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Introduction: Between an increasingly unpredictable America and an ambitious China, in strategic alliance with an aggressive Russia, Europe moves to adapt to new global realities

> We have entered an era of harsh geostrategic competition. The world's major economies are vying for access to raw materials, new technologies and global trade routes … Europe is ready for change.
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> **Ursula von der Leyen, President European Commission at the World Economic Forum in Davos, Switzerland, 21 January 2025**

With geopolitical challenges to the east (China, Russia) and to the west (Trump 2.0), amid global geoeconomic fragmentation, Europe became painfully aware of its dependencies and, hence, its vulnerabilities across a host of policy areas. Ensuring supply chain resilience for inter alia critical raw materials, while access to new innovative technologies, trade, energy, as well as security and defence, emerged as new and urgent strategic priorities. The European Union (EU) and its member states sought to embrace open strategic autonomy as the necessary response to the emergence of a systemic 'great power' rivalry between Donald J. Trump's United States of America on the one hand and Xi Jinping's China strategically aligned with Vladimir Putin's Russia on the other.

Against this backdrop, the European Commission unveiled bold proposals for the EU long-term budget for 2028–34. Predictably, plans for a revamped EU budget met with a frosty reception, not least in the European Parliament. Critics accused the Commission of robbing ‘Peter’ (Common Agricultural Policy, Cohesion Policy) to pay ‘Paul’ (new spending priorities, including competitiveness, innovation, security and defence). Member states were divided on how to achieve this, some favouring little or no change to the size of the budget, while others urged that it should be doubled.

Institutional developments

On 1 January, Poland took up the rotating presidency of the Council of the European Union. Its ‘trio’ teammates were Denmark and Cyprus. Reflecting the concerns of the time, Poland’s slogan was ‘Security, Europe!’ Its top priority was to boost defence readiness amid deteriorating global geopolitical circumstances. The Polish government programme covered seven interrelated aspects of security namely: external (including security, defence and border protection), internal, information (combatting disinformation and propaganda), economic, energy, food (including agriculture), and health.

On 1 July, Denmark followed, supported by Poland and Cyprus. Echoing the sentiments of the previous presidency, Denmark’s slogan was ‘A stronger Europe in a changing world’. The Danish presidency sought to focus on the long-term budgetary negotiations, Cohesion Policy and enlargement.

On 10 March, the European Council, representing the heads of state or government of the member states celebrated its fiftieth anniversary.

On 1 January, Bulgaria and Romania became full members of Schengen, the EU’s passport-free area, as land borders were lifted.

In July, Paschal Donohoe, Ireland’s minister for finance, was re-elected unanimously and unopposed as President of the Eurogroup, that is, the ministers for finance and economics of the twenty participating eurozone member states. In November came the unexpected announcement that Minister Donohoe would depart Irish public life with almost immediate effect, taking up a new international role as Managing Director and Chief Knowledge Officer of the World Bank based in Washington, DC. Subsequently, Kyriakos Pierrakakis, Minister of Economy and Finance in Greece was elected President of the Eurogroup. He took up his new role on 12 December 2025 to begin a two-and-a-half-year term of office.

Competitiveness and how to achieve it

On 29 January, the European Commission launched its Competitiveness Compass. Based closely on the Letta Report (April 2024) and the Draghi Report (September 2024), this strategic agenda is set to frame the remainder of Ursula von der Leyen's second mandate as President of the European Commission due to end in 2029. The aim of this ambitious road map is to boost EU economic growth and productivity with a view to assuring its economic prosperity and security.

