



EUROPEAN TRADE FINANCE

SPRING 2026

PIERO CIPOLLONE SAYS
EUROPE MUST NOT
TAKE ITS MONETARY
SOVEREIGNTY FOR
GRANTED

ANNE BUCHER AND
ELIZABETH GOLBERG
DISCUSS BETTER
REGULATION IN THE
EUROPEAN UNION

PAOLO SURICO CONSIDERS
HOW EUROPE CAN RAISE
LONG-RUN GROWTH
AND HAVE STRATEGIC
AUTONOMY

A EUROPEAN PERSPECTIVE ON TRADE FINANCE

Foreword

W

elcome to the Spring edition of ETF, a *World Commerce Review* supplement. This publication has been prepared in response to readership demand for an overview of trade finance from a European perspective.

In these turbulent and unique times issues such as geopolitical tensions, macroeconomic volatility, trade digitalisation, sustainability and shifting supply chains will be examined in forthcoming editions, with the most respected authors providing the reader with the most comprehensive information available.

Our brief is to provide all the data necessary for the readership to make their own informed decisions. All editorials are independent, and content is unaffected by advertising or other commercial considerations. Authors are not endorsing any commercial or other content within the publication. ■

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Better regulation in the EU needs a fresh start

A solid EU better regulation framework is undermined by gaps in coverage and quality, making consistent application and stronger oversight essential. Anne Bucher and Elizabeth Golberg discuss steps that could be taken to overcome these weaknesses

Executive summary

Despite having developed a comprehensive and highly rated regulatory policy system (so-called 'better regulation'), involving consultation, impact assessments, evaluation, inter-institutional commitment and independent oversight, the European Union continues to face criticism for the volume, complexity, costs and administrative burden of its laws. This raises the question of whether something is wrong with the better-regulation system, or whether the EU institutions have failed to adequately apply the system.

In fact, the system is robust but there are weaknesses in its application. There is no evidence that burden-reduction programmes or attempts to stem the ever-increasing flow of legislation have had desired effects. There are significant exceptions to the application of better regulation tools, including simplification efforts under the second Ursula von der Leyen Commission. Meanwhile, few assessments are conducted on legislative amendments approved by the European Parliament and the Council of the EU. The quality of assessments, particularly ex-post evaluations is wanting.

Several steps could be taken to overcome these weaknesses. On the ever-increasing flow, political control could be strengthened by a dedicated Better Regulation Commissioner, the development of new conditions for preparing new laws and adoption of systematic regulatory pauses at the end and beginning of each Commission term. On coverage, the Council and the Parliament need to conduct assessments of their amendments. This could be facilitated through an inter-institutional mechanism using the initial impact assessment's methodology. Given that they involve trade-offs and costs, some secondary legislation needs to be assessed in a proportionate manner.

The quality of assessments could be improved by establishing a centre (or centres) of analytical expertise. This would build and continuously update a robust evidence base for policy areas. It could help streamline the analytical

demands for impact assessments. Ex-post evaluations are key to improving the implementation of EU law. Externalising ex-post evaluations could improve their quality and facilitate better assessment of implementation gaps.

In an increasingly complex, volatile and polarised political environment, better regulation is essential. The tools need to be applied consistently to support the policymaking process.

Commission ex-post evaluations of legislation are weak, often ill-timed, of mixed quality and with questionable impact

1 Introduction

“The regulatory burden on European companies is high and continues to grow.... The [European] Commission has been working for years to reduce the ‘stock’ and ‘flow’ of regulation under the Better Regulation agenda. However, this effort has had limited impact so far. The stock of regulation remains large and new regulation in the EU is growing faster than in other comparable economies.”

This extract, from the report on European Union competitiveness produced in 2024 for the European Commission by former prime minister of Italy Mario Draghi (Draghi 2024), could have been written at any point in the last twenty-five years. The EU has long been criticised for producing too many ill-conceived, costly laws.

In addition, implementation of EU law is patchy, with EU countries slow to write EU law into national statutes and slow to comply with the law. Countries also often add additional requirements to EU law – so-called gold plating. All of this contributes to continued and growing concern about EU regulation and its dampening effect on investment and innovation in the EU (Draghi 2024; EIB 2025; Eurochambres 2025; Letta 2024).

In response, over the past quarter century, the Commission has prioritised ‘better regulation’ (ie. impact assessment, stakeholder consultation, evaluation, quality control) aimed at improving the quality of legislation and its implementation. Results have been mixed. In this context, European Commission President Ursula von der Leyen announced in 2025 a further set of ‘better regulation’ measures, involving simplification, reduction of administrative burden and regulatory budgeting (European Commission 2025a).

These actions may be worthy but they closely resemble previous initiatives¹. This begs the question of whether they will lead to the desired improvements, or whether a more radical shift in approach is needed. Answering this question requires an evaluation of the better regulation system to assess what has worked, what has not worked

and why. This paper sets out some ideas that could feed into such an assessment. It reviews the better regulation system (section 2), identifies shortcomings (section 3) and suggests how they might be overcome (section 4).

2 What is 'better regulation'?

Improving the quality of laws and reducing costs and red tape have been political priorities for the European Commission since the early 2000s². The Commission's regulatory policy approach aims to prepare and adapt EU policy and legislation with knowledge of its expected economic, environmental and social impacts, avoiding unnecessary burdens and minimising costs and red tape for citizens, businesses and public authorities.

To do this, different tools are applied at each stage of the policy cycle. Strategic planning is used to manage the flow of new initiatives, making sure that they are supported by impact assessment and ex-post evaluations (for amendments to existing law). Impact assessments set out options and analyse the economic, social and environmental impacts of proposed measures.

Ex-post evaluation keeps the stock of law under review, assessing it for effectiveness, efficiency, relevance and coherence. REFIT (Regulatory Fitness) exercises have been introduced to examine these aspects within and across policy areas. Stakeholders are consulted on both new and existing legislation via public or targeted consultations. Stakeholders can comment along the decision-making chain (European Commission 2021a).

Improving the stock of legislation has involved target-setting for the reduction of administrative burden (European Commission 2007), regulatory budgeting (European Commission 2021a), simplification and regulatory stress testing (European Commission 2025a). Expert groups have provided advice on burden reduction since 2007³. The complexity and volume of legislation is also reduced through withdrawals of proposals, repeals, codification (by

which all amendments of a law are incorporated into a single new act) and recasting (all previous amendments are incorporated in a new text when the law is amended).

Impact assessments and evaluations (including REFIT exercises) are subject to independent quality control by the Regulatory Scrutiny Board (RSB)⁴. The European Parliament and Council of the EU (at working-group level) also scrutinise the Commission's impact assessments to advise parliamentary committees and Council working groups when they discuss Commission proposals. The regulatory policy system has been evaluated by the European Court of Auditors (ECA 2018, 2020).

In finalising EU laws, the Council of the EU and the European Parliament have important roles to play in better regulation. Under an Inter-Institutional Agreement on Better Law Making in 2003, revised in 2016⁵, Council and Parliament committed to examining Commission impact assessments and conducting their own if they make significant amendments to Commission proposals. The institutions agreed that a systematic approach to evaluation is required, and that all new legislation should include provisions on monitoring and evaluation.

3 Why is the better-regulation system still perceived as falling short?

The Commission's regulatory policy system is complete in that the necessary policy development tools (impact assessment, consultation, evaluation, oversight) are in place and are highly rated⁶. Yet the Commission's application of better regulation has not managed to stem criticism of the flow (too voluminous), quality of assessments (variable) and management of the stock (large and sometimes incoherent) of EU legislation (Draghi 2024; Herby 2024; Kaufmann 2025; Letta 2024; Marcus 2024; Marcus and Sekut 2024). The following subsections outline some of the reasons why this might be the case.

3.1 The volume of legislation continues to increase

The number of EU laws has steadily increased. There are different ways to calculate the growing volume of legislation (total number of acts, total number of pages or words; Marcus, 2024; Herby, 2024). All metrics point to an increasing number of Commission proposals in each term and continued high rates of adoption of new laws. Under President Ursula von der Leyen, the Commission has opted for regulatory budgeting to control the flow, but the ever-increasing numbers of proposals shows that this has had no effect.

Table 1. Commission proposals and adopted acts under ordinary legislative procedure

Commission term	Proposals: basic acts	Proposals: amended acts	Withdrawals	Net proposals	Adopted basic acts	Adopted amended acts	Total adopted	Exp/R	Net balance adopted acts
2014-2019 (Juncker)	243	165	62	346	24	161	403	230	173
2019-2024 (von der Leyen)	252	210	23	489	244	191	435	239	196

Note: Exp/R = expired and repealed acts; Balance adopted = total adopted legislation less expired and repealed acts.

Source: Bruegel based on EURLEX.

Table 1 shows two measures of the net flow of legislation: 1) the number of Commission proposals less withdrawals, and 2) the number of adopted acts less repeals. Withdrawals and repeals are not keeping pace with new proposals and adopted acts, with the result that the net volume of legislation continues to increase.

Withdrawals are normally of proposals that stand no chance of being adopted, or that have been overtaken by events or supplanted by other legislative proposals and usually happen at the start of a Commission term, when the new executive decides whether to continue with unfinalised proposals made by the previous Commission (so-called discontinuity). Repeals are more numerous, usually of a housekeeping nature, covering decisions with a fixed period of validity.

Secondary legislation (delegated acts, which supplement or amend non-essential elements of EU laws, and implementing acts, which execute policy by establishing uniform conditions for applying the laws) is voluminous. The number of delegated acts has increased by even larger margins under the first von der Leyen Commission compared to that of President Jean-Claude Juncker (2014-2019).

This reflects a trend in the design of primary legislation towards prescriptive detail, with technical specifications being set out in subsequent delegated or implementing acts. This exacerbates the perception, especially among businesses, that EU rules are ever-increasing, detailed and costly (BusinessEurope 2022).

Table 2. Delegated and implementing acts under ordinary legislative procedure

Commission term	Delegated acts basic	Amended delegated acts	Total	Delegated acts exp/R	Balance delegated acts	Implementing acts basic	Amended implementing acts	Total	Exp/R	Balance adopted
2014-2019	309	312	621	62	559	2,728	1,778	4,506	1,032	3,474
2019-2024	350	584	934	222	712	3,058	2,073	5,131	2,215	2,916

Note: Exp/R = expired and repealed acts; Balance adopted = total adopted implementing acts less expired acts and repeals.

Source: Bruegel based on EURLEX.

3.2 Major proposals are increasingly accompanied by impact assessments but there are significant exceptions

In recent years, about 60 percent of Commission proposals that go through the ordinary legislative procedure⁷ have been accompanied by impact assessments (Table 3). However, proposals made during emergencies (including the war in Ukraine, COVID-19, spikes in illegal migration and financial crises), delegated and implementing acts, and legislative amendments escape the discipline. For example, during the COVID-19 pandemic (2019-2020) only 5 percent of Commission proposals were accompanied by an impact assessment (Council of the EU 2023).

Ironically, none of the recent simplification initiatives have been accompanied by an impact assessment (Box 1). This surprising disregard for the better-regulation rules, led to complaints to the European Ombudsman (2025), which has admonished the Commission for using the derogation from better-regulation requirements for urgent matters without proper justification and for failing to adequately consult internally and externally.

Few impact assessments have been done for delegated and implementing acts⁸. This is concerning given that, although technical, such acts can involve political judgement, trade-offs and costs (Robert 2019). The Commission itself has identified these acts as potentially contributing to overregulation (European Commission 2025a)⁹.

A major gap in application of better-regulation practice concerns amendments put forward and adopted in the EU co-decision process, in which the Council of the EU and the European Parliament debate and adopt legislation. Neither the Council nor the Parliament have managed to conduct more than a handful of assessments of their amendments to Commission proposals (Hiller 2024; Council of the EU 2023).

Adopted laws may thus have significant impacts not foreseen in the Commission's impact assessment. This, combined with choices made by EU countries in implementing EU legislation, can result in increased costs, unexpected impacts or incoherence between laws, which were not foreseen in Commission impact assessments.

Table 3. Commission proposals and impact assessments

Commission term	Commission proposals basic	Commission proposals amended	Impact assessments*
2014-2019	243	165	219
2019-2024	252	210	247

Note: * impact assessments reviewed by the RSB.

Source: Bruegel based on EURLEX.

3.3 The quality of analysis is variable

Impact assessments are the bedrock of the better-regulation system, shaping the quality of the Commission's legislative proposals. However, there are recurring problems in impact assessments (Box 1), with the RSB delivering negative opinions on about 40 percent of impact assessments submitted to the board (European Commission 2023). The RSB has identified problem definition and the assessment and comparison of options as major shortcomings. Proportionality is also an issue (European Commission 2023).

As for examining a range of options, it is important to note that the impact assessment process does not always start with a blank sheet of paper. The preferred policy option is often prescribed in either Council of the EU conclusions or European Parliament resolutions. The same limitation applies when the EU enters into binding international agreements that must be transposed into EU law. In both cases, options are circumscribed.

Box 1. Why the quality of impact assessments matters: the example of 'Omnibus I'

Some of the shortcomings in impact assessments were reflected in the preparation and aftermath of adoption of two EU corporate governance and reporting laws, the Corporate Sustainability Reporting Directive (CSRD, Directive (EU) 2022/2464) and the Corporate Sustainability Due Diligence Directive (CSDDD, Directive (EU) 2024/1760). Both were included in the European Commission's so-called Omnibus I package of February 2025¹⁰ – the term 'omnibus' describing a streamlining and simplifying of rules. This postponed the implementation of some provisions of the CSDDD by a year and amended the CSRD.

When these directives were proposed – the CSRD in 2021 and the CSDDD in 2022 – the proposals were supported by impact assessments. However, in both cases, the Regulatory Scrutiny Board warned of weaknesses in the impact assessments (European Commission 2021d, for CSRD, and European Commission 2022, for CSDDD), particularly:

- Weak justification of the need for legislation;
- Unclear content and unsubstantiated impacts;
- Proportionality issues, including a lack of analysis of impacts on SMEs, and of options other than legislation as a preferred instrument;
- Incoherence between legislation, such as non-aligned thresholds for reporting and due-diligence requirements, which make compliance costly, and the coexistence of sectoral and general legislation, resulting in overlaps and duplication of obligations;

- ‘Gold plating’ of international rules, ignoring the need for consistent EU and international reporting standards.

The initial CSRD proposal received a positive opinion with reservations from the RSB. The CSDDD went ahead despite receiving two negative opinions. With the Omnibus I package, the Commission responded to stakeholders’ demands for simplification. The amended CSRD would alleviate reporting requirements, exempt SMEs and other smaller companies, align the size threshold with that of the CSDDD and adopt a simpler reporting standard for large companies¹¹. The initial RSB opinion had identified these three issues as raising problems of proportionality and coherence of the proposal with other legislation.

In a review of the Omnibus I proposals, Marcus and Thomadakis (2025) acknowledged that the scope and coverage set out in the initial package may have been overly ambitious and disproportionate and welcomed corrections: *“the legislative proposal’s attempt to simplify compliance and to better align the three laws is directionally right, but a quick analysis in the absence of a proper impact assessment necessarily struggles to verify the appropriateness of the specific measures being put forward”* (Marcus and Thomadakis 2025, p54). The authors made a number of recommendations to make future decisions more robust.

The Commission in 2025 issued eight omnibus proposals overall covering various fields: sustainability, InvestEU, agriculture, small mid-caps and digitalisation, defence, digital, chemicals and environment¹². All were published after limited consultations and without an impact assessment for reasons of emergency and political importance.

This sidestepping of better-regulation rules has led to widespread criticism about the simplification agenda, including from academics (Alemanno 2025) and civil society via the European Ombudsman (2025). Analysis of the individual proposals points to serious concerns about quality issues in the proposed legislation¹³.

Quantification of costs and benefits, a concern often raised by stakeholders, is improving. However, the RSB indicates that on average only 40 percent of impact assessments estimate costs fully, while benefits are quantified even less (European Commission 2023).

More broadly, meeting the ever-increasing number of consultation and analytical requirements in the better-regulation system – one-in-one-out cost-benefit calculations, SME tests, competitiveness assessments, compliance with climate goals, digital-by-default, no net harm, strategic foresight, reality checks, stress testing – is challenging and resource intensive.

Impact assessments have become voluminous, easily running to hundreds of pages. The question arises of whether the quality of essential analytical elements has suffered because so many additional requirements have been added.

3.4 Efforts to improve the legislative stock are falling short

Commission ex-post evaluations of legislation are weak, often ill-timed, of mixed quality and with questionable impact on further policy development (European Commission 2024; ECA 2018). They lack evidence and relevant data and often have limited stakeholder input. The RSB scrutiny comes too late in the process to improve data collection or methodology. For amendments to existing legislation, the RSB (European Commission 2024) has indicated that only up to a third of ex-post evaluations are of sufficient quality to inform the associated impact assessment.

Even in the case of good ex-post evaluations, there is a hesitation to follow up on recommendations if they entail reopening discussions on laws (for example, environment, chemicals and food safety law) that were adopted following long, tense and divisive negotiations, or which are only in the process of being fully implemented.

More fundamentally, as EU countries and not the Commission are responsible for implementation, there is a tendency to give evaluation a low political profile and to resist calling into question the performance of legislation and programmes.

Stakeholders continue to highlight the inconsistencies and contradictions in different pieces of legislation across policy areas (BusinessEurope 2025). Fitness checks were introduced to look at coherence between pieces of legislation and policy fields (European Commission 2012). But the problem remains (European Commission 2021c).

The costs of EU law are significant¹⁴. Efforts to reduce costs through targets and regulatory budgeting have not brought desired relief for stakeholders and business. These exercises focus on estimated cost reductions embodied in Commission proposals. Such savings are not tracked and may or may not make it through the legislative process.

Furthermore, experience points to an additional difficulty of timing. Often, cost-reduction measures come into effect so long after their announcement and calculation that the beneficiaries do not feel or register the savings¹⁵. Furthermore, when reduction efforts focus on legislation in the pipeline, the results provide some relief in the sense that additional burdens are avoided. But such exercises do not directly tackle problems of the cost of existing laws.

4 Policy recommendations

Can the current better-regulation system deliver quality, timely analysis in an increasingly complex, multi-level governance context, subject to frequent crises? Yes, but changes are needed to meet the challenges of a complex policymaking landscape characterised by rapid technological change and volatility.

