of the Western countries' position toward the brutal attack carried out by Haftar's troops is the manifestation of a deeper problem, the lack of a clear and involved position of a major player in the region—the United States. The countries of the European Union need the United States' capacity to harness and build consensus and lead them toward a shared objective. In Libya, this is the stabilization of the country and thereby the eventual realization of a legitimate, pluralistic political system. The United States should become more involved in this endeavor in Libya and compel

the European countries by convincing them that the continuation of disorder and anarchy in Libya will, in the end, damage everyone's interests. The Western countries should take up a strong position to help the Libyans find their way toward the establishment of a unity government so they can begin the reconstruction of their homeland. This US-EU cooperation will be extremely useful to extend to the other two countries of North Africa facing difficulties, Tunisia and Algeria. Both, in different forms, are fragile and at risk of implosion. The EU and its US ally need to play a stabilizing role in both these two countries without appearing as interfering but still guiding their ruling elites to adopt policies capable of defusing the situation.



The EU, Canada, China, and Japan have made proposals to further WTO reforms that, to date, have not been met with serious US engagement. <https://unsplash.com/photos/kyCNGGKCvyw>

# Trade and Economics

## Trade

**Mr. Bart Oosterveld, C. Boyden Gray Fellow on Global Finance and Growth; Director, Global Business and Economics Program**

*Issue:* the European Union shares frustrations about the functioning of the World Trade Organization (WTO) with the United States (US) and other key allies. Tensions over how to address the shortcomings in the WTO's role figure prominently in the background of the transatlantic trade dialogue. Problematic areas in the WTO process include: the ability of China and others to self-designate as developing countries, which allows them to commit to a narrower range of WTO obligations; the notification procedures, under which member countries are supposed to (but often do not) disclose information about domestic subsidies and other economic policies affecting trade; and the organization's dispute-resolution system.

In the coming months, the WTO is expected to rule on whether the United States meets the claimed national

security conditions to justify imposing steel and aluminum tariffs on the EU and others, potentially exacerbating transatlantic trade tensions that are already high due to the ongoing Airbus-Boeing dispute, as well as stalled trade negotiations.

As such, there is a heightened risk of a further escalation in trade tensions between the United States and the EU going into the fall. It is worth noting that previous tariff threats have only had limited economic impact on the US dollar, with a relatively strong dollar supporting the global purchasing power of the US consumer and the economy continuing at or near full employment.

The transatlantic market is the world's wealthiest and deepest economic relationship, and comprises one third of global gross domestic product (GDP). An escalation in tensions between the partners would severely hamper global growth prospects and the investment climate in the EU, and do tremendous damage to globally integrated supply chains.

*Opportunity:* The EU, along with others such as Canada, China, and Japan, has made proposals to further WTO



reforms that, to date, have not been met with serious US engagement. This fall, there is an important opportunity to reinvigorate the work of the trilateral working group of Japan, the EU, and the United States, which commenced in Buenos Aires in November of 2017. This effort, aimed at addressing market-distorting and unfair trade practices by China and other countries, has the most potential to serve as a catalyst for broad-based discussions on WTO reform that have the support of the US administration. In the absence of constructive engagement with the United States on these topics, the administration has the option of continuing to block appointments to the WTO's Appellate Body, effectively rendering it unable to make decisions after December 10 of this year, when its membership will no longer meet the quorum of three judges.

## Digital Policy

**Mr. Jörn Fleck, Associate Director, Future Europe Initiative**

**Mr. Alex Pieter Baker, Project Assistant, Future Europe Initiative**

Under the outgoing European Commission of President Jean-Claude Juncker, the European Union has emerged as the regulatory superpower of the global digital economy. Having initially made it its priority to empower the digitalization of the EU economy and complete the digital single market, the Juncker Commission quickly found itself dealing with a series of controversies involving data leaks, disinformation campaigns, and digital companies' tax practices. Amid a shift in public attitudes toward big tech, the EU shifted gears to take a more aggressive regulatory approach toward the digital sector. The implementation of the General Data Protection Regulation, or GDPR, sent ripples far beyond the EU. Similarly, investigations of large US tech firms by Competition Commissioner Margrethe Vestager ended in record fines.