The compass identified key actions needed to enhance the EU's competitive standing on the global stage. The following three aims are highlighted:

- *To close the innovation gap* between the EU and both the US and China by increasing investment in inter alia artificial intelligence (AI), biotech and space technologies. To facilitate large-scale funding of such investment, the Commission advocated completion of a veritable Capital Markets Union to include a European Savings and Investment Union. The purpose of the latter is to transform billions of citizens' savings in Europe into investment for innovative start-up companies allowing them to scale up. Among the innovative measures included was the idea of a '28th regime'. This is a single corporate rulebook or code for new startups, to replace the current regulatory patchwork of twenty-seven national codes.
- *To create a joint road map for decarbonisation* and thus boost competitiveness by lowering energy prices in the EU substantially. Intrinsic to this priority was the new Clean Industrial Deal which was launched in February. This sought to link climate action with industrial competitiveness.
- *To enhance security*. This refers to the need to strengthen economic resilience by reducing external dependencies, while building new trade relationships to secure a supply of critical raw materials, and making supply chains more robust. To this end, the European Commission worked to conclude negotiations on trade partnership agreements with inter alia Mercosur, Mexico, Switzerland and Indonesia, and other resource-rich countries. In this way, the EU seeks to de-risk its international relationships and overreliance on America, Russia and China.

Significantly, the Commission's Secretariat-General was tasked with taking the lead on implementing the Competitiveness Compass.

The Commission's new agenda stoked concern that the Competitiveness Compass would prioritise European defence cooperation and investment to the detriment of social and climate initiatives, including the European Green Deal.

In May the Commission unveiled its new single market strategy to make the single market simpler, seamless and strong. It seeks to remove the most harmful barriers, reducing red tape, promoting investment and ensuring fair competition. While recognising the need to work on removing all barriers, the strategy focuses on removing the ten most harmful obstacles reported by businesses. Such obstacles include complicated business establishment and operations; complex EU rules; lack of ownership by member states; limited recognition of professional qualifications; lack of common standards; fragmentated rules on packaging; lack of product compliance; restrictive and diverging national services regulation; burdensome rules for posting of workers in low-risk sectors; and unjustified territorial supply constraints causing high prices for consumers. The strategy also focuses on stimulating new dynamism in the EU's service sector, supporting the development and growth of small and medium-sized enterprises, as well as simplifying existing rules and promoting digitalisation in the economy.

In support of simplification and digitalisation, the Commission published its fourth so-called 'Omnibus package' for businesses. This includes inter alia measures to cut some €400 million in annual administrative cost for companies, while businesses will be able to submit documents digitally to comply with obligations under certain EU harmonised product legislation, and to provide product instructions digitally rather than on paper.

A new era in European Union–United States relations

Trump 2.0 brought to an abrupt end the familiar transatlantic relationship in place since the Second World War. US foreign and trade policies towards Europe shifted profoundly. At the same time, the US seemed to pursue warmer relations with Russia, while pressuring Ukraine to sue for peace with Russia on terms weighted heavily in favour of the latter.

Defence

On 12 February, speaking at the annual Munich Security Conference, US Secretary of War Pete Hegseth made clear that the US no longer considered itself to be the primary guarantor of security in Europe. On the grounds of its own national security, the US was obligated to refocus its attention and military resources on the Asia–Pacific region in order to deter an increasingly assertive China. The implications for European states and their national budgets were clear and unambiguous. They needed to bear to a greater extent the cost of their own defence and take the lead in supporting Ukraine. Europe could no longer take for granted reliance on the US 'nuclear umbrella' for its security and defence. Hegseth affirmed that European troops deployed in Ukraine were not covered by Article 5 of the North Atlantic Treaty Organization (NATO) treaty, the so-called 'Musketeer clause' where an attack on one ally would be considered an attack on all. Article 5 was invoked only once, by the European allies via the North Atlantic Council in solidarity with the US when it was attacked on 11 September 2001 by Al-Qaida terrorists.