4.1 Recommendation 1: legislative flow

If the flow of legislation is to be reined in, the European Commission needs to make a high-level commitment to better

regulation, with a designated commissioner (Vice President for example) with the authority to exercise discipline and restraint in making proposals, simplify where possible and ensure coherence between policy areas.

The European Commission has the right of initiative and full discretion to decide on the volume of the flow of legislation. Political control of the flow requires a commissioner to be given a clear mandate by the president to control the flow, ensure quality proposals that are coherent across policy areas and manage the legislative stock.

So far, this responsibility has been an add-on to another portfolio (for example economy and productivity under the current Commission, inter-institutional affairs under the first von der Leyen Commission from 2019-2024).

Given the seriousness of the problem of regulatory overload, it would seem appropriate to have the responsibility for better regulation (from strategic planning through impact assessment, consultation, evaluation and implementation) in a dedicated single mandate.

To manage the flow, the responsible Commissioner could introduce new metrics and conditions for inserting proposals into the Commission Work Programme (eg. demonstrable results in implementation of existing legislation). S/he could be charged with reining in the use of secondary legislation and systematically assessing whether reliance on principles-based primary law with technical specifications set out in delegated and implementing acts is the best approach.

S/he could initiate a discussion on systematic application of the principle of discontinuity with the other institutions and on strengthening the existing practice of a regulatory/legislative proposal pause at the end and beginning of each Commission mandate.

Importantly, this Commissioner would be charged with examining whether regulation (often the default instrument) is the right approach to problem solving, or whether soft instruments or other approaches might be better options.

Finally, given that policy is made in a rapidly changing and uncertain world, the Commissioner could be charged with developing an adaptive approach to regulation, with shortened feedback loops, more consultations and real-time input from reviews and evaluations.

4.2 Recommendation 2: assessment throughout the legislative process

Set up an inter-institutional mechanism to assess amendments proposed during the co-decision process, to ensure methodological consistency with Commission impact assessments and to conduct post-adoption assessments.

Given the dearth of assessments of amendments to laws made by the Council and the European Parliament, there is a need not only for a reinforced commitment by all the EU institutions to better law making, but a new inter-institutional mechanism to translate this commitment into action.

This mechanism should assess the impact of amendments using the Commission's impact assessment methodology. It should also identify how the impacts of adopted laws differ from those foreseen at the proposal stage. This would also help in better informing EU countries when they make implementation choices. The mechanism could examine stakeholder comments on Commission impact assessments following their publication, to see if any revision of methodological approach is needed.

4.3 Recommendation 3: assessment of delegated and implementing acts

More systematic, but proportionate, assessment of the costs of delegated and implementing acts.

Delegated and implementing acts need to be better assessed, in a proportionate manner. Because of their technical nature and limited scope, there is no need to do full impact assessments or full cost-benefit analyses. Cost assessments should suffice.

Thought needs to be given to what might be an appropriate trigger for such an assessment. A quantitative monetary threshold could be used. Or, given that draft acts are published for feedback, the number of concerns raised during the consultation could prompt an assessment.

4.4 Recommendation 4: professionalisation through establishing a centre of analytical expertise

Establish an internal centre of analytical support as the dedicated centre for regulatory analysis (including cost/benefit, modelling and use of artificial intelligence) for all impact assessments and for validation of impact assessments and ex-post evaluation methodologies.

The quality of better-regulation outputs depends in part on the soundness of the methodology employed. The Commission faces increasing and insatiable demands to better calculate costs of proposals and of legislation in force. This has resulted in a spawning of new analytical requirements within the system – administrative cost calculations, cumulative cost calculations – aimed at meeting targets and complying with regulatory budgets.

Draghi (2024) suggested that one cost calculation method be used. But experience has shown that while some assessments lend themselves to standard cost/benefit analysis, others don't. The standard cost model, to which Draghi (2024), referred covers administrative costs which, while important, are a small portion of total costs (including compliance, one-off investment costs, payroll and taxes).

This raises the question of the usefulness of focusing regulatory policy efforts on the measurement and reduction of a small sub-set of costs and, indeed, whether it is useful at all to look at costs in isolation without measuring benefits.

Draghi (2024) also suggested that the choice of one methodology would make it possible to calculate the aggregate cost of EU legislation. However, given the differences in methodological approach across assessments combined with data issues, there is neither enough consistency nor accuracy to facilitate meaningful aggregation of either costs or benefits across policy areas¹⁶.

There is no methodological silver bullet. The use of standard tools, such as the administrative burden calculator, has stood the test of time. There have also been several successful cases in which impact assessments have been effective in informing policymaking and which could serve as models of methodological excellence (Box 2).

These show how major sensitive policy debates in the EU have benefited from extensive consultations and consistent and comprehensive analyses that accurately reflect policy trade-offs. There is a need to move away from ad-hoc evidence collection for specific impact assessments or ex-post evaluations. New ways should be explored to ensure quality and consistency between analyses, foster and maintain data and evidence bases, and introduce artificial intelligence tools.

Cases in Box 2 show the merit of centralising analytical work for major policy areas to develop and maintain a solid evidence base. The centre could develop baselines (using projections, market intelligence and scenarios), examine costs of inaction and collect evidence on implementation (systematic and continuous data collection, consolidation of consultation outcomes, use of AI tools).

Various possibilities for establishing such a centre could be explored: establishing a new centre (involving consolidation and grouping of resources in all the institutions dedicated to analytical tasks), reinforcing the role of the Joint Research Centre, and/or, using a framework similar to Science Advice for Policy by European Academies (SAPEA)¹⁷ to tap into complementary academic expertise.

4.5 Recommendation 5: streamlining and simplifying analytical requirements

The Commission should consolidate and streamline the various analytical requirements.

The capacity of Commission departments to cope with the ever increasing analytical and consultation demands within the better-regulation system is being seriously tested.

The creation of a centre for analytical support and the use of AI may assist in meeting these requirements. Nonetheless it is an open question as to whether the fundamental aim of these instruments – informing decision making – could be met in a more streamlined, effective manner.

Without sacrificing meaningful consultation or analytical rigour, some streamlining, consolidation and prioritisation of the requirements relative to the type of proposals under development could lead to qualitative improvements.

For example, in most cases, following an initial scoping, the number of realistic options is clear. The impact assessment could then zero in on the three original areas of focus: economic, social and environmental impacts. If the expectation is that intended action would have significant impacts on a particular sub-area of these areas (eg. on climate change, biodiversity, SMEs or competitiveness), further in-depth analysis of the specified area would be necessary.

Box 2. Examples of impact assessments based on a comprehensive and consistent analytical framework

Climate change

Europe has been among the climate policy leaders for several decades. Building consensus on climate change has been difficult and the consensus would not have been achieved without a convincing and transparent impact assessment process.

Since 2007, the European Commission has put in place a solid knowledge base combining a comprehensive set of quantitative instruments (European Commission, 2021b). These include a suite of general equilibrium models and sectoral models: a model for the macro linkages between energy and environment (GEM-E3), a model for energy (PRIMES) – including energy efficiency – for transport (PRIMES-TREMOVE), for land use and forests (GLOBI-OM-G4M), a model for the linkages between climate change and environment (GAINS) and a model for agriculture (CAPRI). All models are now available in the Modelling Inventory and Knowledge Management System (MIDAS) of the European Commission's in-house Joint Research Centre (JRC)¹⁸.

This suite of models guarantees consistency between greenhouse gas emission reduction targets, the market instruments to achieve them, efficient distribution of sectoral contributions and a fair distribution of efforts among EU countries. It relies on a common baseline, the EU reference scenario 2020 (European Commission 2021b), which projects economic and technology trends based on national policies.

It has been designed with and validated by EU countries. The analytical framework also provides time consistency of climate change policies since the framework was used throughout the years for the 2020 package, the 2030 package and the European Green Deal milestones, including the Fit for 55 package and climate neutrality by 2050.

The system has policy monitoring and evaluation provisions that require EU countries to assess in real time the outcome of national policies in relation to the objectives.

Climate change remains a divisive issue and the policy has not been successful in all areas. But overall, the EU has put in place ambitious packages, delivered on their objectives and implemented timely changes or new mechanisms to correct deviations from the agreed trajectory. The robustness of the analytical framework used for the impact assessment played a major role in this process¹⁹.

Common Agricultural Policy (CAP)

Similar developments have occurred in the CAP over the last 25 years. As with climate change, the need for a robust empirical foundation was driven by the heated debate about European support for agriculture. Efforts have focused on both ex-post evaluation and impact assessment. For the 2014–2020 programming period, a Common Monitoring and Evaluation Framework was established to organise harmonised and granular data collection.

This was complemented by a Performance Monitoring and Evaluation Framework (PMEF) for 2020–2027. Impact assessments for these two programming periods (European Commission 2018) could draw on various monitoring and evaluation exercises. As with climate change, a baseline calibrated against international scenarios was built on the basis of the European Agricultural Outlook (European Commission 2025b).

The Treaty objectives for the CAP are numerous, including increased productivity, improved standards of living for farmers, market stability, food security and affordability. Models have been used to illustrate various economic, social and environmental trade-offs. For 2020-2027, seven models²⁰ were combined to test various reform options, ranging from a global sectoral general equilibrium model (MAGNET) to specific tools for modelling soil quality

(IFM-CAP) and carbon and nitrate dynamics (CENTURY), as well as the national agricultural sectors of EU member states (CAPRI), a database containing 86,000 individual farm-level accounts (AIDSK). This work benefitted from the consolidated expertise of the JRC, Eurostat, the OECD and the United Nations Food and Agriculture Organisation.

Not all policy areas lend themselves to such modelling systems. But efforts on systematic data collection over time, scenario analysis, validated baselines with EU countries and international organisations, and internalisation of databases and tools are relevant practices that could make impact assessments and ex-post evaluations more robust. They also have organisational implications: they can mitigate the silo approach in policymaking; they also offer broad scope for collaboration across levels of governance: EU, national and international.

Importantly impact assessments should spell out the main policy trade-offs, such as competitiveness versus health benefits, and demonstrate how various options perform in these respects. Meaningful consultation should help to signal impacts that might have been overlooked. The aim is to avoid box-ticking exercises that cover all bases but do not provide adequate assessment of the most important impacts of the options under consideration.

That said, the drive for simplification of better-regulation procedures and practices should not result in institutionalisation of short cuts. Substituting rigorous impact assessment and related consultation with superficial assessments is not a solution.

4.6 Recommendation 6: externalisation of ex-post evaluations

Externalise ex-post evaluation by empowering an external body as a centre for evaluation²¹ expertise to carry out evaluations and to conduct, in coordination with Commission services, EU agencies and responsible member state authorities, ongoing monitoring and assessment.

The success of the better-regulation system is ultimately reflected in efficient and effective implementation of EU law. To understand problems of implementation, ex-post evaluation is of fundamental importance. It is only through examining performance of EU countries in terms of implementation that recommendations for improvement can be made.

Several current practices could be strengthened and adjusted to improve the quality of ex-post evaluations. For example, each Commission proposal should include an evaluation plan (including data collection methods and requirements) and an implementation strategy. The RSB should review these plans at the start of the process. EU countries should contribute to evaluations, for example, by evaluating some pieces of legislation as case studies.

Importantly, they should also identify and assess the costs of gold plating at national level, and initiate cost reduction efforts there. EU agencies could also be required to assess performance in their respective areas, following the example of the state of the environment reports produced by the European Environment Agency (eg. EEA 2025).

But given the political sensitivity of evaluations, a more radical change might be needed. While impact assessments are an integral part of the policymaking process and are better done close to the political level decision-making, ex-post evaluations might be better placed outside the institutions.

An external body could involve the different levels of governance and stages of implementation, take a multi-stakeholder perspective, better consider the inter-institutional responsibilities for legislation and avoid political influence in arriving at conclusions.

It could conduct stakeholder consultations to identify more accurately the stakeholders affected by legislation (central versus local authorities; citizens versus firms; SMEs) and engage with them to identify inconsistencies and incoherence across legislative areas to feed into evaluation planning.

It is fundamentally important that such an external body should be approved by, and have the support of, all EU institutions and that they agree to factor its findings and recommendations into their policy discussions. ■

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Endnotes

1. The first von der Leyen Commission (2019-2024) introduced regulatory budgeting and highlighted reduction of administrative burden and implementation as priorities (von der Leyen 2019). Simplification was a key priority for the Jean-Claude Juncker Commission (2014-2019). See Jean-Claude Juncker, 'Mission Letter to Frans Timmermans, First Vice-President, in charge of Better Regulation, Interinstitutional Relations, the Rule of Law and the Charter of Fundamental Rights', 1 November 2014.
2. See European Commission (2021a), pp. 8-9 for an overview.
3. In 2007, the Commission set up the High-Level Group of Independent Stakeholders on Administrative Burdens (Decision No 623/2007/EC), replaced by the REFIT platform (Decision C(2015) 3261) and in 2020 by the Fit for Future (F4F) platform (Decision 2020/C 163/03).
4. Under European Commission Decision C(2015) 3263 final on the establishment of an independent Regulatory Scrutiny Board.
5. Available respectively at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=oj:JOC_2003_321_R_0001_01 and https://data.europa.eu/eli/agree_interinstit/2016/512/oj.
6. The 2025 OECD Regulatory Policy Outlook ranks the EU well above average on indicators of stakeholder engagement, regulatory impact assessment, ex-post evaluation and transparency (OECD, 2025).
7. Under the ordinary legislative procedure (OLP), applied to roughly 85 percent of all EU law, the European Parliament and the Council jointly adopt legislation. The remainder is adopted under special legislative procedure and pertains mainly to international agreements (including fisheries) and certain competition decisions adopted by the Council.
8. See Council of the EU (2023): "Out of these 598 delegated acts and implementing measures, 3 were accompanied by an IA (2 Commission implementing regulations, 1 Council implementing regulation)."
9. European Commission (2025b) indicated that 115 out of 430 empowerment decisions in the financial sector, and 57 out of 253 acts in the field of environment, were assessed as non-essential to the regulation and sometimes a source of regulatory burden.

10. See European Commission, [‘Omnibus I’](#), 26 February 2025.
11. At the time of writing, this proposal has not been finalised.
12. See Politico (2025) for a review of the proposals.
13. See, for instance, Martens (2025) for the digital omnibus.
14. EIB (2025) indicates that the time spent meeting EU regulatory requirements amounts to 1.1 percent of business turnover; 1.8 percent for SMEs. Eurochambres (2025) estimates the cost to business of the Green Deal to be €2 billion.
15. The first administrative burden reduction programme illustrated the problem. In 2007, the Commission set a 25 percent target, which was surpassed in 2013 with a total reduction estimated at €123.8 billion (or 27 percent). In a follow-up study, only five EU countries could provide requested data on the reductions and thus the study concluded that “the robustness of the conclusions is compromised by the lack of available evidence and data on the impacts of these measures on the ground” (ICF 2014).
16. Experience elsewhere, for example, in the United States, which has a cost/benefit system, shows that aggregate cost calculations are not fully accurate or conceptually sound. The US Office for Management and Budget (OMB) mentioned in its annual report for fiscal year 2023, “Aggregating benefit and cost estimates of individual regulations may produce results that are neither precise nor complete, nor, in some cases, conceptually sound” (OMB 2023, p.8).
17. SAPEA is a large group of European excellence academies and learned societies, which provides multidisciplinary scientific support to the scientific advice mechanism of the European Commission. It is supported by EU research funding. For more information, see European Commission, [‘Supporting policy with scientific evidence’](#), 1 July 2021.
18. European Commission, [‘Modelling Inventory and Knowledge Management System of the European Commission \(MIDAS\)’](#); undated.
19. See Delbeke (2024 pp.18-23): Jos Delbeke, Director General for climate policy in the European Commission from 2010 to 2018, has highlighted the role of impact assessments in preparing the ground for ambitious climate targets and shaping cost-effective and fair ways of reaching them.
20. See European Commission (2018 pp.87-92) for descriptions of the individual models.

21. Demertzis et al (2024) introduced the idea that ex-post evaluation should be external, somewhere between the European Parliamentary Research Service and ECA.

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This article is based on *Bruegel Policy Brief Issue n°01/26* | January 2026.

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Europe and monetary sovereignty

Europe must not take its monetary sovereignty for granted in a world undergoing geopolitical and technological changes, says Piero Cipollone. Reducing excessive dependencies in payments and finance is key for resilience, competitiveness and economic security

Preserving monetary sovereignty has been a key objective of our single currency. And as guardian of the euro, the European Central Bank (ECB) makes a key contribution to Europe's independence. But while money is one of the most advanced aspects of European integration, we cannot take our monetary sovereignty for granted in the face of today's geopolitical and technological developments.

In a world where external threats are growing and dependencies are used as leverage, it is becoming increasingly obvious that Europeans can no longer outsource core functions that are critical to their security and prosperity. This is specifically true for payments and finance, where I will argue that our dependencies have become excessive.

To put it simply: if we lose control of our money, we lose control of our economic destiny. And we surrender a key attribute of sovereignty¹. Central banks are entrusted with issuing, on behalf of the sovereign, the only money that is legal tender. In the words of Jean Bodin, *"only he who has the power to make law can regulate the coinage."*²

Because it is backed by the sovereign, central bank money offers a monetary anchor to the financial system – for other forms of money to be trusted, they must be convertible into central bank money at par at all times.

So a key part of our mandate is to ensure that central bank money remains fit for purpose, supporting the smooth functioning of payment systems. At the same time, we are tasked with preserving the value of money by maintaining price stability. To fulfil this objective, we need to retain control of financing conditions in the economy. This also requires central bank money to continue to play a key role³.

Ultimately, monetary sovereignty requires ensuring that our currency remains relevant, so that European consumers and businesses can rely on it for both retail transactions – the purchase of goods and services – and wholesale transactions – the settlement of claims between banks.

The euro's relevance depends not only on sound macroeconomic policies – most notably an independent monetary policy aimed at preserving price stability – but also on the credibility, resilience and efficiency of the material and immaterial foundations of money. Payments and finance are the material part. Trust is the immaterial part⁴.

But these foundations are going through a profound transformation as a result of digitalisation and the emergence of new technologies. If we do not take a leading role in this transformation, we could end up at the whim of decisions made elsewhere. So, central bank money must evolve to retain its key role in payments and finance, and we need to act now to avoid excessive dependencies in these areas.