Early signs indicate Brussels will continue to leverage the power of the single market and its regulatory approach when a new Commission takes office in November 2019. The European public seems to have grown only more skeptical of large tech companies. The accelerated uptake of new technologies, such as artificial intelligence (AI), has prompted regulatory brainstorming, with the EU publishing a series

of reports on the matter. Even on digital tax, where an initial EU-wide proposal failed in 2018, the debate is far from over, and a patchwork of national frameworks may still prompt further Commission action. While the Commission leadership of its digital portfolios will change, there is also important continuity, with Margrethe Vestager likely promoted to vice president and keen to see her hawkish stance on competition issues persist.

The following provides an overview of some of the key digital-policy issues that the new Commissioners will find in their briefing books, as well as the challenges and opportunities for transatlantic cooperation.

### Digital Taxation

*Issue:* The July 2019 passage of a new digital-services tax (DST) by France has elevated the issue of how services delivered digitally across borders within the EU's single market are taxed. The unilateral action by Paris seems to contravene long-established international tax rules, such as the principle of permanent establishment, and has prompted the United States to examine retaliatory tariffs over what it considers discrimination aimed specifically at US tech firms under the new French law. Similar digital-service levies are in advanced stages in Italy, Spain, and Austria, and other Member States are contemplating national measures. But, the fault lines within the EU over the issue are complex. A group of European countries that are home to EU headquarters of big US digital companies and have vibrant domestic tech sectors helped sink a French-led initiative for an EU-wide DST framework in 2018. Any new push by the Commission will also be complicated by the perennially contentious nature of taxation issues at the EU level, as Member States on all sides of the issue seek to protect their revenue bases and a core element of their sovereignty from Brussels.

*Opportunity:* The European Union and the United States cannot afford to add another costly spat to the list of existing transatlantic trade disputes. A proliferation and patchwork of national digital taxes would also further complicate any drive by the new Commission to advance the integration of the EU's digital single market and seize synergies for the European economy from the next stages of digitization. The new Commission should, therefore, work with the United States to accelerate existing negotiations within the Organisation for Economic Cooperation and Development (OECD)



on a long-overdue update of international tax rules to account for the realities of the digital economy. These have been slow to progress, and part of the declared intent behind the French DST is to push for progress in the OECD talks. A joint EU-US initiative at the OECD could both avoid a costly escalation of tariff measures and yield a real prospect of a new US-EU-brokered global gold standard for taxation in the digital age.

### Artificial Intelligence

*Issue:* Commission President-elect Ursula von der Leyen doubled down on the EU's AI strategy in her agenda for Europe, promising legislation to address the human and ethical implications of AI during her first one hundred days in office.

There is growing concern on both sides of the Atlantic, especially among private-sector leaders, that the EU is putting the cart before the horse in seeking to regulate a technology that is still in its infancy, thereby threatening to fall further behind AI leaders such as China and the United States.

AI will shape the coming era of great power competition. As Vladimir Putin famously said of the emerging technology, "the one who becomes the leader in this sphere will be the ruler of the world."

Unlike its direct competitors, the EU views AI through a socioeconomic lens, rather than from a purely economic or geopolitical perspective.

While the United States and China have poured significant resources into military AI, this subfield is absent from the EU's strategy, and instead left to individual Member States. The limitations of the EU, which prevent it from incorporating military AI, present an immense challenge for Europe. Fundamental differences in the priorities, resource allocation, and military and technological capabilities of Member States may make European coordination on the issue difficult, and could exacerbate the gap between Europe and other great powers.