On 14 February, Trump made a shock announcement that the US and Russia would hold direct peace talks in Riyadh, Saudia Arabia, to end the war in Ukraine. No representatives of European countries or Ukraine would be present. Caught off-guard, European leaders were in effect reminded of the age-old adage that 'if you are not at the table, you are on the menu'. The response from Europe, led by Emmanuel Macron, President of France, and Sir Keir Starmer, Prime Minister of the United Kingdom (UK), was to create a 'Coalition of the Willing'. This hastily assembled group of EU and non-EU countries included inter alia representatives of the UK, NATO, Canada, Turkey, Norway as well as Volodymyr Zelenskyy, President of Ukraine. In their collective view, there could be no peace talks about Ukraine and Europe without Ukraine and Europe. Subsequently, in December, joint talks between the US, the EU and Ukraine were held.

Trade

On trade policy, on 2 April, US President, Donald J. Trump, threatened sweeping and significant tariffs on a host of countries, including the European Union as part of his 'America first' drive to reduce America's trade-in-goods deficit with the rest of the world. As part of his so-called 'Liberation Day' announcement, President Trump imposed 25 per cent tariffs on steel and aluminium imports and a baseline 10 per cent on all goods from all trading partners coming into effect on 5 April with 25 per cent and 50 per cent tariffs imposed on automobiles and steel, respectively. The tariffs were to remain in place unless a trade deal was concluded to his satisfaction by 9 July.

Trade negotiations duly took place between the European Commission, which negotiates on behalf of the twenty-seven EU member states (EU-27), and the Trump administration. Hopes were high that a trade deal was in sight with a 10 per cent minimum tariff seemingly being accepted by the EU. In an unexpected twist, on 11 July, Trump sent an extraordinary letter to President von der Leyen threatening 30 per cent tariffs on European goods unless a deal was done by 1 August. The prospect of a damaging trade war loomed as the EU considered deploying its Anti-Coercion Instrument (ACI) in force since 2023. This trade 'bazooka', as it is known, is potentially a powerful and versatile weapon at the disposal of Brussels as it comprises a full range of anti-coercion measures from withdrawing intellectual property to banning access to public procurement contracts. Crucially, such countermeasures targeting coercive behaviours could apply to both a country's goods *and* services. While the EU does have a trade surplus in the goods sector with the US, the US has a trade surplus in the services sector with the EU, not least in digital technologies. In the event, the ACI was never deployed.

Trade relations

Japan

On 22 July, the European Union concluded an amicable agreement with Japan. Meeting in Osaka, the EU and Japan agreed to launch a new Competitiveness Alliance centred on strategic joint procurement of critical raw materials and closer business ties. This agreement marked a major step in greater cooperation on economic security, industrial policy, and supply chain resilience between the two trading partners. Japan had also struck a deal with the US in exchange for a commitment to invest $550 billion in America.

China

On 24 July, in Beijing, an EU–China Summit was held to mark the fiftieth anniversary of bilateral diplomatic ties. The mood was subdued and tense with the summit living down to expectations. Longstanding structural issues continue to bedevil the relationship and, though aired, went unresolved. Such issues include China's export restrictions on rare earth elements upon which EU member states are deeply dependent for their green and digital transition, EU complaints about Chinese industrial overcapacity and massive state subsidies for key sectors as well as Chinese implicit support for Russia in its war of aggression on Ukraine. The only positive note was agreement on the need for climate action.

United States of America

On 27 July, in Turnberry, Scotland, European Commission President, Ursula von der Leyen, representing the EU-27 met with US President Donald Trump to conclude a framework agreement to resolve the simmering trade war begun by the US on 2 April, escalating on 11 July.

In what was widely regarded as an asymmetrical deal, the EU agreed to a US tariff ceiling of 15 per cent on most EU goods (70 per cent approximately) exported to America. This included cars and car parts, pharmaceuticals and semiconductors. US tariffs of 50 per cent on steel and aluminium remained in place. The agreement apparently committed European countries to large-scale purchases of US energy and military equipment despite the European Commission not having legal competence in this area. Such decisions are a matter for the private sectors of individual member states. European countries in any case are opting to buy US liquified natural gas as they pivot away from Russian fossil fuels. Similarly, European states had already agreed at the NATO summit in June to raise to 5 per cent of gross domestic product (GDP) their expenditure on defence capacity. The US is a leading supplier of military equipment such as F-35 fighter jets and Patriot missiles needed to support Ukraine in its war of attrition with Russia.