To ensure that Europe reaps the benefits of its Single Market, we need to overcome the fragmentation of European payment solutions. The digital euro will make this ambition a reality

Today, I will recall how our monetary union strengthens Europe's sovereignty. I will then argue that if we are to bolster our monetary sovereignty, we need to reduce existing dependencies in payments and finance and avoid developing new ones. Finally, I will contend that this would contribute to economic efficiency and support Europe's competitiveness.

How the euro strengthens Europe's sovereignty

Let me start by explaining how the euro underpins Europe's sovereignty. Sovereignty has been a thorny subject in the European debate because of the apparent trade-off between national sovereignty and European integration. But this reflects a fundamental misunderstanding. Centuries of wars between European powers have shown that if it comes constantly under threat from its neighbours, a European state's sovereignty is purely nominal.

How sovereign could such a state be if it could not protect the peace and security of its citizens? It was therefore clear to Europe's founding fathers that for national sovereignty to be real and not just nominal, some of it had to be pooled.

Sharing sovereignty on policies of common strategic interest was therefore the pre-condition – not the negation – of national sovereignty. But pooling key sovereignty attributes, such as establishing a European Defence Community, proved too sensitive after the Second World War⁵.

Another approach was therefore taken: Europe's sovereignty was built in the economic realm. Europeans pursued Robert Schuman's idea of merging economic interests so that war would be *"not merely unthinkable, but materially impossible."*⁶

As a result, Europe was gradually given key attributes of sovereignty in the economic sphere: first, the power to make laws to establish and regulate a Single Market, then the power to issue a single currency. This has been more successful than is often acknowledged. Not only have we had peace in Europe, but by avoiding destructive wars, Europe's economic wealth expanded at an unprecedented pace.

Aggregate per capita national wealth for France, Germany, Italy and Spain was essentially the same in 1950 as a century earlier. Since 1950, it has multiplied by 18. And in this same period, it increased from 37% to 83% of US per capita national wealth at purchasing power parity⁷.

Our single currency, the euro, has also strengthened the monetary sovereignty of euro area countries. In the years that preceded the establishment of the Economic and Monetary Union, the European economy was marred by exchange rate volatility. This undermined price stability and heightened uncertainty, dampening trade and investment in Europe.

European countries therefore attempted to keep exchange rates within narrow bands, which required them to replicate the monetary policy of the Bundesbank, which had the strongest track record in the pursuit of price stability.

As a result, other national central banks were de facto monetary policy takers, with little freedom on monetary policy decisions⁸. Even so, they repeatedly had to devalue their currencies, losing both the benefits of exchange rate stability and their sovereignty over monetary policy⁹.

Compared with these unstable fixed exchange rate regimes, the adoption of the euro made it possible to restore monetary sovereignty by sharing it at European level. All euro area national central banks now participate in

monetary policy decision-making within the ECB's Governing Council. Decisions are taken in the interests of the euro area as a whole¹⁰.

Moreover, sharing a single currency means benefitting from a currency with a potentially stronger international role and larger financial markets. The euro is the second most important currency in the international monetary system. Its share across a broad range of indicators stands at close to 20%, which is higher than the euro area's weight in global GDP¹¹.

And in the current economic context, there is an opportunity for the euro to assume a global stabilising role¹². When trade and geopolitical tensions rocked financial markets in recent months, the euro acted as a safe haven.

Greater use of the euro helps make the euro area less vulnerable to spillovers from foreign shocks. The use of the euro in trade invoicing, for example, reduces the pass-through of exchange rate shocks to domestic inflation. The international role of the euro also supports the transmission of our monetary policy.

In particular, the use of the euro in global finance increases the spillovers and spillbacks of domestic monetary policy impulses¹³. Our facilities to provide euro liquidity to non-euro area central banks support this role by addressing the risk of disruptions in euro-denominated funding markets outside the euro area.

This prevents disruptions in global funding markets from resulting in strong adverse effects on euro area financing conditions and thus impairing monetary policy transmission. As recently announced by President Lagarde, we have been preparing to broaden and facilitate access to our repo lines in response to greater global fragmentation and uncertainty¹⁴. The euro has therefore strengthened our monetary sovereignty from both a domestic and international perspective.

Addressing excessive dependencies in payments and finance

We nevertheless face new challenges as a result of geopolitical and technological developments. In a less stable world, external dependencies for critical economic functions can quickly turn into major fragilities¹⁵.

So we need to adapt to this new reality. As the central bank, we must ensure that external dependencies in payments and finance do not cancel out Europe's hard-earned monetary sovereignty. And we need to ensure that our currency, the euro, remains fit for purpose in the digital era, ensuring it retains its role internally¹⁶ and internationally¹⁷.

Digital retail payments

Currently, we face a major dependency in digital retail payments, where we rely to a large extent on a few non-European solutions and payment rails. Given our mandate to ensure the smooth functioning of payment systems, we cannot satisfy ourselves with a situation that puts their resilience at risk.

Card payments are a prominent example. International card schemes account for two-thirds of card transactions in the euro area. 13 out of 21 euro area countries do not even have a domestic card scheme. Even where such schemes exist, they need to co-badge with international card schemes or be added to international digital wallets to enable payments for the use cases they do not cover¹⁸ and for crossborder transactions within the euro area. At this point, we do not have a European solution that works throughout the euro area for all digital payments.

While worrying from a resilience point of view, this dependency might have been less of an issue in a less fragmented world. But that is not the world we live in. We can no longer afford to rely mainly on foreign solutions for a matter as critical as daily payments.

If Europeans can no longer pay, they are no longer in control of their money. And the economy is exposed to grinding to a halt suddenly. Even without reaching this point, such a dependency could be used as leverage against Europe's interests.

And this dependency comes with a price tag. European banks are already losing fees to international card schemes, and fees and data to big tech mobile payment solutions. This has the potential to generate a vicious circle whereby dominant foreign players increasingly control European transaction data, giving them a competitive advantage to offer payment and financial services, further deepening our dependencies. In parallel, the loss of fees makes European payment service providers financially weaker, reducing their ability to compete effectively.

Tomorrow, European banks could lose fees, data and deposits to stablecoins, which are already partnering with international card schemes to provide an alternative means of settlement to bank deposits. US dollar-denominated stablecoins could also start to gain a foothold in Europe, starting with retail crossborder payments – in e-commerce and tourist locations, for instance – or fringe use cases such as gaming, micro-payments and machine-to-machine payments. The risk could become even more serious if the issuers of these stablecoins were allowed to remunerate their token holders.

So we need to address our current dependencies in retail payments and reverse the tide. We have the capacity to do so. The central bank has the mandate to provide means of payment. This is what we do when we issue banknotes. And for many years, cash has not only helped unite Europe, it has also kept us in control of how we pay.

But Europeans are increasingly turning to digital payments. People continue to value and use cash, and we are fully committed to ensuring it remains widely available and accepted¹⁹ – we are in fact preparing to produce and issue a third series of banknotes, featuring new designs. But physical cash no longer covers all Europeans' needs.

For instance, more than one-third of day-to-day payments in the euro area are for online transactions, where cash cannot be used.

We thus need to complement physical cash with its digital equivalent, a digital euro. Although we are making technical preparations to issue the digital euro, we will only do so once the digital euro regulation has been adopted. The EU co-legislators are playing a key role in establishing and regulating the use of the digital euro²⁰.

A digital euro will ensure that Europeans have a European public option, based on European technology and European infrastructure, which makes it possible to pay digitally in all situations throughout the euro area.

Moreover, the digital euro will allow banks to offer their clients payment solutions that fulfil all their needs, avoiding the need for them to look elsewhere.

It will do so in two ways: first, by enabling European private payment solutions to co-badge with digital euro²¹, ensuring that their customers can even pay at merchants and for use cases they do not currently cover. Second, it will make it easier for these solutions to expand their coverage by using the digital euro open standards and acceptance network.

The digital euro will therefore make it much easier and cheaper for private initiatives to achieve pan-European reach and expand to e-commerce and in-shop payments. Since the digital euro will be legal tender, it will be accepted by all merchants that accept digital payments, thus creating an unparalleled acceptance network that interoperability alone cannot create and that European private initiatives will be able to leverage.

This will enable them to roll out their solutions more easily without needing to make large investments to convince merchants to adopt their own standards in stores and online, or being left to rely on proprietary standards owned by international card schemes²².

Let me emphasise here that this has nothing to do with protectionism. We remain open to foreign solutions. The digital euro will support a vibrant European market for digital retail payments, with more competitive players able to offer better services to consumers, but without the dependencies that put the euro area's economic security and monetary sovereignty at risk.

Digital finance

Let me now turn to a dependency that could emerge if we do not take timely action, which is in the realm of digital finance. Currently, wholesale transactions – high-value transactions and payments for securities between banks – are largely settled in central bank money²³.

But financial market participants are exploring the potential of new technologies, such as tokenisation and distributed ledger technology (DLT), to enhance efficiency. These technologies allow assets to be issued or represented digitally, making it possible to trade, settle and manage custody of these assets on a single platform, available 24/7, 365 days a year. And they enable the use of smart contracts to automate corporate actions and cash flows that today require multiple intermediaries and manual operations.

This paves the way for a new digital finance ecosystem that has the potential to transform finance as we know it. But if we are not quick to offer tokenised central bank money settlement, the risk is that this ecosystem will be built elsewhere or rely on settlement assets that are issued outside Europe and not denominated in euro. This would undermine our monetary sovereignty.

Take US dollar-denominated stablecoins, which currently account for 99% of the global stablecoin market and are dominated by two non-European issuers. If European tokenised finance and crossborder payments came to depend on such stablecoins, the role of the euro would be diminished.

We would, moreover, be relying on assets that entail liquidity, concentration, operational and fragmentation²⁴ risks, are mostly issued by non-banks, and are exposed to runs. Our payment infrastructure for wholesale transactions would be anchored outside Europe and shaped elsewhere. In a world where payment networks can be weaponised, this would be a risk to our economic security.

We are therefore preparing to issue tokenised central bank money for the settlement of digital asset transactions on DLT. This will ensure that participants in the digital finance ecosystem can natively settle their transactions using a risk-free, euro-denominated asset. In turn, it will protect Europe's monetary sovereignty and avoid fragmentation by offering a common anchor into which all private tokenised assets can be converted.

We are planning to offer a solution for settlement of DLT-based transactions in central bank money as early as the third quarter of this year. We have called this project 'Pontes' – Latin for 'bridge' – as it will act as a bridge between our traditional settlement infrastructure (T2) and DLT. At the same time, we are working with market participants to develop an integrated digital finance ecosystem in Europe.

This is our 'Appia' project²⁵. With this name, we wanted to evoke the idea of a journey by referencing one of the symbols of the road network that Romans built throughout Europe. Appia will be a learning journey that paves the way for the Eurosystem to design, together with market participants, a pan-European ecosystem based on DLT. It will ensure we can rely on a shared European ledger or a European network of interoperable platforms, where all roads lead to the euro.

As in the current system, central bank money will not crowd out private settlement assets such as stablecoins or tokenised deposits. Instead, it will exist alongside them, ensuring that they are interoperable and can be converted into central bank money, thereby supporting trust. This will underpin the integration and stability of Europe's digital finance ecosystem and ensure it has a euro-denominated settlement asset at its core.

In the coming weeks, we will publish a paper that will explain in greater detail how we will go about the Appia journey. And legislators could consider supporting this effort by exploring the possibility to establish a 28th legal regime for digital assets.

Global payments

The international role of the euro has taken centre stage in the economic policy debate of late. I have already alluded to the fact that our monetary sovereignty would benefit from a stronger role of the euro globally.

However, the emergence of US dollar-denominated stablecoins has given rise to new concerns about the euro's role in crossborder transactions. US dollar stablecoins aim to provide a digital dollar for global transactions, in addition to their current use as settlement assets in decentralised finance.

Stablecoins seem to be filling the gaps left by the retrenching of the 'correspondent banking' model in recent years. According to Swift data, active correspondent banking relationships declined by 29% between January 2011 and December 2022²⁶. Should US dollar-denominated stablecoins fill this gap, the euro's share of global export invoicing – which, at over 40%, is currently on a par with that of the US dollar²⁷ – could be put under pressure.

The Eurosystem has thus also taken action in this space. We are further expanding links between TARGET Instant Payment Settlement (TIPS) and other fast payment systems, taking advantage of the fact that there are about 100

such systems around the world. This will make it possible for ordinary people and businesses to make fast transfers from their bank account to any other account holder in a connected jurisdiction in a transparent and cost-efficient way.

Euro area countries are already connected with Denmark and Sweden in TIPS. Norway will follow in 2028 and Iceland has also expressed an interest²⁸. In addition, a bilateral link between TIPS and India's Unified Payments Interface will go live in 2027, and we are actively exploring similar opportunities with Switzerland, Brazil and Nexus Global Payments, a network which will connect fast payment systems from Malaysia, the Philippines, Singapore, Thailand, India and Indonesia.

Moreover, the Eurosystem, through Banca d'Italia, is supporting the central banks of several Western Balkan countries²⁹ in their efforts to develop a fast payment system modelled on TIPS. Once this 'TIPS clone' is operational later this year, it will be technically possible to link it with TIPS.

These links will increase the efficiency of correspondent banking by shortening settlement chains. And they will use the euro and currencies of linked jurisdictions as settlement assets, thereby reducing the role of third currencies. We are exploring how tokenised settlement assets could be used in this context to further enhance efficiency and monetary sovereignty³⁰.

The digital euro could also act as a connector. It is first and foremost intended for domestic use. But it is also being designed with international use in mind, based on an approach that respects the sovereignty of other countries³¹.

Financing innovation

But we should not forget traditional finance, where we face a problematic dependency when it comes to the financing of innovative companies.

Europe fails to provide innovative European firms with sufficient access to domestic funding sources. At present, the European venture capital market is still valued below €200 billion, compared with around €1 trillion for the United States. And European scale-ups raise 50% less capital on average than their Silicon Valley peers after ten years of operations, according to research by the European Investment Bank³².

European innovative firms are thus left looking elsewhere for funding, and often end up relying on US venture capital, which has been found to increase their probability of relocating to the United States³³. Barriers to expansion – in other words, the lack of a single market for innovative businesses in Europe – further increase the attractiveness of relocating to the United States, where they can more easily scale up³⁴.

In his report on European competitiveness, Mario Draghi noted that *“Between 2008 and 2021, close to 30% of the ‘unicorns’ founded in Europe – startups that went on to be valued over USD 1 billion – relocated their headquarters abroad, with the vast majority moving to the US.”*³⁵

This issue has attracted significant attention. Last year the European Commission announced its intention to develop a ‘28th regime’ for innovative companies as part of its Startup and Scaleup Strategy. This would introduce a harmonised, EU-wide corporate legal framework, making it easier for such companies to scale up and operate across the Single Market³⁶. Further recommendations have been made in two recent reports by European experts³⁷.

Fixing the issue would help Europe retain talent and technology, thereby boosting growth. It would also reduce the need for innovative firms to use non-euro-denominated funding sources or intermediaries whose lending rates are less sensitive to our policy rates. This would, in turn, support the effectiveness of our monetary policy transmission by giving us more control over financing conditions.

At present, ECB staff analysis points instead to a more muted channelling of monetary policy easing impulses to innovative firms, partly reflecting the limited depth of the euro area equity market. This is despite the fact that euro area households hold substantial savings, a significant share of which is invested abroad, as reflected in the euro area's significant current account surplus.

This points to an opportunity: deeper and more integrated capital markets could better support both bank and non-bank intermediation and help channel these funds into investment by euro area firms.

Recent evidence points to a disproportionate increase in lending from banks to safer borrowers since the start of our easing cycle in June 2024. This suggests that part of the easing is not reaching innovative sectors.

At the same time, euro area non-bank financial institutions are financing activities outside the euro area, including the direct financing of non-euro area corporates, particularly in innovative sectors. Strengthening domestic sources of funding for innovative euro area firms would therefore help ensure a more complete and direct transmission of our monetary policy.

Monetary sovereignty and economic efficiency

Let me now turn to the possible trade-off between monetary sovereignty and economic efficiency. Addressing excessive dependencies to bolster sovereignty has sometimes been presented as a risk management measure that comes at a price³⁸. I would instead argue that, in today's world, such an approach has the potential to increase economic efficiency.

Indeed, recent developments call for a reassessment of our concept of economic efficiency. We need to move beyond a static definition of efficiency as the cost per unit of output at a given time, and instead consider the

dynamic effects of economic decisions, including on resilience, innovation and competition. Lower costs in the short run might not be economically efficient if they expose Europe to major costs later.

As an example, deviations from the GDP growth trend in the euro area since 2019 can mainly be attributed to two shocks: the pandemic and the energy crisis linked to Russia's invasion of Ukraine. While the gap caused by the pandemic had almost fully closed by 2022, we still faced a 2% gap in 2025. Had we not been as dependent on Russia for energy, we would not have faced such a large and protracted cost.

Conversely, euro area GDP growth is now being bolstered by higher business investment, driven notably by investment in new digital technologies. This is expected to be further supported by government spending on defence and infrastructure, which could generate a 'sovereignty dividend'.

By increasing growth potential, higher investment could raise the euro area economy's speed limits: higher growth could be achieved without endangering price stability. So economic resilience matters, and it pays off over time.

The same applies to addressing dependencies in payments and finance, which undermine our monetary sovereignty. Addressing the dependencies I have outlined would strengthen the euro area's position in finance and technology markets. Incidentally, finance and technology explain most of the EU's productivity gap vis-à-vis the United States.

When abstracting for the information and communications technology (ICT) and financial sectors, the gap disappears. Strengthening Europe's ability to finance and retain its innovative companies, so that they scale up in Europe, would support our ICT sector. And ensuring that Europe can leverage the full extent of its market in digital payments and finance would strengthen Europe's financial sector.

When we instead allow our market to remain fragmented and dominated by a handful of foreign firms, competition suffers. Take the ICT sector. Market power dynamics and high fixed costs imply that companies that have invested heavily in intangible assets can deter entry more easily.

This concentrates gains among dominant firms and eventually weighs on aggregate productivity³⁹. Facilitating the financing of early intangible investments by European innovative firms is therefore critical.

When it comes to digital payments, the dominance of international card schemes has resulted in increasingly high fees for European merchants. And the strong dependency on these schemes for payments within the euro area means that non-European providers enjoy a significant share of the benefits of reducing internal trade frictions.

To ensure that Europe reaps the benefits of its Single Market, we need to overcome the fragmentation of European payment solutions. The digital euro will make this ambition a reality. It will reduce merchant fees, particularly for smaller merchants, by offering an alternative to dominant international payment solutions.