*Opportunities:* The EU has several notable strengths in the field of AI that it must play to, including: its five-hundred-million-consumer market, its education system and research quality, its quantity of talent, and its normative institutional power. Compared to other AI leaders, the EU also boasts a balanced coverage of the four main subdomains of the AI landscape when com-

pared to other AI leaders: machine learning methods, connected and automated vehicles, speech recognition and natural language processing, and face recognition. The EU must leverage these in order to establish itself as a legitimate challenger and to lead in a tangible field of AI. The EU will not be able to set institutional standards from a severely disadvantaged position.

### Privacy and Data Sharing

*Issue:* A fundamental right in the European charter, privacy is a crucial pillar of EU digital policy. The implementation of the GDPR, which helped solidify the EU's status as a digital superpower, has been hailed as one of the Juncker Commission's biggest legacies. That Commission took office during the fallout from the Edward Snowden scandal, ensuring that there was a strong political will and sense of urgency from the public for action on data-privacy issues.

While the hysteria over Snowden has subsided, scandals such as Cambridge Analytica, companies' data-harvesting practices, and large-scale leaks have eroded public trust in these companies and helped maintain continued public support in Europe for privacy legislation.

While not yet fully understood, 5G and AI also pose emerging challenges. Despite serious security risks, certain EU Member States have cooperated with Chinese company Huawei, a global leader in 5G technology, which is blacklisted by the US Commerce Department. As the global AI competition heats up, so will the increasingly cutthroat demand for big data, the fuel which feeds the AI fire.

*Opportunity:* The new Commission could inherit a landmark court ruling in its honeymoon phase that could disrupt transatlantic data transfers. A pending case before the European Court of Justice (ECJ) challenges the legitimacy of transatlantic data transfers under the Privacy Shield framework. It contests the transfer of personal data from Facebook's servers in Ireland to Facebook's servers in the United States, on the grounds that data transferred to the United States is subject to surveillance even under Privacy Shield, and therefore not adequately protected under EU equivalence rules.

The new Commission's outlook on privacy issues may well hinge on this case. In 2015, the ECJ ruled Privacy

Shield's predecessor, Safe Harbor, invalid. If Privacy Shield follows suit, it means the new Commission will have to rewrite the playbook on privacy and cross-border data flows, the lifeblood of the digital economy. It could also have big implications for the private sector and big tech. The Silicon Valley tech giants view themselves as global companies, and the European single market is vital to their continued success. As a result, the European Union has leverage and can continue to uphold—or even strengthen—its norms and values surrounding privacy. But, as the Juncker Commission has shown, a five-year term is long, and much can change in EU digital policy.

## Sanctions

**Ambassador Daniel Fried, Weiser Family  
Distinguished Fellow, Atlantic Council**

Sanctions—both financial sanctions and broader measures of economic pressure—have become a go-to foreign-policy instrument in recent years and, notwithstanding the challenges of adhering to best practices for their use, they are likely to remain a frontline tool for leaders searching for options stronger than diplomatic demarches but not as fraught as military action. The US government is interested in (and sometimes fixated on) the use of sanctions, given the strong place of the dollar and US financial system in the world economy. The EU lags the United States in sanctions capacity, but also appears to recognize the potential of sanctions as a tool, though with less enthusiasm than the United States.

The use of economic and financial sanctions has a long and mixed history. Sanctions don't always work, especially unilateral sanctions; even when they do work, the results are likely to be partial (as has been the case with the Iran and Russia sanctions), and seldom in line with the most extravagant expectations of their advocates. The United States and EU have clashed over sanctions, including fights in the 1980s over Soviet gas pipelines and Cuba sanctions, and over Iran sanctions in the initial years of the George W. Bush administration, and increasingly so in the Trump administration.