The political agreement was accepted by member states, albeit without enthusiasm. For the Europeans, its main selling points were that the imposition of US tariffs of 30 per cent on 1 August (later deferred to 7 August), which Trump had threatened, was avoided. Continued access to the US market was thus safeguarded. The risk of a damaging transatlantic trade war was averted. Stability and certainty for EU producers and exporters was secured, at least for a time.

There were some positive caveats. A zero-for-zero tariffs scheme was agreed for strategic sectors, including all aircraft and their components, certain chemicals, certain generics, semiconductor equipment, certain agricultural products, natural resources, and critical raw materials. The Commission defended the EU's right to regulate digital technology. It resisted US pressure to weaken EU laws regulating online speech and data management. Importantly, both parties agreed to establish a metals alliance to protect the steel, aluminium and copper sectors from unfair and distorted competition. Industrial overcapacity (which China is alleged to have for example) is deemed to be a threat to EU and US industry alike. In short, the agreement was generally considered to be the best that was available under the circumstances of a US President determined to deploy tariffs as a coercive policy instrument.

The negotiations laid bare the EU's dependencies on the US in such vital sectors as trade, energy and defence. Geopolitically, Europe was under pressure to ensure Trump 2.0 remained committed to supporting, or at least not overtly abandoning, Ukraine. Commerce and security are linked. There was a very strong case – economically and politically – for Europe to avoid a confrontation on trade with the US. From the outset, the EU's preference was for a negotiated outcome as opposed to retaliation which would have led inevitably to escalation. Member states were divided on the issue of deploying the EU's powerful ACI. Some countries did favour its use (e.g. France) while others opposed it (e.g. Germany, Italy), thus weakening the Commission's negotiating position.

On 7 August, US tariffs of 15 per cent were imposed on most EU imports. While this was higher than the 10 per cent rate secured by the UK, it was lower than the rate of 20 per cent imposed on Taiwan, 25 per cent on India, 30 per cent on South Africa, 35 per cent on Canada, 39 per cent on Switzerland, and 50 per cent on Brazil, for example. Arguably, the agreement benefited European exporters to the extent that they gained a relative advantage vis-à-vis world competitors.

In sum, the pact capped most US tariffs on EU goods at 15 per cent, including on cars and pharmaceuticals, and carves out exemptions for generics and aircraft parts.

Mercosur

The trade agreement between Mercosur (a group of South American countries, including Brazil, Argentina, Paraguay and Uruguay) and the EU which was due to be signed in mid-December was derailed at the eleventh hour due to objections lodged by France and Italy inter alia over food safety concerns. Instead, on 18 December, the European Council opted to postpone signing the trade deal until mid-

January 2026. Such a trade deal between the two blocs would create the world's largest free market area with more than 700 million consumers.

European defence

On 4 March, President Trump suspended all US military aid to Ukraine. On the same day, President von der Leyen announced the European Commission's 'ReArm Europe' plan to rebuild European defence capacities and establish credible deterrence. On 6 March, the European Council approved the plan. Doubtful US commitment to European security in general and faltering US military support for Ukraine in particular under Trump 2.0 prompted an ambitious EU investment plan for defence.

On 19 March, President von der Leyen duly unveiled the European Commission's White Paper for European Defence and the ReArm Europe Plan/Readiness 2030. The overall aim was to address the chronic underinvestment and a lack of efficient spending on Europe's military capabilities in the recent past. Given the new geostrategic context of an emerging Cold War between President Trump's America on one side and President Xi's China in strategic alliance with President Putin's Russia on the other, Europe needed to be in charge of its own deterrence and defence.

ReArm Europe comprises five proposals to allow member states to achieve a rapid and significant increase in defence spending of up to €800 billion by the end of the decade.