And it will save European banks money whenever a digital euro transaction replaces an international card scheme transaction, because they will no longer need to pay scheme and processing fees⁴⁰.

Similarly, as I mentioned earlier, our plan to interlink TIPS with other fast payment systems around the world will support faster and cheaper crossborder payments. By shortening correspondent banking chains, it will remove the current multiple layers of intermediaries that duplicate compliance checks, add costs and cause delays in crossborder transactions.

Conclusion

In establishing the euro, European countries regained their monetary sovereignty. And in an unstable world, this benefit offered by our single currency has only increased in importance.

With the euro, we share a key attribute of sovereignty. In the words of Robert Schuman, we have 'merged economic interests' when it comes to money. This underpins our unity, because what affects the euro affects all euro area countries, and vice versa⁴¹.

But we cannot be complacent. In a world where excessive dependencies can be used as leverage, preserving our monetary sovereignty requires bold steps to address the dependencies we had tacitly accepted in payments and finance until now. This is a fundamental aspect of what President Lagarde has called Europe's "*march to independence*."⁴²

When it comes to digital retail payments, digital finance, crossborder payments and the financing of innovative companies, we must ensure that we no longer depend excessively on the kindness of strangers⁴³. This does not mean closing our market. Rather, it means taking decisive action to integrate our European market and make it easier for European players to expand and compete across national borders⁴⁴.

In doing so, we will consolidate economic resilience, efficiency and security, while reinforcing our monetary sovereignty. ■

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Endnotes

1. For a detailed discussion of the interrelation between sovereignty and monetary sovereignty, see Bindseil, U and Senner, R (2025), "Revisiting national, economic and monetary sovereignty", September; and Villeroy de Galhau, F (2023), "[Monetary sovereignty in the 21st century](#)", speech at the Council of State Conference "Monetary sovereignty in the 21st century", Paris, 14 November.
2. Bodin, J (1576), *Six Books of the Commonwealth*.
3. Central bank money is a liability of the central bank and is currently issued in two forms: cash, which is widely accessible to the public, but not remunerated; and funds held by commercial banks on accounts at the central bank, which are remunerated. By setting interest on the money held on these accounts, the central bank steers other interest rates in the economy, thereby implementing its monetary policy.
4. See Visco, I (2021), "[Back to the future of money](#)", remarks at a panel discussion of the Andrew Crockett Memorial Lecture by Mark Carney, Bank for International Settlements, 28 June: "After all, physical, electronic or virtual, the efficiency and stability of what we call 'fiduciary money' is ultimately dependent on trust, on confidence – which indeed shares the same etymological root with 'fiduciary'. And this is ultimately what we have to preserve."; and Panetta, F (2025), "[Money and Trust: From the Renaissance to the Digital Age](#)", speech on the occasion of the external Governing Council monetary policy meeting, official dinner given by the Bank of Italy, Florence, 29 October.
5. The European Defence Community was not ratified in 1954. The need for European countries to strengthen their defence capacity to protect their collective security has recently led to a renewal of the debate on pooling sovereignty in this area. This could also strengthen the euro internationally. As President Lagarde has emphasised, "Trade and military power are important for establishing demand for an international currency." See Lagarde, C (2025), "[Earning influence: lessons from the history of international currencies](#)", speech at an event on Europe's role in a fragmented world organised by Jacques Delors Centre at Hertie School in Berlin, Germany, 26 May.
6. [Schuman Declaration](#), 9 May 1950. See also Visco, I (2023), "[Europe and Italy: prosperity in union and peace](#)", speech at the forum on "Europe: Peace, Protection, Prosperity", organised at the French Embassy in Italy.

7. [World Inequality Database](#) and ECB staff calculation.
8. As famously theorised by Mundell and Fleming in their “impossible trinity” (or monetary trilemma), it is not possible to simultaneously have a fixed foreign exchange rate, free capital movement and an independent monetary policy. See Mundell, RA (1963), [“Capital mobility and stabilization policy under fixed and flexible exchange rates”](#), *Canadian Journal of Economic and Political Science*, Vol. 29, No 4, pp. 475-485; and Fleming, JM (1978), *Essays on Economic Policy*, Columbia University Press, New York.
9. Draghi, M (2018), [“Europe and the euro 20 years on”](#), speech at Laurea Honoris Causa in Economics by University Sant’Anna, Pisa, 15 December.
10. Our comprehensive toolkit ensures the smooth transmission of monetary policy across the euro area. See ECB (2025), [An overview of the ECB’s monetary policy strategy](#), section 3.3.; and ECB (2025), [“ECB Monetary Policy Strategy Assessment 2025 – Workstream 2: Monetary policy tools, strategy and communication”](#), Occasional paper series, No 372.
11. ECB (2025), [The International Role of the Euro](#).
12. See Lagarde, C (2025), [“Turning openness into strength: the moment of the euro”](#), speech at Business France event “Business en Européens” in Paris, France, 7 October, and Lagarde, C (2025), [“Earning influence: lessons from the history of international currencies”](#), speech at an event on Europe’s role in a fragmented world organised by Jacques Delors Centre at Hertie School in Berlin, Germany, 26 May.
13. See Panetta, F (2020), [“Unleashing the euro’s untapped potential at global level”](#), introductory remarks at a meeting with Members of the European Parliament; and Coeuré, B (2019), [“Should the ECB care about the euro’s global role?”](#), VoxEU Column, 25 February.
14. At the Q&A session during the [press conference](#) on 5 February 2026, President Lagarde said: “while we are tied to the monetary purpose of what we do in terms of liquidity and we have to constantly assess the proportionality of what we do, it is a fact that we are looking at our liquidity framework and that the repo lines – to be distinguished from the swap lines – are in progress in terms of reframing them, opening up the access and making them more attractive to other national central banks outside the euro area and outside Europe. So this is in the works, and I hope to be able to announce a bit more in a few days.”

15. See Attinasi, M-G, Boeckelmann, L, Gerinovics, R and Meunier, B (2025), [“Unveiling the hidden costs of critical dependencies”](#), Economic Bulletin, Issue 5, ECB.
16. See Cipollone, P (2025), [“The transformation of money: technological disruption and the future of financial services”](#), guest lecture at the Frankfurt School of Finance & Management, Frankfurt am Main, 8 December.
17. See Panetta, F (2025), [“The struggle to reshape the international monetary system: slow- and fast-moving processes”](#), 2025 Whitaker Lecture at the Central Bank of Ireland, Dublin, 9 December.
18. For instance, domestic card schemes in Germany and Italy cannot be used to pay in ecommerce without co-badging with an international card scheme or adding the card to an international digital wallet.
19. For instance, in our opinion on the Legal Tender of Cash Regulation, we advocated for a clear prohibition of “no cash” practices. See [Opinion of the European Central Bank of 13 October 2023 on a proposal for a regulation on the legal tender of euro banknotes and coins \(CON/2023/31\)](#) and Cipollone, P (2025), [“Making euro cash fit for the future”](#), The ECB Blog, ECB, 4 August. We have also invited national legislators to protect the mandatory acceptance of euro cash. See, for instance, [Opinion of the European Central Bank of 22 January 2026 on limitations to cash payments \(CON/2026/3\)](#).
20. Pursuant to Article 133 of the Treaty on the Functioning of the European Union, “Without prejudice to the powers of the European Central Bank, the European Parliament and the Council, acting in accordance with the ordinary legislative procedure, shall lay down the measures necessary for the use of the euro as a single currency. Such measures shall be adopted after consultation of the European Central Bank.”
21. When European physical cards or digital wallets co-badge with digital euro, the corresponding schemes would be used wherever they are accepted, and the digital euro would be the fall-back solution wherever the private sector scheme is not accepted. See ECB (2025), [Fit of the digital euro in the payment ecosystem – Report on the dedicated Euro Retail Payments Board \(ERP\) technical workstream](#), October.
22. ECB (2025), [Fit of the digital euro in the payment ecosystem – Report on the dedicated Euro Retail Payments Board \(ERP\) technical workstream](#), October.

23. This is in keeping with the principles for financial market infrastructures. See Bank for International Settlements (2012), [Principles for financial market infrastructures](#), April: “Principle 9: Money settlements. An financial market infrastructure should conduct its money settlements in central bank money where practical and available.”
24. If tokenised payments and finance rest on fragmented pools of private settlement assets, liquidity can splinter and assets cannot be traded across platforms. Market participants may need to hold multiple stablecoins just to pay different counterparties.
25. Cipollone, P (2025), [“The transformation of money: technological disruption and the future of financial services”](#), guest lecture at the Frankfurt School of Finance & Management, Frankfurt am Main, 8 December.
26. Committee on Payments and Market Infrastructures (2023), [“CPMI quantitative review of correspondent banking data”](#), Bank for International Settlements.
27. See Brügggen, A, Georgiadis, G and Mehl, A (2025), [“Global trade invoicing patterns: new insights and the influence of geopolitics”](#), [The international role of the euro](#), ECB, June. When euro area countries are excluded, the share of the US dollar and the euro was about 60% and 25% respectively in 2023.
28. See ECB (2024), [“Norway joins TIPS, adding Norwegian krone to Eurosystem’s instant payment service”](#), press release, 29 November; and ECB (2024), [“Seðlabanki Íslands expresses an interest in joining T2 and TIPS”](#), press release, 9 September.
29. Albania, Bosnia and Herzegovina, Kosovo, Montenegro and North Macedonia.
30. Cipollone, P (2025), [“The transformation of money: technological disruption and the future of financial services”](#), guest lecture at the Frankfurt School of Finance & Management, Frankfurt am Main, 8 December.
31. When visiting the euro area temporarily, non-euro area residents would have access to the digital euro through a European payment service provider. Merchants outside the euro area may also be allowed to accept digital euro payments from euro area residents. Moreover, users outside the euro area could be granted permanent access to the digital euro, subject to an agreement between the EU and non-EU countries and a complementary arrangement between the ECB and the respective central banks. Appropriate safeguards would be put in place to avoid stoking currency

substitution in those countries. Moreover, like TIPS, the digital euro's design includes multi-currency enabling features that would allow non-euro area countries to use the digital euro infrastructure to offer their own digital currencies and facilitate transactions across these currencies. See Cipollone, P (2025), ["Enhancing cross-border payments in Europe and beyond"](#), speech at the Regional Governors' Meeting, Osijek, Croatia, 1 April.

32. European Investment Bank (2024), [The scale-up gap: Financial market constraints holding back innovative firms in the European Union](#), 24 July.

33. Weik, S, Achleitner, A-K and Braun, R (2024), ["Venture capital and the international relocation of startups"](#), Research Policy, Vol 53, Issue 7, September.

34. See European Investment Bank (2026), [Drivers of relocation by innovative EU startups and scaleups](#). The founders and chief executives of 440 firms that were founded in the EU and relocated abroad, mainly to the United States, cited access to capital, proximity to large and unified markets and regulatory simplicity as key reasons for moving. The United States is widely perceived as offering a more attractive environment in these respects, particularly when it comes to supporting companies beyond the early stages of growth.

35. Draghi, M (2024), [The future of European competitiveness – A competitiveness strategy for Europe](#), September.

36. European Commission (2025), [The EU Startup and Scaleup Strategy – Choose Europe to start and scale](#), 28 May. The intention of the 28th regime is to "provide a single set of rules for companies. It would include an EU corporate legal framework, based on digital-by-default solutions, and will help companies overcome barriers in setting up, scaling up and operating companies across the Single Market. To do so, it will simplify applicable rules and reduce the cost of failure, by addressing specific aspects within relevant areas of law, including insolvency, labour and tax law. It will explore the possibility of enabling companies to establish in Europe more rapidly, ideally within 48 hours."

37. See Kukies, J and Noyer, C (2026), [Financing innovative ventures in Europe – Recommendations to close the scaleup financing gap, deepen the Savings and Investments Union and strengthen Europe's competitiveness](#), January; and Angeloni, I and Cavallini, A (2026), [Feasible Steps to Finance Innovation in Europe: Six Proposals to Strengthen EU Capital Markets](#), Institute for European Policymaking, Bocconi University, 9 January.

38. Carney, M (2026), *Special address at the World Economic Forum, Davos, 20 January*.
39. De Ridder, M (2024), *“Market Power and Innovation in the Intangible Economy”*, *American Economic Review*, Vol. 114, No 1, pp. 199-251.
40. Cipollone, P (2026), *“The digital euro: strengthening Europe’s payments ecosystem”*, speech at the event “The digital euro in Cyprus”, Nicosia, 6 February.
41. See also Panetta, F (2022), *“Europe’s shared destiny, economics and the law”*, *Lectio Magistralis on the occasion of the conferral of an honorary degree in Law by the University of Cassino and Southern Lazio, Cassino, 6 April*.
42. Lagarde, C (2025), *“C’est le début d’une marche vers l’indépendance’ de l’Europe”*, podcast interview on *L’invité de 8h20*, France Inter, Radio France, 31 March.
43. Cipollone, P (2025), *“Harnessing the digital future of payments: Europe’s path to sovereignty and innovation”*, speech at the France Payments Forum event “Digital euro and the future of payments in Europe”, Paris, 15 May.
44. See also Letta, E (2024), *Much more than a market – speed, security, solidarity*; Lagarde, C (2025), *“From resilience to strength: unleashing Europe’s domestic market”*, speech at the 35th Frankfurt European Banking Congress, Frankfurt am Main, 21 November; and Georgieva, K (2026), *“Re-energizing Europe”*, remarks at the College of Commissioners Seminar on Competitiveness, Leuven, Belgium, 4 February.

I would like to thank Jean-Francois Jamet for his help in preparing this speech, as well as Carlo Altavilla, Alessandro Giovannini, Daniel Kapp, Johannes Lindner, Arnaud Mehl and Thomas Vlassopoulos for their comments. This article is based on a [speech](#) delivered at the Accademia Nazionale dei Lincei, Rome, 12 February 2026.

CBDC and monetary sovereignty



Calls for a digital euro increasingly invoke monetary sovereignty. Lucrezia Reichlin argues that an effective defence of monetary sovereignty will continue to depend on regulation, fiscal capacity, and the ECB's willingness to absorb risk when it matters

The European Central Bank's work on a digital euro has increasingly been framed as a matter of monetary sovereignty. In recent submissions to the European Parliament, a number of economists have argued that without a retail central bank digital currency (CBDC), Europe risks ceding control over its monetary system to foreign payment providers, Big Tech platforms, and private digital monies¹. These concerns deserve to be taken seriously. Yet, much of the current debate risks obscuring more than it clarifies.

This column makes two related claims. First, monetary history suggests that CBDC is not a necessary condition for preserving a public monetary anchor. Second, many sovereignty arguments rest on a category mistake: the conflation of money with payments.

The first claim follows directly from the historical record. Money has never been a purely public institution. Across centuries, it has taken the form of a hybrid arrangement, combining a publicly defined unit of account with privately issued instruments.

Medieval Europe relied heavily on bills of exchange issued by merchant banks; early modern trade was settled through clearing mechanisms rather than sovereign coin; and 19th century free banking systems were dominated by privately issued banknotes anchored by convertibility into specie (Spufford 2009, Sargent and Velde 2002, Gorton 1988). Stability did not hinge on universal access to public money, but on credible public backing and enforcement of par value.

The modern monetary system continues this tradition. Bank deposits – private liabilities – are the dominant form of money, supported by deposit insurance, regulation, and lender-of-last-resort facilities. Even cash, often portrayed as the paradigmatic public monetary instrument, has played a limited economic role and has rarely functioned as the

primary store of value (Goodhart 1988). Its apparent status as a civic institution reflects 20th century technology and habit more than any deep constitutional principle.

Recent financial crises reinforce this interpretation. In the global financial crisis, the euro area sovereign crisis, the COVID-19 shock, and the 2023 banking turmoil, stability was preserved not by flights into cash but by large-scale expansions of central bank balance sheets via issuance of reserves.

The case for CBDC as a prerequisite for monetary sovereignty is weaker than often claimed. History suggests that sovereignty ultimately rests on legal authority and public balance sheets, not on universal access to public money

Risk absorption occurred overwhelmingly at the wholesale level, with central banks intermediating liquidity and solvency support to private institutions. The decisive public function operated through balance-sheet backstopping rather than through retail access to public money.

Historically, access to central bank balance sheets has been broader than access to reserves. In the US, primary dealers gained access to facilities functionally equivalent to the discount window during crises – such as the Primary Dealer Credit Facility in 2008 and 2020 – despite not holding reserve accounts. Money market funds and other non-bank institutions were stabilised through dedicated facilities without ever receiving reserves directly.

A similar logic applies in the euro area. Access to the Eurosystem's balance sheet has long extended beyond institutions with regular access to reserves or standing facilities. During the global financial crisis and the sovereign debt crisis, the ECB absorbed risk primarily through banks, but also through a widening set of collateral frameworks, targeted longer-term refinancing operations, and emergency liquidity assistance (ELA), which allowed national central banks to provide liquidity to institutions that would not normally qualify as monetary policy counterparties.

More recently, market-wide interventions – such as the Pandemic Emergency Purchase Programme (PEPP) – stabilised a broad range of non-bank balance sheets without granting direct reserve access. As in the US, these arrangements illustrate that monetary sovereignty is exercised through discretionary balance-sheet expansion and crisis instruments, not through universal or permanent access to central bank money.

From this perspective, what matters for monetary stability and sovereignty is not retail access to central bank liabilities, but the capacity of the central bank to absorb risk and enforce par convertibility across private monies (Adrian and Mancini-Griffoli 2019, Reichlin 2025a, 2025b, 2025c).

Key issues for financial stability and monetary sovereignty arise in relation to privately issued forms of broad money, such as stablecoins. Stablecoins function as means of payment and stores of value for on-chain activity. It is at this level – where bank deposits currently dominate – that monetary competition will take place.

A lightly used, capped, and non-remunerated CBDC is unlikely to be the instrument that disciplines or displaces large-scale stablecoin adoption, particularly when stablecoins are embedded in global platforms and denominated in foreign currencies.

To the extent that stablecoins pose a challenge to monetary sovereignty, this challenge arises in the domain of broad money and payment networks. It is therefore more credibly addressed through regulation of stablecoins – in relation to their reserve backing - than through the introduction of a retail CBDC (Reichlin 2025b, 2025d).

The second claim concerns the structure of the sovereignty argument itself, and the way it frames the policy problem. Many calls for a digital euro implicitly equate monetary sovereignty with control over payment instruments and infrastructures. This is a conceptual error. Money and payments are related but distinct components within the monetary system.