But, the United States and EU also have cooperated on sanctions, including economic and individual sanctions after Putin's attack on Ukraine in 2014, diplomatic sanctions (coordinated expulsions of Russian diplomats) following the Kremlin's attempted assassi-

nation by nerve gas in Britain in 2018, and Iran sanctions during the run-up to the Iran nuclear deal and until the Trump administration's pullout from the deal. The United States and EU Member States (especially the UK and France) have also cooperated in the UN Security Council on many sanctions regimes.

US and European cooperation on Russia sanctions programs in and after 2014 established a worthy precedent: unusually, the United States chose to develop its sanctions options in advance with the EU and European Member States, rather than launch sanctions unilaterally and try to convince (or push) the Europeans to follow its lead. The results of these advance negotiations were good, surprising skeptics on both sides of the Atlantic, and established a model for continued sanctions cooperation.

Generally mixed-to-chilly US-EU relations under the Trump administration may complicate efforts to build on the promising beginning of US-EU joint preparation of sanctions, but both sides should continue trying to coordinate sanctions approaches where policies are more or less compatible—e.g., those regarding Russia, North Korea (DPRK), Venezuela, and, to a degree, human-rights-related sanctions. As possible, both sides should try to compartmentalize the damage from differences over Iran sanctions. While US-EU sanctions coordination is key, the EU (and the United States) should also consider regularizing Group of Seven (G7) sanctions coordination, seeking, where possible, to align sanctions regimes and minimize problems.

In any case, the EU needs to increase its capacity to prepare and administer sanctions. The EU has skilled people working on the issue, but needs more of them. This challenge will grow after Brexit, given the UK government's role in supporting EU sanctions efforts. At the policy level, the EU has shown skill in managing Member States' differing views both on sanctions in general and specific sanctions regimes, e.g., those regarding Russia. If the EU, United States, and other G7 partners develop an effective habit of cooperation on sanctions, the job of coming to higher-order consensus within the EU may be easier.

Sanctions work best when backed by the great centers of both financial and democratic power in the world. That means the United States and EU at the core of what used to be called the free world.



Some European constituents are pushing back against natural-gas infrastructure, nuclear-plant development, or wind-turbine commissioning etc. for environmental, economic, or societal concerns. <https://unsplash.com/photos/L4gN0aeaPY4>

# Energy

## European Energy Security

**Ms. Olga Khakova, Associate Director,  
European Energy Security, Global Energy  
Center**

The European Union (EU) has made substantial progress in building the Energy Union strategy by improving its regulatory framework and investing significant funds in energy infrastructure projects. However, security challenges for European energy sector continue to arise as malign actors use energy for geopolitical coercion, communities around the globe grapple with the realities of climate change, and geopolitical conflicts threaten the security of supply and access to sustainable resource development. Transatlantic cooperation on energy security will be essential to addressing those global challenges and should be prioritized by US and EU leadership, since energy security translates into national, political, and economic security.

The Atlantic Council Global Energy Center (GEC) leads a new project dedicated to evaluating how the United States and the EU could cooperate to strengthen transatlantic energy security. Preliminary research findings indicate the following areas of opportunities for transatlantic cooperation:

- ◆ diversification of resources and routes;
- ◆ regulatory implementation and enforcement across the EU;
- ◆ transatlantic financing strategy;
- ◆ advanced technologies and research and development (R&D);
- ◆ cybersecurity threats;
- ◆ energy-consumer engagement and education; and
- ◆ geopolitical conflicts.



## Diversification of Resources and Routes

*Issue:* Europe's dependence on imports is significant and set to increase, and some regions are exposed to higher risk due to their reliance on a dominant supplier. The EU relies on imports for more than half of its energy consumption. Diversification of supply, including clean energy, will be key to ensuring energy security. The EU made tremendous efforts to mitigate risks related to overreliance on a single supplier through the reinvigorated push and tremendous investments in energy-interconnectivity priority projects. Yet, even with the impressive progress made, energy connectivity voids exist in Central, Eastern, and Southeastern European countries.