1. Member states were allowed to activate the national escape clause of the Stability and Growth Pact, the EU's fiscal rulebook. This could unlock some €650 billion in additional fiscal space over four years.
2. A new financial EU instrument was created to support member states in boosting investment in their defence capabilities. The Security Action for Europe (SAFE) instrument was intended to provide member states with up to €150 million in loans backed by the EU budget. It came into effect on 29 May. It allows 35 per cent of the value of weapons to come from manufacturers outside the EU and Ukraine. Uptake was very strong with some nineteen EU member states expressing interest in availing of SAFE, a move welcomed by Ukraine.
3. Cohesion policy programmes were repurposed towards defence-related investments.

4. The European Investment Bank was identified as a possible source of private capital to cover funding gaps.
5. To further mobilize private capital, the Commission planned to accelerate the creation of a Savings and Investments Union as part of efforts to complete the EU's Capital Markets Union. Such private sector investment could potentially ensure that the billions of savings of European citizens are invested annually in the European economy, boosting its competitiveness.

The Commission proposed to create the SAFE instrument on the basis of Article 122 of the Treaty on the Functioning of the European Union (TFEU). This emergency provision may be activated when the Union is seriously threatened with severe difficulties caused by exceptional occurrences beyond its control.

Ireland announced that it would not request activation of the National Escape Clause. This clause allows for the temporary suspension or relaxation of the Stability and Growth Pact, the EU's fiscal rulebook. The Irish government seeks to upgrade national cyber, maritime, and air defence sectors as it prepared to take up the rotating Presidency of the Council of the EU from July to December 2026.

In a sign of the times, on 21 March, Germany approved a historic constitutional amendment to its national fiscal rule, the 'debt brake' (*Schuldenbremse*). This was a sea change in German fiscal policy. Defence spending above 1 per cent GDP could now be allowed. Heretofore, German government borrowing was limited to 0.35 per cent of GDP per annum. Over the next ten years, the German government proposed to spend €500 billion on modernising its defence capabilities. The amendment also created an off-budget €500 billion fund to modernise its aging critical infrastructure, €100 billion of which is earmarked for climate-related investment. The fund must be drawn down within twelve years.

Trump 2.0 signalled US prioritisation of the Asia–Pacific area over Europe. As a consequence, European states, not least Germany, moved to bolster their capacity to defend themselves given the increasingly harsh geostrategic environment. With the exception of the pro-Russia Hungarian government led by Prime Minister Viktor Orban, political will emerged in the EU member states apart from Hungary (EU-26) focused on deterring Russian aggression with continuing stalwart support for Ukraine on the frontline. The mindset shift was clear: the EU-26 must help Ukraine to defeat Russia in Ukraine or prepare to fight Russia in the EU.

In October, the member states adopted the EU's nineteenth package of sanctions against Russia. The new package of sanctions substantially increases the pressure on the Russian war economy. It targets key sectors such as energy, finance (including for the first time crypto), trade as well as the military industrial base. It introduced a total ban on liquefied natural gas from Russia and a further clamp-down on its shadow fleet which enable Russia to circumvent sanctions. Some 557 vessels are now included on the list.

Seventy-fifth anniversary of the Schuman Plan

On 7 May, celebrations took place to mark seventy-five years since French foreign minister, Robert Schuman, made an announcement in Paris of a far-reaching plan to create a European Coal and Steel Community. Devised and drafted by Jean Monnet, a high-ranking civil servant, the new organisation established a common market in coal and steel between the participating states, with the objective of promoting the economic prosperity necessary to the preservation of peace on the European continent. There were six founding member states: France, West Germany, Italy, Belgium, the Netherlands and Luxembourg.

European Union–United Kingdom 'reset'

On 19 May, the EU–UK Summit agreed a new strategic partnership based on maintaining global economic stability and mutual commitment to free and open trade. Strengthening ties was deemed necessary on both sides in order to address the unprecedented threats from an aggressive Russia, hybrid warfare attacks, broader geopolitical shifts and growing trade uncertainties in the era of Trump 2.0.