‘Money’ refers to the settlement asset, and the unit of account – what has been transferred, and in what quantity, when payment has been made. ‘Payments’ refers to the means by which the transaction takes place – which might be an inter-bank transfer using existing banking infrastructure, or it might be a series of entries on a blockchain.

This distinction is not semantic. Europe can lose control over payment rails without losing monetary sovereignty, just as it can retain monetary sovereignty while relying extensively on private or foreign payment providers. The euro’s unit of account is defined and enforced by law; its value is stabilised by the ECB’s balance sheet; and par

convertibility across bank deposits is guaranteed by regulation and public backstops. None of these pillars requires the ECB to issue a retail CBDC.

Many of the concrete concerns raised in the sovereignty debate – dependence on foreign card networks, dominance of Big Tech wallets, data extraction through payment platforms – are therefore primarily payment system issues. They call for competition policy, regulation, interoperability mandates, and the development of European payment infrastructures. Addressing them through CBDC risks overloading a monetary instrument with objectives that properly belong to payments policy.

Seen in this light, the digital euro addresses a different, more institutional problem. In the euro area, monetary union without full fiscal integration creates a persistent legitimacy gap. As cash use declines, the visibility of public money diminishes, while crisis management increasingly relies on opaque balance-sheet operations. A digital euro can thus be understood as a symbolic and constitutional response to fiscal fragmentation, reaffirming the presence of public money in a digital economy.

This symbolic role should not be dismissed. Symbols matter in monetary unions. But it should not be overstated either. The deliberately constrained design of the digital euro – non-remuneration, holding limits, and intermediated distribution – signals that it is not intended to replace private money, enhance payment efficiency, or materially improve crisis management. Its contribution to sovereignty is therefore indirect and political rather than operational.

In conclusion, the case for CBDC as a prerequisite for monetary sovereignty is weaker than often claimed. History suggests that sovereignty ultimately rests on legal authority and public balance sheets, not on universal access to public money. Confusing money with payments risks misdiagnosing the problem and misallocating policy effort.

For Europe, the digital euro may play a useful symbolic role, but the effective defence of monetary sovereignty will continue to depend on regulation, fiscal capacity, and the central bank's willingness to absorb risk when it matters. ■

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Endnote

1. See, for example, the [open letter](#) from European academics to Members of the European Parliament, 11 January 2026.

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Has the global minimum tax survived Trump?

It is accepted that international tax competition is harmful. Pascal Saint-Amans writes that US objections have not killed off the 15 percent global minimum tax, but they have altered it and given the US a competitive advantage

One of Donald Trump's first acts in his second term as United States President was to issue a 20 January 2025 executive order¹ rejecting application in the US of a global tax deal brokered in 2021 by the Organisation for Economic Co-operation and Development. The deal's so-called Pillar 2, which established a global minimum tax of 15 percent on corporate profits, had *"no force or effect in the United States,"* according to the order.

A year later, Trump seems to have got his way. The 147 jurisdictions² that agreed the global deal with the OECD/G20 Inclusive Framework (IF) have agreed on a tax package establishing a 'side-by-side' mechanism that grants special treatment to the US³.

Trump's Treasury Secretary Scott Bessent called the updated agreement a *"historic victory preserving US tax sovereignty"*⁴. However, the agreement does not amount to a full dismantling of Pillar 2. It preserves the minimum tax architecture. Differentiated treatment for the US is regrettable but the US has its own minimum tax, which, with a 14 percent rate, is only slightly below the global rate but which applies a much narrower base.

Reality is therefore more nuanced than US victory claims, which may explain why all IF members, even China, India and developing countries more broadly have signed the new agreement, despite reservations about an asymmetrical deal twisted in favour of the US.

International tax coordination has thus proved at least somewhat resilient at a time when multilateral agreements have become increasingly rare. This is important as the implementation of the global minimum tax requires a multilateral infrastructure, comprising common forms, in-depth information exchange and peer review mechanisms.

In addition to the side-by-side system for US companies, the updated deal brings new rules on the treatment of tax benefits and various simplifications. While simplification is welcome for an unprecedentedly complex regime, the implications of the first two elements require closer examination.

It is doubtful the US will ever agree a multilateral solution on digital tax, which would give jurisdictions taxing rights over some of the profits of the most successful US companies. It is equally doubtful that the US will not push back against any jurisdictions that continue to apply unilateral measures

Box 1: How the global minimum tax works

The global minimum tax (Pillar 2) is intended to ensure that large multinational enterprises (MNEs) pay an effective tax rate of at least 15 percent wherever they operate. If profits are taxed below that threshold in a given country, a top-up tax can be applied, either by the multinational's home jurisdiction (known as the Income Inclusion Rule, IIR), or, if the home country does not act, by other jurisdictions where the group operates (known as the Undertaxed Profits Rule, UTPR). To ensure first place in the queue, jurisdictions where profits are earned may also implement a top-up tax (the Qualified Domestic Minimum Top-Up Tax, QDMTT).

So far, more than 55 jurisdictions including the European Union have implemented Pillar 2. The US objection is that application of the UTPR to US headquartered groups would be extraterritorial, even if the profits of US MNEs are undertaxed abroad.

The side-by-side system provides US companies a competitive advantage

The side-by-side system shelters US companies from the UTPR but subjects them to the US minimum tax, formerly known as GILTI (Global Intangible Low Tax Income) and now as NCTI (Net CFC Tested Income), which was brought to 14 percent by Trump's July 2025 One Big Beautiful Bill Act.

However, the divergence from the global minimum tax goes beyond the 1 percent rate difference. NCTI captures foreign profits of US companies only when they are below 14 percent as a worldwide average, and not on a country-by-country basis, as is the case with Pillar 2. Therefore, US multinationals that blend profits earned in low-tax jurisdictions with profits earned in high-tax jurisdictions may avoid triggering the US minimum tax – and will be sheltered from Pillar 2.

However, US companies are not fully exempt from Pillar 2. Domestic minimum top-up taxes (the QDMTT) will apply first. The profits of US companies in low-tax countries that implement a QDMTT will therefore be subject to the 15 percent minimum tax. To date, 46 jurisdictions have implemented a QDMTT, including most low and no-tax jurisdictions⁵.

In addition, mechanisms are embedded in the new agreement to encourage countries to adopt QDMTTs, thus ensuring them first place in the queue to apply the tax. This contradicts US Treasury claims (footnote 4) and may not please the US Congress, as estimates done for NCTI did not factor in such broad adoption of QDMTTs, or that they would apply first.

From this perspective, the new agreement consolidates the central role of QDMTTs and reinforces their integrity. Meanwhile, without the deal, the minimum tax could have unravelled following US withdrawal. Instead, it has been preserved, though in an explicitly asymmetric form.

The trouble with tax benefits

The new side-by-side agreement also modifies Pillar 2 on tax benefits. Pillar 2 was designed to put a 15 percent floor on tax competition and under the original Pillar 2 rules, tax breaks were considered to reduce covered taxes for the purpose of computing the effective tax rate. The only exception was refundable tax credits, which were considered to increase taxable income but not reduce the effective tax rate.

Abandoning this strong rationale, the new agreement introduces a category of 'substance-based tax incentives' that may be granted without reducing the effective tax rate for Pillar 2 purposes. These incentives are limited to activities linked to real economic substance and are capped at either 5.5 percent of payroll or depreciation, or 1 percent of net tangible assets.

Regrettably, no comprehensive impact assessment of the impact of this has been done and it is difficult to determine how much tax competition this adjustment may reintroduce into the system. What is clear is that it modifies the original intention of Pillar 2. It will also largely benefit the US, which traditionally uses non-refundable tax credits, unlike European countries, which apply subsidies and refundable tax credits.

This new regime has been designed largely to shield the undertaxed profits of US subsidiaries of foreign groups from being picked up under the IIR (Box 1) in home jurisdictions. For example, a US subsidiary of a German multinational benefitting from generous US R&D tax credits could fall below the 15 percent threshold without triggering a top-up tax in Germany.

Beyond developed economies, the implications of this for developing countries are significant. Pillar 2 was intended, in part, to protect these jurisdictions from inefficient tax incentives by allowing them to reclaim revenue through a domestic top-up tax. Many lack the fiscal capacity to grant refundable tax credits and may now face renewed pressure to offer non-refundable incentives. This adjustment risks re-unleashing dynamics that the minimum tax sought to contain.

Impact on Europe

To resist US pressure on the side-by-side deal, the European Union could have argued that it could not gather unanimity (a requirement for EU tax rules) to change the EU directive that implements Pillar 2 (Directive (EU) 2022/2523). The EU directive states explicitly that the US system is not compatible with the agreed international rules. As sufficiently large markets, EU countries should be in a position to apply the UTPR to the undertaxed profits of US companies operating within its territory.

Instead, in discussions on the new agreement, fear of US retaliation prevailed. The US Congress included a retaliatory measure, known as section 899, in the draft One Big Beautiful Bill. Countries implementing the UTPR against US companies would have been severely sanctioned with massive withholding taxes on US-sourced income. The threat was suspended⁶ only when France and Germany in June 2025 fell in line with US requests, opening the way to the side-by-side system.

The new agreement results in an arrangement framed as a 'safe harbour', allowing the European Commission to argue that no formal amendment of the directive is required, as the EU minimum tax directive (Article 32) refers to OECD-agreed safe harbours.

The agreement allows the US to enhance its competitive position, with potential implications for aggressive tax planning and the attraction of foreign investment. These risks would be more acute if the US were to evolve towards an even lower tax model. While this is not currently the case, as the federal corporate tax rate remains at 21 percent, any expansion of the use of tax incentives, or any shift away from direct taxation toward greater reliance on tariffs, should be monitored.

Nevertheless, Europe and its partners can claim to have preserved the global minimum tax framework, albeit under constrained circumstances. Whether this accommodation proves temporary or becomes a lasting feature of the system will depend on future political and fiscal developments.

Finally, the agreement opens the door for the US to re-engage in the discussion of the taxation of the digital economy. Scott Bessent has concluded his statement on the side-by-side deal by saying the US will *"move toward a constructive dialogue on the taxation of the digital economy"* (footnote 4).

Taxation of the digital economy was the subject of Pillar 1 of the 2012 global tax deal. President Trump's 20 January 2025 executive order also suspended US participation in the negotiations on a multilateral convention to implement Pillar 1. The multilateral convention would have provided a solution enabling market countries to take a share of the profits of the largest multinational companies, including digital platforms⁷.

Does the more conciliatory US language mean Pillar 1 is back on track? It is doubtful the US will ever agree a multilateral solution on digital tax, which would give jurisdictions taxing rights over some of the profits of the most successful US companies. It is equally doubtful that the US will not push back against any jurisdictions that continue to apply unilateral measures.

However, the US will continue to bundle its concerns on unilateral tax measures together with those on EU-wide non-tax digital economy regulation. It will be extremely interesting to watch, in the coming months, how the revival of the discussion on Pillar 1, especially between the US and Europe, unfolds. ■

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Endnotes

1. The White House, *'The Organization for Economic Co-operation and Development (OECD) Global Tax Deal (Global Tax Deal)'*, 20 January 2025.
2. For a list, see OECD, *'Members of the OECD/G20 Inclusive Framework on BEPS'*, 28 May 2024.
3. See OECD press release of 5 January 2026, *'International community agrees way forward on global minimum tax package'*.
4. See US Department of the Treasury press release of 5 January 2026, *'Treasury Secures Agreement to Exempt U.S.-Headquartered Companies from Biden Global Tax Plan'*.
5. See OECD, *'Central Record for purposes of the Global Minimum Tax'*.
6. John Towfighi, *'The 'revenge tax' is dead before it even started'*, CNN, 27 June 2025.
7. The US also threatened countries, including France, Italy, Spain and the United Kingdom, that adopted unilateral solutions such as digital services taxes. See for example Eliza Gkritsi and Jacob Wendler, *'Trump threatens 'substantial' new tariffs against countries with 'discriminatory' digital rules'*, Politico, 26 August 2025.

This article is based on a *Bruegel Analysis*.

The end of the world order

The great powers are trashing the global rules-based order. Mark Carney argues that middle powers can maintain some sovereignty and control over their own destinies in a new era of superpower rivalries by working together to fight for their values

will talk about a rupture in the world order, the end of a pleasant fiction and the beginning of a harsh reality, where geopolitics, where the large, main power, geopolitics, is submitted to no limits, no constraints.

On the other hand, I would like to tell you that the other countries, especially intermediate powers like Canada, are not powerless. They have the capacity to build a new order that encompasses our values, such as respect for human rights, sustainable development, solidarity, sovereignty and territorial integrity of the various states.

The power of the less power starts with honesty. It seems that every day we're reminded that we live in an era of great power rivalry, that the rules-based order is fading, that the strong can do what they can, and the weak must suffer what they must.

And this aphorism of Thucydides is presented as inevitable, as the natural logic of international relations reasserting itself. And faced with this logic, there is a strong tendency for countries to go along to get along, to accommodate, to avoid trouble, to hope that compliance will buy safety.

Well, it won't. So, what are our options? In 1978, the Czech dissident Václav Havel, later president, wrote an essay called *The Power of the Powerless*, and in it, he asked a simple question: how did the communist system sustain itself?

And his answer began with a greengrocer. Every morning, this shopkeeper places a sign in his window: 'Workers of the world unite'. He doesn't believe it, no-one does, but he places a sign anyway to avoid trouble, to signal compliance, to get along. And because every shopkeeper on every street does the same, the system persists – not through violence alone, but through the participation of ordinary people in rituals they privately know to be false.

Havel called this *“living within a lie.”* The system’s power comes not from its truth, but from everyone’s willingness to perform as if it were true, and its fragility comes from the same source. When even one person stops performing, when the greengrocer removes his sign, the illusion begins to crack. It is time for companies and countries to take their signs down.

For decades, countries like Canada prospered under what we called the rules-based international order. We joined its institutions, we praised its principles, we benefited from its predictability. And because of that, we could pursue values-based foreign policies under its protection.

We are in the midst of a rupture, not a transition. Over the past two decades, a series of crises in finance, health, energy and geopolitics have laid bare the risks of extreme global integration

We knew the story of the international rules-based order was partially false that the strongest would exempt themselves when convenient, that trade rules were enforced asymmetrically. And we knew that international law applied with varying rigour depending on the identity of the accused or the victim.

This fiction was useful, and American hegemony, in particular, helped provide public goods, open sea lanes, a stable financial system, collective security and support for frameworks for resolving disputes. So, we placed the sign in the window. We participated in the rituals, and we largely avoided calling out the gaps between rhetoric and reality.

This bargain no longer works. Let me be direct. We are in the midst of a rupture, not a transition. Over the past two decades, a series of crises in finance, health, energy and geopolitics have laid bare the risks of extreme global integration. But more recently, great powers have begun using economic integration as weapons, tariffs as leverage, financial infrastructure as coercion, supply chains as vulnerabilities to be exploited.

You cannot live within the lie of mutual benefit through integration, when integration becomes the source of your subordination. The multilateral institutions on which the middle powers have relied – the WTO, the UN, the COP – the architecture, the very architecture of collective problem solving are under threat.

And as a result, many countries are drawing the same conclusions that they must develop greater strategic autonomy, in energy, food, critical minerals, in finance and supply chains.

And this impulse is understandable. A country that can't feed itself, fuel itself or defend itself, has few options. When the rules no longer protect you, you must protect yourself. But let's be clear eyed about where this leads.

A world of fortresses will be poorer, more fragile and less sustainable. And there is another truth. If great powers abandon even the pretence of rules and values for the unhindered pursuit of their power and interests, the gains from transactionalism will become harder to replicate.

Hegemons cannot continually monetize their relationships. Allies will diversify to hedge against uncertainty. They'll buy insurance, increase options in order to rebuild sovereignty – sovereignty that was once grounded in rules, but will increasingly be anchored in the ability to withstand pressure. This is classic risk management. Risk management comes at a price, but that cost of strategic autonomy, of sovereignty can also be shared.

Collective investments in resilience are cheaper than everyone building their own fortresses. Shared standards reduce fragmentations. Complementarities are positive sum. And the question for middle powers like Canada is not whether to adapt to the new reality – we must. The question is whether we adapt by simply building higher walls, or whether we can do something more ambitious.

Now Canada was amongst the first to hear the wake-up call, leading us to fundamentally shift our strategic posture. Canadians know that our old comfortable assumptions that our geography and alliance memberships automatically conferred prosperity and security – that assumption is no longer valid. And our new approach rests on what Alexander Stubb, the President of Finland, has termed “*value-based realism*.”

Or, to put another way, we aim to be both principled and pragmatic – principled in our commitment to fundamental values, sovereignty, territorial integrity, the prohibition of the use of force, except when consistent with the UN Charter, and respect for human rights, and pragmatic and recognizing that progress is often incremental, that interests diverge, that not every partner will share all of our values.

So, we're engaging broadly, strategically with open eyes. We actively take on the world as it is, not wait around for a world we wish to be. We are calibrating our relationships, so their depth reflects our values, and we're prioritizing broad engagement to maximize our influence, given and given the fluidity of the world at the moment, the risks that this poses and the stakes for what comes next.

And we are no longer just relying on the strength of our values, but also the value of our strength. We are building that strength at home. Since my government took office, we have cut taxes on incomes, on capital gains and business investment. We have removed all federal barriers to interprovincial trade.

We are fast tracking a trillion dollars of investments in energy, AI, critical minerals, new trade corridors and beyond. We're doubling our defence spending by the end of this decade, and we're doing so in ways that build our domestic industries.

And we are rapidly diversifying abroad. We have agreed a comprehensive strategic partnership with the EU, including joining SAFE, the European defence procurement arrangements. We have signed 12 other trade and security deals on four continents in six months. The past few days, we've concluded new strategic partnerships with China and Qatar. We're negotiating free trade pacts with India, ASEAN, Thailand, Philippines and Mercosur.

We're doing something else. To help solve global problems, we're pursuing variable geometry, in other words, different coalitions for different issues based on common values and interests. So, on Ukraine, we're a core member of the *Coalition of the Willing* and one of the largest per capita contributors to its defence and security.