*Opportunities:* Rather than aiming to single out and eliminate large-scale suppliers, such as Gazprom, the EU and the United States should work together toward diversifying routes and interconnections, and to partner on strategic infrastructure. Such collaboration will contribute to diversification of supply and energy-market integration across the EU.

## Regulatory Implementation and Enforcement across the EU

*Issue:* The biggest barrier to an integrated and liberalized energy market in Europe is the uneven implementation of the Third Energy Package and the Energy Union Strategy across EU Members States. The issue is exacerbated by infrastructure gaps in electricity and gas interconnectors. Regulations are only as impactful as their implementation and enforcement. For example, the amendment to the EU Gas Directive has significantly changed the operational environment for the impacted projects by increasing political and economic risks to them; however, it is still unclear exactly how the regulations will affect the gas pipelines such as Nord Stream 2 and TurkStream. The EU possesses the necessary regulatory tools to defend its energy markets from energy security threats. Timely application of such tools is just as important.

*Opportunity:* The US Department of State, US Department of Energy, and the US Agency for International Development (USAID) provide robust technical support and capacity building for regulatory reforms deployment across Europe. Those efforts are designed to complement the EU's work on the implementation of the Third Energy Package and the Energy Union strategy. Nevertheless, it's worth exploring how

the United States and the EU can streamline support, cut out redundancies, and effectively synchronize the work in the most vulnerable areas. It will be crucial for the incoming EU leadership to continue engaging with the US departments and agencies in addressing discrepancies in regulatory implementation. Regions with poorly enforced regulations enable corruption and produce environments that are not conducive to transparent and competitive energy markets.

## Transatlantic Financing Strategy

*Issue:* The United States and the EU lack a cohesive transatlantic investment strategy to further support projects of strategic significance and a coordinated funding mechanism for proven, but not yet commercially viable, energy technologies.

*Opportunities:* While the EU has invested billions of euros toward energy projects of strategic significance, there are still gaps in funding for projects that are essential to European energy security but may lack economic rationale. Alternative options for energy supply provide energy security benefits and diversify energy-supply risks. US-EU coordination to support strategic energy infrastructure is important, because it is essential for projects that provide security of supply, but may take several years to become economically feasible.

Regional funding efforts like the Three Seas Initiative could serve as mechanisms for actualizing strategically significant projects. The Three Seas Initiative could greatly benefit from closer engagement between the EU, Three Seas Member States, and the United States on priority infrastructure in Central and Eastern Europe. The Three Seas Initiative is led at the presidential level by twelve countries between the Baltic, Adriatic, and Black Seas; its aim is to improve connectivity in energy, transportation, and digital networks through coordinated regional financing mechanisms such as the Three Seas Investment Fund. Closer EU and US cooperation on investment opportunities would ensure coherence with, and support for, the priorities of the existing primary forums for the EU-US dialogues in the digital, transport, and energy areas.

Promising energy innovations that enhance energy security often require an initial funding boost before competing on the free market. The United States and the EU could coordinate funding of a transatlantic en-



ergy-technology deployment bank. This institution would finance technologies that have been proven in the lab and are highly promising, but have never been deployed in a commercial context.

Another way the United States and the EU could stimulate investments across the energy sector and encourage clean-energy infrastructure is through a trade agreement. A sustainable energy trade agreement could further liberalize trade in energy goods and services that can contribute to decarbonization and cleaner environments.

The lack of financing options for priority energy projects opens doors for funders who may share different security priorities, offer less-desirable funding conditions, and jeopardize efforts to reduce carbon-dioxide (CO<sub>2</sub>) emissions. Large-scale, strategic financing efforts such as the Belt and Road Initiative (BRI) are set to increase China's economic and geopolitical leverage and build up its soft power around the globe. Transatlantic coordination on financing in Europe could offer an alternative to BRI, which is already working closely with several European countries, and support promising innovative projects in the field.