The summit was a key moment in re-setting post-Brexit relations, and upgraded the Trade and Cooperation Agreement in place since 2021. An agreement on security and defence meant that the UK could join the EU's Permanent Structured Cooperation on Security project on military mobility. An agreement on energy allows the UK electricity trading access as well as access to the EU Emissions Trading System. There was an agreement in principle on youth mobility, though details were sparse. Significantly for UK travellers, British citizens were given access to passport facial recognition e-gates when travelling to Europe.

Fishing was a controversial issue. Fish and shellfish caught in British waters may now be processed and sold into the EU without veterinary checks, eliminating much red tape, costs and delays created by Brexit. It is estimated that some 70 per cent of seafood caught in the UK is sold to the EU. In addition, European fishing boats obtain twelve years of access to British waters in exchange for the easing of some trade frictions.

An agreement was reached on the vexed issue of sanitary and phytosanitary products. The UK agreed to dynamic alignment on agrifood standards and will end the pursuit of regulatory divergence for the sake of it. Such regulatory alignment will eliminate border checks 'down the Irish Sea', benefiting Northern Ireland. To summarise, in exchange for being able to 'cherry-pick' the single European market, the UK becomes a rule-taker, accepting inter alia the role of the European Court of Justice.

Perhaps most importantly, a programme for future trade talks was agreed. Finally, in December, the European Commission announced the conclusion of negotiations for the UK's association to Erasmus+ in 2027.

Throughout the year, the EU and the UK together reaffirmed an unwavering commitment to providing financial, economic, human, military and political support for Ukraine.

Negotiations on the new long-term budget commence

On 16 July, the European Commission unveiled bold proposals for a revamped Multi-annual Financial Framework for 2028 to 2034 amounting to almost €2 trillion. This represented a modest increase in the seven-year budget from the current 1.13 per cent EU gross national income to 1.26 per cent EU gross national income. To summarise, the Commission sought to refocus spending priorities from agriculture (the Common Agricultural Policy dates from the 1960s) and lesser developed regions (the Cohesion Policy dates from the 1990s) to new strategic priorities, notably common security and defence, competitiveness (e.g. large-scale research and innovation, AI, reindustrialisation), and cross-border infrastructure. Greater investment in such European public goods reflect recognition of the collective need to meet the new geostrategic challenges confronting member states which the EU can provide better than individual countries. Such challenges include security and defence in the era of

Trump 2.0 and amid Russia's continuing war of aggression in Ukraine as well competitiveness in the face of China, an emerging economic giant with phenomenal industrial growth and capacity as well as a more assertive stance in international affairs.

The new-look Multi-annual Financial Framework proposed by the European Commission comprises three pillars.

- *Pillar 1, National and Regional Partnership Plans.* The pillar will merge the historically separated Common Agricultural Policy (i.e. expenditure on farming) and Cohesion Policy (i.e. expenditure on regional development programmes) into one 'pot' with country-specific national plans. Amounting to almost half of the seven-year budget, the new plans will be implemented by national governments to farmers and regions in line with EU guidelines. This pillar will also provide funds to repay NextGenerationEU, the post-pandemic recovery fund. Some €30 billion will be made available annually from 2028. It also includes expenditure to bolster migration controls.

- *Pillar II, Competitiveness.* This pillar comprises primarily the new European Competitiveness Fund with a view to ensuring that Europe is not left behind by the US and China. The new fund aims to boost investment in innovation, including AI, research programmes (notably Horizon Europe), defence and space technologies, digitalisation, health and biotechnology, clean technology and decarbonisation. It will also fund the ever-popular Erasmus+ programme (i.e. education) as well as a new programme, AgoraEU (i.e. media and culture).