On Arctic sovereignty, we stand firmly with Greenland and Denmark and fully support their unique right to determine Greenland's future. Our commitment to NATO's Article 5 is unwavering, so we're working with our

NATO allies, including the Nordic Baltic Gate, to further secure the alliance's northern and western flanks, including through Canada's unprecedented investments in over-the-horizon radar, in submarines, in aircraft and boots on the ground, boots on the ice. Canada strongly opposes tariffs over Greenland and calls for focused talks to achieve our shared objectives of security and prosperity in the Arctic.

On plurilateral trade, we're championing efforts to build a bridge between the Trans Pacific Partnership and the European Union, which would create a new trading bloc of 1.5 billion people. On critical minerals, we're forming buyers' clubs anchored in the G7 so the world can diversify away from concentrated supply. And on AI, we're cooperating with like-minded democracies to ensure that we won't ultimately be forced to choose between hegemonies and hyper-scalers.

This is not naïve multilateralism, nor is it relying on their institutions. It's building coalitions that work – issues by issue, with partners who share enough common ground to act together. In some cases, this will be the vast majority of nations. What it's doing is creating a dense web of connections across trade, investment, culture, on which we can draw for future challenges and opportunities.

The middle powers must act together, because if we're not at the table, we're on the menu. But I'd also say that great powers, great powers can afford for now to go it alone. They have the market size, the military capacity and the leverage to dictate terms. Middle powers do not. But when we only negotiate bilaterally with a hegemon, we negotiate from weakness. We accept what's offered. We compete with each other to be the most accommodating.

This is not sovereignty. It's the performance of sovereignty while accepting subordination. In a world of great power rivalry, the countries in between have a choice – compete with each other for favour, or to combine to create a third path with impact.

We shouldn't allow the rise of hard power to blind us to the fact that the power of legitimacy, integrity and rules will remain strong, if we choose to wield them together – which brings me back to Havel.

What does it mean for middle powers to live the truth? First, it means naming reality. Stop invoking rules-based international order as though it still functions as advertised. Call it what it is – a system of intensifying great power rivalry, where the most powerful pursue their interests, using economic integration as coercion.

It means acting consistently, applying the same standards to allies and rivals. When middle powers criticize economic intimidation from one direction, but stay silent when it comes from another, we are keeping the sign in the window.

It means building what we claim to believe in, rather than waiting for the old order to be restored. It means creating institutions and agreements that function as described. And it means reducing the leverage that enables coercion – that's building a strong domestic economy. It should be every government's immediate priority.

And diversification internationally is not just economic prudence, it's a material foundation for honest foreign policy, because countries earn the right to principled stands by reducing their vulnerability to retaliation.

So, Canada. Canada has what the world wants. We are an energy superpower. We hold vast reserves of critical minerals. We have the most educated population in the world. Our pension funds are amongst the world's largest and most sophisticated investors. In other words, we have capital, talent... we also have a government with immense fiscal capacity to act decisively. And we have the values to which many others aspire.

Canada is a pluralistic society that works. Our public square is loud, diverse and free. Canadians remain committed to sustainability. We are a stable and reliable partner in a world that is anything but. A partner that builds and values relationships for the long term.

And we have something else. We have a recognition of what's happening and a determination to act accordingly. We understand that this rupture calls for more than adaptation. It calls for honesty about the world as it is. We are taking the sign out of the window. We know the old order is not coming back.

We shouldn't mourn it. Nostalgia is not a strategy, but we believe that from the fracture, we can build something bigger, better, stronger, more just. This is the task of the middle powers, the countries that have the most to lose from a world of fortresses and most to gain from genuine cooperation.

The powerful have their power. But we have something too – the capacity to stop pretending, to name reality, to build our strength at home and to act together. That is Canada's path. We choose it openly and confidently, and it is a path wide open to any country willing to take it with us. ■

Mark Carney is Prime Minister of Canada

This article contains the full transcript of a [special address](#) delivered at the World Economic Forum's Annual Meeting 2026 in Davos. This transcript was produced using AI and subsequently edited for style and clarity. The edits do not alter the substance of the speaker's remarks.

The background of the slide features a stylized, overlapping image of the United States flag and the European Union flag. The US flag is on the left, showing stars and stripes, while the EU flag is on the right, showing a circle of stars. The colors are somewhat muted and blended together.

Building a new Western century

For the last year there has been turbulence in the US-EU partnership. Marco Rubio argues that the new alliance should focus on advancing mutual interests and new frontiers, unshackling ingenuity, creativity, and the dynamic spirit to build a new Western century

We gather here today as members of a historic alliance, an alliance that saved and changed the world. When this conference began in 1963, it was in a nation – actually, it was on a continent – that was divided against itself. The line between communism and freedom ran through the heart of Germany. The first barbed fences of the Berlin Wall had gone up just two years prior.

And just months before that first conference, before our predecessors first met here, here in Munich, the Cuban Missile Crisis had brought the world to the brink of nuclear destruction. Even as World War II still burned fresh in the memory of Americans and Europeans alike, we found ourselves staring down the barrel of a new global catastrophe – one with the potential for a new kind of destruction, more apocalyptic and final than anything before in the history of mankind.

At the time of that first gathering, Soviet communism was on the march. Thousands of years of Western civilization hung in the balance. At that time, victory was far from certain. But we were driven by a common purpose. We were unified not just by what we were fighting against; we were unified by what we were fighting for. And together, Europe and America prevailed and a continent was rebuilt. Our people prospered. In time, the East and West blocs were reunited. A civilization was once again made whole.

That infamous wall that had cleaved this nation into two came down, and with it an evil empire, and the East and West became one again. But the euphoria of this triumph led us to a dangerous delusion: that we had entered, quote, *“the end of history;”* that every nation would now be a liberal democracy; that the ties formed by trade and by commerce alone would now replace nationhood; that the rules-based global order – an overused term – would now replace the national interest; and that we would now live in a world without borders where everyone became a citizen of the world.

This was a foolish idea that ignored both human nature and it ignored the lessons of over 5,000 years of recorded human history. And it has cost us dearly. In this delusion, we embraced a dogmatic vision of free and unfettered trade, even as some nations protected their economies and subsidized their companies to systematically undercut ours – shuttering our plants, resulting in large parts of our societies being deindustrialised, shipping millions of working and middle-class jobs overseas, and handing control of our critical supply chains to both adversaries and rivals.

We should be proud of what we achieved together in the last century, but now we must confront and embrace the opportunities of a new one – because yesterday is over, the future is inevitable, and our destiny together awaits

We increasingly outsourced our sovereignty to international institutions while many nations invested in massive welfare states at the cost of maintaining the ability to defend themselves. This, even as other countries have invested in the most rapid military buildup in all of human history and have not hesitated to use hard power to pursue their own interests. To appease a climate cult, we have imposed energy policies on ourselves that are impoverishing our people, even as our competitors exploit oil and coal and natural gas and anything else – not just to power their economies, but to use as leverage against our own.

And in a pursuit of a world without borders, we opened our doors to an unprecedented wave of mass migration that threatens the cohesion of our societies, the continuity of our culture, and the future of our people. We made these mistakes together, and now, together, we owe it to our people to face those facts and to move forward, to rebuild.

Under President Trump, the United States of America will once again take on the task of renewal and restoration, driven by a vision of a future as proud, as sovereign, and as vital as our civilization's past. And while we are prepared, if necessary, to do this alone, it is our preference and it is our hope to do this together with you, our friends here in Europe.

For the United States and Europe, we belong together. America was founded 250 years ago, but the roots began here on this continent long before. The man who settled and built the nation of my birth arrived on our shores carrying the memories and the traditions and the Christian faith of their ancestors as a sacred inheritance, an unbreakable link between the old world and the new.

We are part of one civilization – Western civilization. We are bound to one another by the deepest bonds that nations could share, forged by centuries of shared history, Christian faith, culture, heritage, language, ancestry, and the sacrifices our forefathers made together for the common civilization to which we have fallen heir.

And so this is why we Americans may sometimes come off as a little direct and urgent in our counsel. This is why President Trump demands seriousness and reciprocity from our friends here in Europe. The reason why, my friends, is because we care deeply. We care deeply about your future and ours. And if at times we disagree, our disagreements come from our profound sense of concern about a Europe with which we are connected – not just economically, not just militarily.

We are connected spiritually and we are connected culturally. We want Europe to be strong. We believe that Europe must survive, because the two great wars of the last century serve for us as history's constant reminder that ultimately, our destiny is and will always be intertwined with yours, because we know because we know that the fate of Europe will never be irrelevant to our own.

National security, which this conference is largely about, is not merely series of technical questions – how much we spend on defence or where, how we deploy it, these are important questions. They are. But they are not the fundamental one. The fundamental question we must answer at the outset is what exactly are we defending, because armies do not fight for abstractions.

Armies fight for a people; armies fight for a nation. Armies fight for a way of life. And that is what we are defending: a great civilization that has every reason to be proud of its history, confident of its future, and aims to always be the master of its own economic and political destiny.

It was here in Europe where the ideas that planted the seeds of liberty that changed the world were born. It was here in Europe where the world – which gave the world the rule of law, the universities, and the scientific revolution.

It was this continent that produced the genius of Mozart and Beethoven, of Dante and Shakespeare, of Michelangelo and Da Vinci, of the Beatles and the Rolling Stones. And this is the place where the vaulted ceilings of the Sistine Chapel and the towering spires of the great cathedral in Cologne, they testify not just to the greatness of our past or to a faith in God that inspired these marvels.

They foreshadow the wonders that await us in our future. But only if we are unapologetic in our heritage and proud of this common inheritance can we together begin the work of envisioning and shaping our economic and our political future.

Deindustrialisation was not inevitable. It was a conscious policy choice, a decades-long economic undertaking that stripped our nations of their wealth, of their productive capacity, and of their independence. And the loss of our supply chain sovereignty was not a function of a prosperous and healthy system of global trade. It was foolish. It was a foolish but voluntary transformation of our economy that left us dependent on others for our needs and dangerously vulnerable to crisis.

Mass migration is not, was not, isn't some fringe concern of little consequence. It was and continues to be a crisis which is transforming and destabilizing societies all across the West. Together we can reindustrialise our economies and rebuild our capacity to defend our people.

But the work of this new alliance should not be focused just on military cooperation and reclaiming the industries of the past. It should also be focused on, together, advancing our mutual interests and new frontiers, unshackling our ingenuity, our creativity, and the dynamic spirit to build a new Western century.

Commercial space travel and cutting-edge artificial intelligence; industrial automation and flex manufacturing; creating a Western supply chain for critical minerals not vulnerable to extortion from other powers; and a unified effort to compete for market share in the economies of the Global South. Together we can not only take back control of our own industries and supply chains – we can prosper in the areas that will define the 21st century.

But we must also gain control of our national borders. Controlling who and how many people enter our countries, this is not an expression of xenophobia. It is not hate. It is a fundamental act of national sovereignty. And the failure to do so is not just an abdication of one of our most basic duties owed to our people. It is an urgent threat to the fabric of our societies and the survival of our civilization itself.

And finally, we can no longer place the so-called global order above the vital interests of our people and our nations. We do not need to abandon the system of international cooperation we authored, and we don't need to dismantle the global institutions of the old order that together we built. But these must be reformed. These must be rebuilt.

For example, the United Nations still has tremendous potential to be a tool for good in the world. But we cannot ignore that today, on the most pressing matters before us, it has no answers and has played virtually no role. It could not solve the war in Gaza. Instead, it was American leadership that freed captives from barbarians and brought about a fragile truce. It had not solved the war in Ukraine. It took American leadership and partnership with many of the countries here today just to bring the two sides to the table in search of a still-elusive peace.

It was powerless to constrain the nuclear program of radical Shia clerics in Tehran. That required 14 bombs dropped with precision from American B-2 bombers. And it was unable to address the threat to our security from a narco-terrorist dictator in Venezuela. Instead, it took American Special Forces to bring this fugitive to justice.

In a perfect world, all of these problems and more would be solved by diplomats and strongly worded resolutions. But we do not live in a perfect world, and we cannot continue to allow those who blatantly and openly threaten our citizens and endanger our global stability to shield themselves behind abstractions of international law which they themselves routinely violate.

This is the path that President Trump and the United States has embarked upon. It is the path we ask you here in Europe to join us on. It is a path we have walked together before and hope to walk together again. For five centuries, before the end of the Second World War, the West had been expanding – its missionaries, its pilgrims, its soldiers, its explorers pouring out from its shores to cross oceans, settle new continents, build vast empires extending out across the globe.

But in 1945, for the first time since the age of Columbus, it was contracting. Europe was in ruins. Half of it lived behind an Iron Curtain and the rest looked like it would soon follow. The great Western empires had entered into terminal decline, accelerated by godless communist revolutions and by anti-colonial uprisings that would transform the world and drape the red hammer and sickle across vast swaths of the map in the years to come.

Against that backdrop, then, as now, many came to believe that the West's age of dominance had come to an end and that our future was destined to be a faint and feeble echo of our past. But together, our predecessors recognized that decline was a choice, and it was a choice they refused to make. This is what we did together once before, and this is what President Trump and the United States want to do again now, together with you.

And this is why we do not want our allies to be weak, because that makes us weaker. We want allies who can defend themselves so that no adversary will ever be tempted to test our collective strength. This is why we do not want our

allies to be shackled by guilt and shame. We want allies who are proud of their culture and of their heritage, who understand that we are heirs to the same great and noble civilization, and who, together with us, are willing and able to defend it.

And this is why we do not want allies to rationalize the broken status quo rather than reckon with what is necessary to fix it, for we in America have no interest in being polite and orderly caretakers of the West's managed decline. We do not seek to separate, but to revitalize an old friendship and renew the greatest civilization in human history.

What we want is a reinvigorated alliance that recognizes that what has ailed our societies is not just a set of bad policies but a malaise of hopelessness and complacency. An alliance – the alliance that we want is one that is not paralyzed into inaction by fear – fear of climate change, fear of war, fear of technology. Instead, we want an alliance that boldly races into the future. And the only fear we have is the fear of the shame of not leaving our nations prouder, stronger, and wealthier for our children.

An alliance ready to defend our people, to safeguard our interests, and to preserve the freedom of action that allows us to shape our own destiny – not one that exists to operate a global welfare state and atone for the purported sins of past generations. An alliance that does not allow its power to be outsourced, constrained, or subordinated to systems beyond its control; one that does not depend on others for the critical necessities of its national life; and one that does not maintain the polite pretence that our way of life is just one among many and that asks for permission before it acts.

And above all, an alliance based on the recognition that we, the West, have inherited together – what we have inherited together is something that is unique and distinctive and irreplaceable, because this, after all, is the very foundation of the transatlantic bond.

Acting together in this way, we will not just help recover a sane foreign policy. It will restore to us a clearer sense of ourselves. It will restore a place in the world, and in so doing, it will rebuke and deter the forces of civilizational erasure that today menace both America and Europe alike.

So in a time of headlines heralding the end of the transatlantic era, let it be known and clear to all that this is neither our goal nor our wish – because for us Americans, our home may be in the Western Hemisphere, but we will always be a child of Europe.

Our story began with an Italian explorer whose adventure into the great unknown to discover a new world brought Christianity to the Americas – and became the legend that defined the imagination of our pioneer nation.

Our first colonies were built by English settlers, to whom we owe not just the language we speak but the whole of our political and legal system. Our frontiers were shaped by Scots-Irish – that proud, hearty clan from the hills of Ulster that gave us Davy Crockett and Mark Twain and Teddy Roosevelt and Neil Armstrong.

Our great midwestern heartland was built by German farmers and craftsmen who transformed empty plains into a global agricultural powerhouse – and by the way, dramatically upgraded the quality of American beer.

Our expansion into the interior followed the footsteps of French fur traders and explorers whose names, by the way, still adorn the street signs and towns' names all across the Mississippi Valley. Our horses, our ranches, our rodeos – the entire romance of the cowboy archetype that became synonymous with the American West – these were born in Spain. And our largest and most iconic city was named New Amsterdam before it was named New York.

And do you know that in the year that my country was founded, Lorenzo and Catalina Geroldi lived in Casale Monferrato in the Kingdom of Piedmont-Sardinia. And Jose and Manuela Reina lived in Sevilla, Spain. I don't know what, if anything, they knew about the 13 colonies which had gained their independence from the British empire, but here's what I am certain of: they could have never imagined that 250 years later, one of their direct descendants would be back here today on this continent as the chief diplomat of that infant nation. And yet here I am, reminded by my own story that both our histories and our fates will always be linked.

Together we rebuilt a shattered continent in the wake of two devastating world wars. When we found ourselves divided once again by the Iron Curtain, the free West linked arms with the courageous dissidents struggling against tyranny in the East to defeat Soviet communism. We have fought against each other, then reconciled, then fought, then reconciled again. And we have bled and died side by side on battlefields from Kapyong to Kandahar.

And I am here today to leave it clear that America is charting the path for a new century of prosperity, and that once again we want to do it together with you, our cherished allies and our oldest friends.

We want to do it together with you, with a Europe that is proud of its heritage and of its history; with a Europe that has the spirit of creation of liberty that sent ships out into uncharted seas and birthed our civilization; with a Europe that has the means to defend itself and the will to survive.

We should be proud of what we achieved together in the last century, but now we must confront and embrace the opportunities of a new one – because yesterday is over, the future is inevitable, and our destiny together awaits. ■

Marco Rubio is the United States Secretary of State

This article is based on [remarks](#) delivered at the Munich Security Conference, Hotel Bayerischer Hof, Munich, Germany, February 14, 2026.

Defining the new strategic direction

The EU needs a new trade policy strategy. Ignacio García Bercero writes that a turbulent January exposed EU trade strengths and fissures, demanding rapid anti-coercion action and smarter leverage of trade deals

There are weeks in which decades happen. European Union trade policy has been through just such a week. Some developments have been positive for the EU, such as the [robust reaction](#) to coercive threats from the United States over potential tariffs related to President Donald Trump's desire to acquire Greenland, and the 27 January conclusion of a free trade agreement (FTA) between the [EU and India](#), which eliminates or substantially reduces tariffs on more than 97% of trade.

But other developments have raised questions about the EU's commitment to an open trade policy. The European Parliament decided on 21 January to refer the EU's FTA with the Mercosur bloc to the EU Court of Justice for an opinion on whether the deal [breaches](#) the EU treaties. The EU has also suggested linking non-discriminatory most-favoured nation (MFN) treatment [to reciprocity](#). This appears to question the basic principle on which the international trade system is constructed.

How should these developments be understood? A Gramscian interregnum may be underway and the old order based on US hegemony is not coming back. A new strategy for EU trade policy is thus needed based on a realistic assessment of the likely global trading environment in the next decade.