### Energy Consumer Engagement and Education

*Issue:* Energy consumers are engaged in the details of where their energy comes from, how it is utilized, and what impact different sources have on the environment. Some European constituents are pushing back against natural-gas infrastructure, nuclear-plant development, or wind-turbine commissioning etc. for environmental, economic, or societal concerns.

*Opportunities:* Quality information, education, open dialogue, transparency, and relationship building with communities and state-level governments are all essential for successful development of energy projects. The United States and the EU have an opportunity to share consistent messaging and accurate information on the security significance of energy-infrastructure projects, as well as the role different energy sources can play in meeting the Energy Union milestones on climate action.

### Cybersecurity Threats

*Issue:* Digitalization across the energy sector brings many efficiencies and data-driven decision-making; at

the same time, newly digitalized systems can also accelerate the speed and damage of attacks across enterprise networks.

*Opportunities:* The United States and the EU can continue building a cohesive strategy on tackling cybersecurity threats. Collaboration through tools such as the US-EU Cyber Dialogue should be expanded, including the development and implementation of cyber confidence-building measures (CBMs).

### Advanced Technologies and R&D

*Issue:* The absence of a comprehensive transatlantic R&D strategy is a missed opportunity for collaboration on energy security-enhancing technologies and decarbonization tools.

*Opportunities:* Greater harmonization of energy R&D best practices across the United States and EU could better align transatlantic approaches to energy innovation and climate goals. Multilateral institutions, such as the Clean Energy Ministerial and Mission Innovation, could serve as mechanisms for institutionalizing the initiative. The efforts could advance progress on key decarbonization technologies such as: carbon capture, utilization, and storage (CCUS), advanced nuclear, negative emissions such as direct air capture (DAC), hydrogen, energy storage technologies, etc. The EU's new "Innovation Fund" and US Department of Energy Partnership for Transatlantic Energy Cooperation (P-TEC) should be involved in such cooperation.

Key non-governmental stakeholders (e.g., Breakthrough Energy Coalition, International Energy Agency, International Renewable Energy Agency, International Solar Alliance) could instill the R&D discussions with fresh ideas and open new doors to public-private partnerships.

### Geopolitical Conflicts

*Issue:* Complex geopolitical conflicts are impeding energy-resources development and the interconnectivity and functionality of the energy markets, and are constraining investment opportunities for the private sector. For example, disagreements over recently discovered resources in the eastern Mediterranean are hindering further development of the eastern-Mediterranean gas market.

*Opportunity:* By working together, the United States and EU could resolve political obstacles and push for solutions that optimize benefits to all stakeholders.

### Conclusion

The United States and the EU are at an opportune time to assess the current state of transatlantic cooperation on energy security. The new EU leadership is well positioned to build on the progress made from the adoption of the Third Energy Package and the Energy Union Strategy, as well as significant investments in energy-infrastructure projects.

Because transatlantic energy security threats will continue growing in scale and complexity, US-EU engagement will be crucial in addressing those threats through

- ◆ further diversification of energy resources and routes in Europe;
- ◆ support for broader regulatory implementation and enforcement across the EU;

- ◆ development of a transatlantic financing strategy;
- ◆ creation of new, and strengthening of the existing, mechanisms to enhance advanced technologies and R&D;
- ◆ expansion of a harmonized strategy to address cybersecurity threats;
- ◆ coordination on energy-consumer engagement and education; and
- ◆ strategic transatlantic engagement in geopolitical conflicts.

Energy security has been, and should continue to be, at the pinnacle of US-EU collaboration.

GEC is continuing the research on this topic in 2019. A comprehensive list of recommendations for how to enhance transatlantic energy diplomacy and cooperation will be outlined in the final report in 2020.

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Atlantic Council

1030 15th Street, NW, 12th Floor,  
Washington, DC 20005

(202) 463-7226, [www.AtlanticCouncil.org](http://www.AtlanticCouncil.org)