- *Pillar III, External policies.* This pillar will fund the Global Europe Instrument, which includes 'Global Gateway', an initiative designed to foster international relationships and development cooperation with countries in Africa, Asia and Latin America. Funding for Ukraine is also included in this pillar.

The Commission made the case that the extra funding envisaged will not require increased contributions by the member states as it proposed the creation of new sources of EU revenue, known as 'own resources'. Such proposals include inter alia to tax carbon emissions, e-waste, tobacco as well as companies with a turnover of over €100 million.

Negotiations on the package are expected to continue for at least another two years and will require unanimous support among the member states as well as the approval of the European Parliament before it can come into effect.

Economic security in uncertain geopolitical times

In December, the European Commission unveiled its RESourceEU Action Plan which aims to accelerate efforts to secure the EU's supply of critical raw materials, such as rare earth elements, cobalt or lithium.

In a similar vein, the European Commission and the Commission Vice-President/High Representative for Foreign Affairs and Security Policy presented a Joint Communication on Strengthening Economic Security. It sets out practical measures to reinforce the EU's strength and resilience in the face of growing international economic threats, while retaining openness and commitment to international trade and investment.

Mogherini arrested

In December, a major corruption scandal engulfed EU institutions. Federica Mogherini, former EU foreign policy chief (2014–9), together with a senior European Commission official, Stefano Sannino, former Secretary General of the European External Action Service 2021–5, were arrested but not charged on corruption. The allegation concerned insider knowledge of a tender to set up a new academy for aspirant European diplomats. The tendering process took place in 2021–2. The College of Europe in Bruges was ultimately awarded the contract. Mogherini became rector of the prestigious college from 2020 following her departure as EU foreign policy chief. In the latter role, she headed up and was supported by the European External Action Service.

The investigation was led jointly by the EU's European Anti-Fraud Office and the European Public Prosecutor's Office. Following the arrests, Sannino took early retirement from the European Commission, where, in early 2025, he had become Director General for the Middle East, North Africa and the Gulf. In a similar manner, Mogherini resigned as rector of the College of Europe amid continuing investigations. Both Mogherini and Sannino continue to protest their innocence.

European Union loan for Ukraine

On 12 December, the EU activated Article 122 of TFEU in order to immobilise Russian assets in Europe indefinitely. This approach differs from imposing sanctions on Russia. Such sanctions need to be renewed every six months and require unanimity among all twenty-seven member states. This enables pro-Russia Hungary under Prime Minister Viktor Orban and Slovakia under Prime Minister Robert Fico to exercise their veto. Article 122 of TFEU requires a qualified majority only, thus depriving them of this power. Some €210 billion of Russian assets in Europe, much of which is held in Euroclear in Belgium, will thus remain frozen and under EU control. Release of the funds back to Russia is contingent on three conditions being met: Russia ends the war in Ukraine, pays reparations to Ukraine, and no longer constitutes an economic threat.

It was hoped that this power move under Article 122 of TFEU would pave the way for a reparations loan to be raised to support Ukraine's defence based on such Russian frozen assets. The European Commission had proposed that the EU loan to Ukraine would be repaid by Ukraine using reparations (i.e. financial compensation) from Russia after the conclusion of the war and as part of a peace settlement. In the event, on 18 December the European Council failed to unite behind this plan. This was due in part to objections from Belgium which feared being legally liable for the assets should Russia take legal proceedings against it in the future. It was also due to objections in principle to the idea of a reparations loan by Hungary, Slovakia and Czechia. Instead, the European Council agreed a two-year interest-free €90 billion loan for Ukraine to be raised on the international financial markets backed by the EU budget. This loan will provide sufficient support for Ukraine to remain solvent for the years 2026 and 2027. The decision was taken under Article 20 of the Treaty on European Union. This article provides for 'Enhanced Cooperation' in the EU and requires at least nine member states to activate it. Hungary, Slovakia and Czechia were thus exempted from any financial obligation to contribute to the loan.

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Forum