In trade and economic terms, the EU is the equal of the US and China and can shape the global trading system. But its capacity to exercise influence hinges on its readiness to invest in alliances with the like-minded and with the major emerging economies with which it has now concluded trade agreements.

Based on the late-January flurry of trade-related developments, three points should be kept in mind in re-evaluating the EU strategy. First, for at least the next three years but likely for longer, the US and China will manage their trade relations outside a rules-based framework and may seek to coerce others.

In its trade relations with the two big powers, the EU must combine pragmatism with firmness against threats. The crisis over Greenland has shown the paramount importance of rapidity of response, the need for the EU to be willing to deploy its Anti-Coercion Instrument (Regulation 2023/2675, ACI) – which gives the European Commission more power to respond to trade threats – and the need for a plan on deterring escalation by the coercer.

The EU must develop a political narrative that explains why trade openness is essential to advance Europe's economic interests and values in a more fragmented world

Second, the EU's network of trade and investment agreements is critical to strengthen economic resilience and is the best geopolitical instrument in support of alliances to respond to global challenges. The EU will soon complete its network of comprehensive FTAs; it needs to identify how to leverage these agreements as building blocks for plurilateral or bilateral agreements.

Possible initiatives include: reinforcing the economic value for business of EU FTAs through a common protocol on rules of origin; enhancing supply-chain resilience and cooperation on economic security; facilitating investment in developing countries through new types of investment agreement to diversify overconcentrated supply chains; negotiating agreements on decarbonisation and elimination of overcapacity in steel and other sectors with hard-to-abate emissions; and promoting cooperation on regulation of the digital economy through digital agreements.

The ongoing dialogue between the EU and the [Comprehensive and Progressive Agreement for Trans-Pacific Partnership](#) could incubate some of these initiatives, although different groupings of countries should be considered, depending on the topic.

Third, the World Trade Organization still provides the common rules on which to build new alliances and agreements. The EU should not compromise its WTO or FTA commitments. The MFN rule is fundamental; it contributes to the simplicity and efficiency of tariff regimes and protects against power asymmetries.

However, the current rules do not provide sufficient remedies to respond to subsidies that contribute to overcapacity, or to promote diversification of overconcentrated supply chains. More targeted remedies are needed. The WTO needs to accommodate, and coexist with, different types of plurilateral agreement.

WTO reform needs to combine short-term objectives with a medium-term strategy that builds a broad coalition in support of fundamental reform. Further reflection is needed on how to achieve fundamental reforms while retaining the core principles underlying the trading system.

To further its trade interests, the EU must develop a political narrative that explains why trade openness is essential to advance Europe's economic interests and values in a more fragmented world. To start, it should identify why the economically and geopolitically valuable EU-Mercosur agreement should generate such divisions between EU countries and in the European Parliament. Applying the Mercosur agreement provisionally without the parliament's support would be counterproductive and would undermine the legitimacy of FTAs.

Instead, the European Commission, Council of the EU and European Parliament should seek a fast-tracking of the Court of Justice's opinion. This would allow more time for political discussion, with the objective of the FTAs with Mercosur, India and Indonesia entering into force early in 2027. ■

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This article is based on a [Bruegel First Glance](#).

The state of competition

Market power has increased across developed economies. Jan De Loecker and Pinelopi Koujianou Goldberg argue that policymakers must recognise the trade-offs in promoting scale, innovation, and competition, and acknowledge concerns that lie outside traditional antitrust mandates

Concerns about rising market power and declining business dynamism have become a central theme across advanced economies. Corporate profit margins, industry concentration, and equity valuations have all climbed, while firm entry, exit, and labour mobility have slowed. Labour's share of income has fallen and the gap between median and average earnings has widened. Although these patterns were first documented in the US, similar trends have since appeared across Europe and other high-income economies (Autor *et al* 2020, De Loecker and Eeckhout 2020, 2025).

The debate over the origins and implications of these trends has been shaped as much by ideology as by evidence. One camp insists competition is functioning well and that fears of market power are overstated. The other blames lax antitrust enforcement for an economy increasingly dominated by powerful incumbents. Neither narrative captures the full picture. Measurement challenges in concentration ratios and mark-ups are real, but the broad empirical patterns are too stark to ignore. The more important question is how to interpret them.

A perfect storm: globalisation meets technological change

The past three decades of hyper-globalisation dramatically reshaped both product and input markets. Falling trade and logistics costs fostered global value chains in which firms could source, produce, and distribute on a worldwide scale. At the same time, technological advances — from automation to large-scale IT systems — shifted production towards high fixed costs and low variable costs.

Either force alone would have created substantial scale economies. Together, they produced a structural shift towards business models in which firms had to spread large, fixed costs across large markets in order to remain competitive. This naturally generated higher variable profit margins. But only firms capable of scaling — those with productivity advantages or specialised intangible assets — could fully exploit these gains.

Reallocation of market share toward more efficient firms fits the classic Schumpeterian account of creative destruction. But this process was also shaped by strategic investments in branding, marketing, and other intangible activities whose welfare implications are more ambiguous than those of technological innovation or free trade.

As vested interests increasingly shape the debate, the value of a clearer understanding of how globalisation, technology, regulation and financial markets jointly shape competitive outcomes is essential. Only then can policy respond effectively to the economic and political pressures created by concentrated economic power

Consolidation in many industries further reinforced the advantages of incumbency, sometimes justified as a response to perceived market power elsewhere in supply chains. Whatever the rationale, the result was a market structure in which dominance limited the extent to which falling costs were passed through to consumers.

The missing entrants

In a textbook setting, high margins should attract new competitors. Instead, business dynamism has waned. The same forces that created scale economies also raised barriers to entry: large upfront investment requirements, the central role of data and software, and network effects that reward early movers.

Market power, inflation, and inequality

The traditional role of antitrust policy has been to protect consumers from abuse of market power that leads to high prices. A central challenge today is that it is often difficult to argue that the new business models of recent decades have harmed consumers. Until 2021, inflation remained low, and the combination of global trade and technological advances consistently pushed prices down.

The key to understanding this pattern is that profit margins reflect the difference between prices and variable costs. Profit margins rose not because firms raised prices, but because variable costs fell — and those cost reductions were only partially passed through to consumers. Two examples illustrate this mechanism.

In our work on India's early-1990s trade liberalisation (De Loecker *et al* 2016), we show that tariff cuts on intermediate inputs lowered producers' costs, reduced consumer prices, and simultaneously increased firms' profit margins. Because cost savings were not fully passed through, firms captured part of the gains. We also found suggestive evidence that these higher profits helped finance product innovation.

This appears to be a win-win story: consumers benefit from lower prices, firms benefit from higher profits, and innovation accelerates. The problem arises only when one worries about relative standing — specifically, the shifting balance of power between global firms and the rest of the economy, which can have political repercussions.

A second example comes from Zara, one of the world's most profitable clothing retailers. Zara offers affordable apparel while enjoying high margins because its variable costs are extremely low, relying on several suppliers — especially labour — in low-wage countries. Again, consumers benefit from low prices, the firm benefits from high profits, and suppliers in poorer economies gain access to global markets that can help spur development.

The concern, however, echoes the first example: rising inequality between highly productive global firms and the rest of the economy, and between top earners and displaced workers in advanced countries.

Competition, concentration, and innovation

A frequent claim, particularly in Europe, is that high US concentration, supported by weak antitrust enforcement, has undermined American innovation. Yet this view sits uneasily with the evidence. The US remains far more dynamic than Europe – for instance, it is the birthplace of the current wave of artificial intelligence technologies.

Notably, the key breakthrough came not from an incumbent giant but from OpenAI — then a small, non-profit entrant — building on ideas developed, but not commercialised, inside Google. The fact that an upstart could scale rapidly in the US ecosystem suggests that high concentration and intense rivalry can coexist.

Today a handful of large players dominate AI, but competition among them is fierce. Meta's willingness to recruit aggressively from OpenAI highlights how rivalry within concentrated sectors can remain vigorous. Against this

backdrop, explanations for Europe's technological underperformance must extend beyond the simple question of antitrust stringency.

Beyond big tech: the rising concentration elsewhere

Public debate focuses heavily on large technology platforms, but consolidation extends far beyond Silicon Valley. Business-to-business markets, pharmaceuticals, healthcare services, and education have all experienced marked increases in concentration. These sectors attract less attention yet hold considerable economic weight and warrant greater scrutiny.

The role of financial markets

An underappreciated factor in transatlantic comparisons is the structure of US capital markets. American equity markets have assigned exceptionally high valuations to domestic firms, giving them both the currency and the confidence to acquire European start-ups before they mature into independent competitors. DeepMind, Skype, and Shazam are classic examples: each began as a European success story but was ultimately absorbed by a US tech giant rather than evolving into a homegrown global champion.

The 'Buffett indicator', which compares total stock market capitalisation to economic output, has climbed from around 50% in 1980 to roughly 200% today. These valuations reflect market depth, investor appetite and regulatory differences — not weak competition policy — but they shape competitive outcomes all the same.

The role of antitrust

Competition authorities are often cast as the villains of the story. But while enforcement mistakes are inevitable, it is difficult to argue that antitrust alone explains today's market structures. Agencies in the US and Europe have operated under significant resource constraints, often facing firms with far greater financial and legal capacity.

More importantly, many features of modern production — economies of scale, network effects, and data advantages — create concentrated market structures even in the presence of active enforcement.

Market power also emerges from the interaction of many well-intentioned policies. Trade liberalisation without strong domestic competition can leave economies with fewer, larger firms. Regulatory interventions can inadvertently raise entry barriers. Financial market structures can amplify incumbency advantages. In such a world, simple narratives — whether blaming globalisation, technology, or antitrust — fail to capture the underlying complexity.

These challenges do not diminish the need for antitrust. If anything, its importance is increasing. With many industries now dominated by a small number of firms, vigilant oversight of mergers, acquisitions, and exclusionary conduct is essential.

The rise of digital technologies and algorithmic systems raises the minimum efficient scale for entry even further. Regulatory frameworks—from licensing requirements to compliance burdens—can unintentionally entrench incumbents and should be scrutinised with this risk in mind.

The way forward

Economic policy now stands at a critical juncture. Policymakers must recognise the trade-offs inherent in promoting scale, innovation, and competition simultaneously. They must also acknowledge that many concerns attributed to competition policy—from labour market pressures to rising inequality — lie outside traditional antitrust mandates and are best addressed through different tools.

As vested interests increasingly shape the debate, the value of a clearer understanding of how globalisation, technology, regulation and financial markets jointly shape competitive outcomes is essential. Only then can policy respond effectively to the economic and political pressures created by concentrated economic power. ■

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This article was originally published on [VoxEU.org](https://voxeu.org).



Leverage lies in marginal demand

Europe is the largest external holder of US federal debt. Paola Subacchi and Paul van den Noord discuss whether Europe's \$12.6 trillion holdings of US assets can be used as leverage if relations with Washington sour

ts position as the largest external holder of US federal debt – with roughly \$12.6 trillion exposure – could give Europe some financial leverage should relations with Washington deteriorate, as we saw happening with the case of Greenland. This question, which has recently popped up in some media outlets (Wigglesworth and Nangle 2026), arises naturally at a time when crossborder economic ties are increasingly entangled with geopolitical considerations.

In practice, however, Europe's US debt holdings offer little scope for strategic deployment as they are fragmented across jurisdictions and institutions, and efforts to weaponise them for political purposes would largely backfire.

Marginal demand and the limits of financial influence

The key analytical distinction is between existing asset positions and the behaviour of investors at the margin. Conflating the two obscures the mechanisms through which financial influence, if any, could plausibly operate.

Two qualitatively different dynamics are often treated as interchangeable. One involves gradual portfolio adjustment, as investors reduce the pace at which they add US assets, based on the expected risk–return balance. The other involves deliberate, coordinated action in which existing holdings are deployed as a bargaining chip. Only the former is economically and institutionally palatable. The latter lacks credibility and would entail substantial self-inflicted costs.

For this reason, arguments that infer leverage directly from the size of Europe's Treasury holdings misidentify the relevant mechanism. Influence does not stem from liquidating outstanding positions, which would be destabilising and value-destructive, but from shifts in future demand. The relevant choice is therefore intertemporal: whether to continue supplying marginal financing to the US over time.

The self-limiting nature of asset liquidation as policy instrument

Any attempt to extract influence through large-scale sales of US Treasuries would impose immediate losses on European holders. Rapid divestment would push yields higher, depress the valuation of remaining holdings, tighten global financial conditions, and generate spillovers into European sovereign and bank funding markets.

Europe's US asset holdings do not constitute a credible instrument of coercion as they are institutionally fragmented while large-scale divestment would be economically counterproductive

Because the losses would materialise quickly and disproportionately on the seller, liquidation lacks credibility as a strategic threat. Using the instrument would erode the balance sheet positions from which influence is presumed to arise. This explains why, historically, adjustments in reserve and portfolio composition have rarely taken the form of abrupt exits. Instead, they occur through reduced accumulation at the margin, gradual rebalancing, and slow substitution across assets.

Marginal financing, portfolio dynamics and constrained influence

The analytically crucial issue is not whether US sovereign debt can be transformed into an instrument of coercion, but whether foreign investors will continue to supply the incremental financing on which US fiscal dynamics depend. In Treasury markets, prices are set at the margin, making the behaviour of foreign buyers relevant over time.

From this perspective, Europe's strategic relevance lies not in any credible threat of liquidation, but as a source of ongoing demand. Changes in marginal demand affect yields, term premia, and exchange rate expectations, but only gradually.

This mechanism, however, limits the scope for turning holdings into leverage. Adjustments in flows occur slowly, as portfolios are reallocated over years, reflecting decisions by private institutions responding to returns, benchmarks, hedging costs, and liquidity requirements. Accordingly, Europe's existing stock of US assets cannot be mobilised effectively as leverage in a confrontation.

What China's experience really shows (and what it doesn't)

China's experience provides a useful benchmark. Over the past decade, adjustment occurred through a slower pace

of reserve accumulation and changes in the composition of foreign asset holdings, rather than through attempts to deploy Treasury holdings strategically (Ahmed and Rebucci 2025, Subacchi and van den Noord 2025).

Consistent with this approach, reported Chinese holdings of US Treasuries have declined to approximately \$700 billion, from a peak of around \$1.2 trillion in 2015. These figures likely understate total dollar exposure, given shifts within the broader state sector – including state-owned banks – and the use of offshore financial centres. Nevertheless, the central point remains: adjustment took place incrementally at the margin rather than through attempts to deploy the existing stock strategically.

The case for a gradual reduction in Europe's Treasury demand

Absent a credible financial instrument for strategic use, a more consequential issue concerns the sustainability of Europe's demand for US Treasuries. The question is whether continued accumulation remains economically justified in an environment of higher perceived default risk and a declining convenience yield amid increasing global fragmentation.

Foreign demand for US sovereign debt traditionally rests on three components: perceived safety, systemic convenience, and intertemporal returns. Evidence suggests that all three have weakened.

Concerns over safety are not about an imminent technical default, but about the normalisation of policy options once considered implausible, including selective default, political interference with debt servicing, and asymmetric treatment of foreign creditors, as suggested by Stephen Miran (2024), a current member of the Federal Reserve Board of Governors.

When positions are sizeable and investment horizons extend over long periods, even modest increases in perceived default risk can materially affect portfolio allocation. At higher default risk will sharply reduce foreign demand for US debt and puts upward pressure on yields (Subacchi and van den Noord 2026).

A second component is convenience. US Treasuries derive value not only from their credit characteristics, but also from their central role in a dollar-based trading and financial system. This convenience yield is contingent on openness. Trade restrictions, tariffs, and broader geoeconomic fragmentation weaken the transactional demand for dollar liquidity.

As trade becomes more regional and home bias increases, demand for dollar-denominated safe assets declines. Our work, reported in an earlier column (Subacchi and Van den Noord 2025), shows that increased home bias in trade – used as a proxy for fragmentation – significantly reduces foreign investors' demand for Treasuries, even when yields rise.

The third component is the intertemporal return trade-off. Historically, foreign investors have been willing to accept lower current returns on US debt in exchange for long-term stability, liquidity, and currency strength. That trade-off becomes less favourable when persistent fiscal expansion is combined with trade barriers and signals of limited concern for creditor interests. Higher yields may offer short-term compensation, but they also imply future adjustment through currency depreciation. Once exchange rate dynamics are incorporated, the long-run return advantage diminishes substantially.

Taken together, these considerations suggest that Europe's exposure to US Treasuries reflects choice rather than constraint. Continued accumulation is driven largely by private investors responding to yield differentials. However, yield should not be conflated with safety, nor short-term performance with intertemporal value. Therefore, the heyday of US debt as a safe investment may well be at risk.

Conclusion

Europe's US asset holdings do not constitute a credible instrument of coercion as they are institutionally fragmented while large-scale divestment would be economically counterproductive.

This does not imply stability of the current allocation. The interaction of trade restrictions and rising perceived default risk can materially weaken European demand for US Treasuries. These issues have become more relevant in light of fiscal and trade policy developments under the Trump administration, including proposals that raise the prospect of default or selective restructuring of US foreign liabilities.

If Europe's exposure to US assets declines, the adjustment is unlikely to occur through coordinated action. Instead, it would take the form of reduced net purchases, increased use of currency hedging, a rise in home bias within portfolios, and incremental reallocation toward euro-denominated safe assets. This is not leverage in a narrow sense, but it is the mechanism through which the global financial equilibrium would adjust.

The appropriate policy response is structural rather than tactical. Strengthening the depth and liquidity of euro-denominated safe asset markets, improving coordination in reserve and public asset management, and expanding the set of credible domestic investment options available to European savers should take priority (Landau 2025). Over time, such measures are likely to reshape the international financial equilibrium more effectively than reactive responses. ■

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Economic incoherence

EU member states may now exceed deficit limits if the borrowing finances defence. Paolo Surico proposes exempting innovation-related expenditure, rather than procurement, to raise long-run growth while maintaining fiscal responsibility and strategic autonomy

Europe's fiscal framework was designed to discipline public borrowing. Yet shocks from the pandemic and Russia's invasion of Ukraine have forced governments to stretch the rules. Under the revised Stability and Growth Pact (SGP), member states may exceed deficit limits if the borrowing finances defence.

Politically, the intuition is clear: security cannot wait. Economically, however, the exemption is flawed. Europe is relaxing fiscal rules for the least productive part of defence budgets while constraining the most productive: innovation.

The composition problem

The issue is not how much Europe spends on defence, but what it spends on. Around 40% of EU defence budgets go to personnel, more than one-third to goods and services, and only a small fraction to investment and R&D. Much procurement is imported.

Mejino-López and Wolff (2025) show that Europe's dependence on the US extends beyond equipment to high-tech systems, software, and associated maintenance. Consequently, a substantial share of borrowing permitted under the defence exemption leaks abroad, supporting US industry more than European technological capability.

By contrast, defence R&D — the component with the highest domestic return — remains chronically small. According to the European Defence Agency (2025), EU defence R&D in 2024 totalled just €13 billion ($\approx 0.07\%$ of EU GDP), compared with \$149 billion in the US ($\approx 0.51\%$ of GDP).

Using long historical data for the US, Antolin-Díaz and Surico (2025) find that tilting defence budgets toward R&D generates large and persistent gains in productivity and output, while spending on personnel or equipment delivers far lower long-run returns.

As Aghion and Howitt (1992) emphasise, innovation is inherently disruptive, and technological progress often comes from new entrants. Europe's concentrated defence-industrial structure, however, gives incumbents weak incentives to adopt technologies that threaten their dominance. A fiscal exemption favouring equipment procurement therefore raises profits for incumbents while discouraging frontier innovation. The exemption thus subsidises the least productive spending while constraining the most productive.

Europe's current fiscal carve-out is economically incoherent. It relaxes deficit rules for spending with limited domestic benefits while constraining investments — especially R&D — that expand long-run productive capacity, reduce dependence on foreign suppliers, and strengthen fiscal sustainability

Lessons from the US: from Bush's endless frontier to a European Office for Scientific Research and Development (OSRD)

Europe's challenge echoes a pivotal moment in US policy. In 1945, President Roosevelt asked his chief scientific advisor, the MIT-trained engineer Vannevar Bush, to recommend how to convert wartime scientific progress into peacetime prosperity. Bush's report, *Science: The Endless Frontier*, outlined a blueprint for what would become the American innovation ecosystem, built on three pillars:

1. Sustained public funding of basic research in areas of broad societal value
2. Strong universities and research institutes pursuing frontier science
3. A private sector capable of commercialising discoveries

This architecture underpinned the National Science Foundation, the tenfold expansion of the National Institutes of Health, and an innovation-driven economy producing breakthroughs from molecular biology to computing. Gazzani *et al* (2025a, 2025b) report that publicly funded but privately developed innovations have the largest and most persistent effects on productivity and standards of living.

US technological leadership, however, was not built on the Defence Advanced Research Projects Agency (DARPA) alone. DARPA represents just 2–4% of US defence R&D (~\$4 billion of \$149 billion in 2024). Fieldhouse and Mertens (2025) show that non-defence R&D, particularly in health and education, yields higher social returns than defence R&D.

Gross and Sampat (2025a, 2025b) demonstrate that Bush's OSRD, coordinating civilian R&D in wartime, was the ultimate engine of peacetime technological progress across electronics, engineering, and biomedical science.

Recent evidence clarifies why. Gazzani *et al* (2025a, 2025b) show that government-funded innovations have long-term effects not only by advancing the technological frontier but also by crowding in private R&D investment, particularly when funds flow to universities and research institutes. This, in turn, seeds dynamic start-ups and venture capital-backed firms, producing powerful cumulative productivity effects.

Europe can replicate this success by creating a mission-driven, science-centred institution analogous to OSRD, rather than a DARPA clone.

Draghi's 2024 report offers a blueprint for a mission-oriented, investment-driven research ecosystem. Realising Europe's "*endless frontier moment*" depends on translating these recommendations into long-term fiscal and institutional commitments, making innovation central to fiscal strategy rather than discretionary spending.

Improving the EU fiscal framework: exempt innovation, not procurement

Europe's current fiscal carve-out is economically incoherent. It relaxes deficit rules for spending with limited domestic benefits while constraining investments — especially R&D — that expand long-run productive capacity, reduce dependence on foreign suppliers, and strengthen fiscal sustainability.

A better framework would **exempt innovation-related expenditure** — particularly public R&D, defence and civilian — while keeping salaries, imported equipment, and routine procurement within deficit limits. Public R&D conducted in Europe, with European firms or joint ventures, would qualify; procurement-heavy spending would not.

Such reform delivers three core benefits:

1. **Alignment with growth:** borrowing for R&D yields high long-run returns and expands future fiscal capacity (Antolin-Diaz and Surico 2025).
2. **Fiscal responsibility:** R&D is small relative to total spending and among the most self-financing expenditures.
3. **Strategic autonomy:** technological leadership — not procurement budgets — defines defence-industrial capability (Mejino-López and Wolff 2025).

Operationalising an innovation exemption

Two mechanisms could anchor this shift:

- **R&D bonds:** long-term, earmarked instruments dedicated to exempt R&D spending, allowing investors to link financing directly to productive research.
- **European Investment Fund (EIF):** housed at the European Investment Bank (EIB), pooling and doubling private sector resources in addition to the capital raised from R&D bonds and other channels, significantly expanding existing commitments. Project selection would reflect economic merit and strategic relevance, overseen by a European OSRD-like agency. The fund would support dual-use technologies, strategic digital infrastructure, and the green transition, while multi-sourced procurement would intensify competition

among incumbents and start-ups. National equity stakes in the EIF would ensure accountability and visible returns.

Government support to venture capital markets

Policy can also strengthen venture capital markets. **Pension reform, tax incentives, and regulatory adjustments** can encourage institutional investors — particularly pension funds — to socialise the costs and benefits of a European innovation ecosystem by shifting from low-risk fixed-income assets toward long-term equity. For instance, a more decisive move from defined-benefit to defined-contribution pension schemes would increase funds' flexibility to invest in higher-risk, higher-return venture capital.

Venture capital funding in Europe remains concentrated in short-horizon sectors, particularly software and services in the UK, where financing risk is lower and exit options are more abundant; by contrast, science-based and long-horizon projects, despite potentially high social returns, are underfunded because they risk failing to secure follow-on financing (Parry 2025).

Policies that incentivise institutional equity investment and targeted support for later-stage start-ups (such as the European Investment Fund equity finance programme) would reduce long-horizon financing risk, improve capital allocation, and counter the migration of European entrepreneurs toward the US ecosystem.

Policy proposals to build a European innovation ecosystem

Innovation thrives on stability. Europe should adopt multi-year public R&D targets, set independently of GDP ratios, to crowd in private investment and ensure continuity across political cycles. Credible, predictable commitments — especially when coupled with guaranteed or lead demand — are powerful incentives for business R&D and venture capital.

Procurement reform is equally urgent. A shift away from sole-source awards to incumbents toward **open and competitive calls** accessible to both established firms and new entrants is needed. **Multi-source procurement**, where the same contract or components are awarded to a mix of incumbents and start-ups, would strengthen competition and promote technological integration across the defence industrial base.

Expanding significantly **Horizon Europe** (budgeted at €7.3 billion in 2024) would reinforce Europe's innovation backbone: universities, research institutes, and publicly supported laboratories. Participation should extend beyond the EU, including the UK, Switzerland, Israel, and Ukraine.

Likewise, it is necessary to expand significantly the **European Investment Fund** which, in 2024, committed to €3.1 billion in high-tech innovation (ETCI) and €7.3 billion in equity financing (of which only €175 million for defence) to support later-stage start-ups through scale-up finance.

A **Bayh–Dole-style framework** would allow public institutions to retain and license intellectual property from publicly funded research, amplifying returns and translating discoveries into technological leadership across the whole continent (as opposed to only Denmark and Germany, which adopted a version of the American legislative framework). This echoes Vannevar Bush's insight: public inventions should be patented to ensure disclosure, diffusion, and cumulative progress across sectors, including defence.

Addressing objections

First, security needs are immediate, but urgency justifies targeted procurement flexibility, not permanent exemptions for wages and imported hardware or for current spending creatively relabelled as defence (see German Council of Economic Experts 2025).

Second, innovation spending is hard to monitor, yet R&D is highly auditable — projects are registered, peer-reviewed, and often co-funded under the Horizon Europe framework.

Third, revising fiscal rules is politically difficult, but the Stability and Growth Pact (SGP) already recognises that not all debt is equal (Janeba and Larch 2025). An innovation exemption is a logical next step and would better equip the EU for future crises, including pandemics.

From loophole to leverage: a call for action

Europe stands at a crossroads. It can maintain fiscal rules that divert borrowing into short-lived consumption and potentially obsolescent equipment — or it can **redesign its fiscal architecture around innovation**: the ideas, technologies, and institutions that drive long-term prosperity and strategic autonomy.

The post-1945 US experience is clear: placing science and innovation at the heart of national strategy transforms productive capacity for generations. Europe must now choose the same path — replacing upside-down exemptions with rules that reward public investment in knowledge, empower universities and research institutes, and catalyse private-sector innovation across the continent. The choice is stark: continue subsidising technological dependence or build Europe's technological future. ■

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This article was originally published on [VoxEU.org](https://voxeu.org).

Addressing Europe's services dependencies



The geopolitical order keeps shifting. Agnès Bénassy-Quéré, Giancarlo Corsetti, Giulia Sestieri and Rolf Strauch discuss the economic security issues raised by services trade in the EU and call for a common industrial policy for services to boost competitiveness

The geopolitical order keeps shifting – politically and economically – as the US administration pursues its mercantilist-transactional approach to international relations and weaponise economic and financial instruments. This, and the distancing of the US from unambiguous support for NATO, which has long guaranteed the alliance, create an urgent need for Europe to strengthen its strategic autonomy (eg. Pisani-Ferry *et al* 2024, Garicano 2025, European Commission 2025c).

The reliance of the EU on China for critical goods (eg. Buysse and Essers 2023, Faubert *et al* 2024) has long occulted its dependence on the US for several critical services, such as software, cloud services, cybersecurity, and retail payments¹. By way of example, Mastercard and Visa account for two-thirds of card payments in the euro area, and only five countries in the euro area have a domestic card scheme. Services produced in the US are therefore core to the policy debate on strategic autonomy.

In addition, services are also the market where most gains can be made by reducing the still high barriers to trade in the European Single Market (European Commission 2025a, Rotunno *et al* 2025, Hoekman and Shepherd, 2025). Paradoxically, the EU is a global exporting power in services, not only in goods (Eurostat 2024), but trade in services is no higher among EU member states than between the EU and the rest of the world (European Commission 2025a).

Its dependence on foreign providers is to a significant extent home-made due to the fragmentation of the European internal market. An undesired consequence is that Europeans rely on US giant firms with monopoly power, which creates both rents and operational vulnerabilities². In this column, we focus on economic security issues raised by trade in services.

How to assess service dependencies

Compared to trade in goods, collecting useful data to detect dependencies on services runs into several hurdles, due to intangibility and complexity of what is traded, multiple delivery modes, limits to information collection, and intra-firm and digital trade. Traditional measures, such as market concentration and scarcity, are inherently difficult to apply to services.

European dependencies on services have multiple implications, ranging from rent extraction to security concerns. Europe in fact has multiple ways to address them, provided existing tools are actively employed and a significant step is taken towards internal market integration, which includes both the savings and investment union and the digital euro

One promising avenue exploits the concept of ‘choke points’ (eg. Chatham House 2017). Choke points identify possible bottlenecks and threat points to a supply chain. For financial services, dependence on and resilience of the sector are distinct concepts. Regular stress-testing provides information on the sector’s resilience. What dependence captures is the impact of a disruption on some key financial services along the value chains.

Other services are also lifelines for the economy and may be equally crucial, such as public transport navigation systems and utilities. A systematic mapping of how the disruption of services provided by non-EU ‘hyperscalers’ (eg. Amazon, Microsoft) affects economic activity across sectors would clearly be a significant step forward.

How to reduce service dependencies

Generally, industrial policies may be warranted when there are market failures, including first-mover advantages, network externalities, and economies of scale (eg. Rodrik 2004, Aghion *et al* 2015). These features apply to several services, as they do to the production of several goods.

However, inefficiencies and dependencies may be byproducts of insufficient market integration. Some services markets have explicitly been excluded from the Single Market, mostly because they are subject to sector-specific regulation or public-interest considerations. Some of them are crucially constrained by a physical infrastructure – for example, train transport and utilities.

Some of the barriers are regulatory, such as those affecting IT-related professional services and financial services to various degrees. Moreover, crossborder services and competition may be constrained by different rules in consumer protection, service standards, or even labour law³.

Inadequacy of financial support is a stumbling block for technological upgrade and scaling up of European IT services. Europe lacks a sufficiently deep and liquid capital market creating the conditions for a high level of market capitalisation, and equity finance, also due to the dominance of pay-as-you-go pension systems.

The success of a savings and investment union (SIU) will be key to redirecting resources to productive investment, on top of creating the conditions for a strong, EU-scaled financial services industry. Building up an effective SIU will require a wide range of actions, at both national and supranational levels (Villeroy de Galhau 2025).

In 2025, the European Commission adopted a series of packages to translate the savings and investment union into concrete measures. It has proposed, among other things, to revive securitisation to support financing of small and medium-sized companies and the strengthening of funded pension systems. This would help market capitalisation and especially equity financing of innovative firms.

In December 2025, the Commission adopted the market integration package designed to remove barriers and unlock the full potential of the EU Single Market for financial services. This included proposals for more efficient and integrated supervision and it launched a consultation on the introduction of a '28th regime' that could reduce legal barriers to crossborder equity funding. Other proposals on the savings and investment union will be announced by early 2026.

The fragmented market of European financial services and infrastructure favours non-EU companies. According to the European Commission (2025b), Europe has over 300 stock exchanges, 14 clearing platforms, and 28 central securities depositories. In the US, there are five main clearing platforms and one central securities depository.

This multiplicity of financial markets and financial market infrastructures in Europe causes fragmentation of savings and financial market investments, higher costs for issuers, less efficient allocation of excess savings, reduced competitiveness of European financial institutions, and strong dependency for a couple of critical services vis-à-vis non-European financial market infrastructures.

This particularly concerns central clearing of euro interest rate derivatives (swaps and short-term futures), where UK central counterparties maintain a quasi-global monopoly.

While Europe has a high number of large banks, few of them have full European reach. This owes to the fact that regulations have a pure national perspective on systemic relevance and, in some cases, keep ringfencing national banking systems. Some components of an efficient European backstop are also missing.

This lack of genuine European reach of large European banks might also explain why US banks have a competitive edge in investment banking activities. The market share of US banks in European investment banking is much larger than that of euro area banks (close to 60% versus 30%, respectively). In the retail payments sphere, American card schemes are also dominant (ECB 2025)⁴.

In addition to sovereignty and resilience concerns, this dependency comes with an immediate cost for the real economy as merchant fees suffer an upward trend (European Commission 2024). The development of the digital euro by the Eurosystem, replicating banknotes in the digital sphere, should offer an alternative for European retail payments.

Towards an industrial policy for services?

Could a common industrial policy play a role once the frictions discussed above are addressed? There are different views in the academic literature, ranging from advocating a mission-driven ‘moonshot’ approach in certain areas, to conventionally more prudent approaches (Caffarra and Lane 2024). Still, efficient industrial policy should avoid falling back into old traps.

State aid should not be used to build up national champions, and it is essential to conduct industrial policy within the guard rails of a European competition regime. The enforcement of the Digital Markets Act will contribute to reducing dependencies in services through the traditional tools of competition policies.

Beyond this, as the 2024 *Draghi Report* forcefully argued, we need more policy coordination. Unilateral industrial policies, according to an IMF study (Hodge *et al* 2024), can create spillover and spill-back effects, which outweigh the benefits, and do not generate the necessary scale. Public procurement policies should enforce an open process and involve sunset clauses to avoid creating rents and allow competitive European players to arise.

In the specific case of retail payments, incumbents are protected by powerful network effects, limiting the ability of genuine European solutions such as Wero or EuroPA to expand. Again, the digital euro will have the capacity to overcome these network effects and impulse more competition.

A difficult, and much more contested area is the question of to what extent industrial policy for services should be geared towards geopolitical and geo-economic objectives and become an instrument of foreign economic policy. The available economic security instruments regarding services – the anti-coercion instrument (ACI), foreign investment screening, data protection, sanctions – are fewer in number than those for goods and little used⁵.

The anti-coercion instrument, for instance, is a powerful trade tool that allows the EU to respond to economic coercion by third countries through proportionate countermeasures. However, it has primarily been seen as a deterrent device so far, as the high level of dependencies largely prevents the EU from relying on economic security instruments, for fear of losing access to non-substitutable services.

Sophisticated instruments like Instex⁶, to avoid extraterritorial effects of US sanctions on Iran, have failed. The EU is also able to place restrictions on foreign direct investment (FDI) originating from a third country, effectively limiting its ability to acquire or establish service-providing entities in the EU market.

In a new communication of December 2025 (European Commission 2025d), the Commission signalled a shift towards a more proactive approach calling for systematic risk assessments, tighter screening of foreign investments, diversification of critical service providers, and coordination among member states via an Economic Security Network.

The communication acknowledges the limited practical use of coercion and advocates for deterrence. The limits on the use of coercive instruments in international rules pose a political dilemma for Europe, which positions itself as a defender of a rules-based trading system.

To conclude, European dependencies on services have multiple implications, ranging from rent extraction to security concerns. Europe in fact has multiple ways to address them, provided existing tools are actively employed and a significant step is taken towards internal market integration, which includes both the savings and investment union and the digital euro.

Coordination of public procurement could also help reduce existing and future dependencies (for example, for AI systems) but would need to be carefully designed so as to steer competition among European providers.

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Endnotes

1. See Cipollone (2025) on digital payments.
2. More generally, see ECB (2023) on Europe's external dependencies, and Gensler et al. (2025) on the economic consequences of the new US administration.
3. For an overview by country and sector, see the OCDE Services Trade Restrictiveness Index (2025).
4. Note that the figure of 57% does not include cash payments in its denominator, but only all non-cash means of payment.
5. On FDI screening, see Bencivelli et al (2023).
6. See, for example, France Diplomacy communication (2023).

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Authors' note: This column reflects discussions held at the Banque de France/CEPR EEP RPN workshop held on 10 June 2025 in Paris. The authors would like to thank participants for their active contribution to the debate. Views expressed here are nonetheless those of the authors and should neither be attributed to individual participants nor to the Banque de France or the ESM. This article was originally published on [VoxEU.org](https://voxeu.org).