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# Europe's Strategic Choices Building Prosperity and Security

5–7 November 2015, Ritz Carlton, Berlin

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## CONFERENCE PROGRAMME

### Thursday 5 November

1400–1445 Registration and lunch

#### Welcome

1445–1500

**Krzysztof Blusz**, *President, demosEUROPA*  
**Professor Dr Joachim Krause**, *Director, Institute for Security Policy, University of Kiel*  
**Dr Robin Niblett**, *Director, Chatham House*

#### Opening remarks

1500–1515

**Dr Dietmar Woidke**, *Prime Minister, Federal State of Brandenburg, Germany*  
Chair: **Professor Dr Joachim Krause**, *Director, Institute for Security Policy, University of Kiel*

#### Plenary Session One | Europe's Role in a World of Disorder

1515–1645

- How should Europe best respond to heightened instability in and mass migration from its eastern and southern neighbourhoods?
- Can Europe play a global role or will it only ever be a regional player?
- How should Europe deal with the threats posed by non-state actors?

**Dr Stefanie Babst**, *Head, Strategic Analysis for the Secretary General and Chairman of the Military Committee, NATO*

**Bernhard Gerwert**, *CEO, Airbus Defence and Space*

**Soli Özel**, *Richard von Weizsäcker Fellow, Robert Bosch Academy, Berlin; Professor of International Relations, Kadir Has University*

**Heinrich Rentmeister**, *Partner and Managing Director, The Boston Consulting Group*

Chair: **Dr Robin Niblett**, *Director, Chatham House*

1645–1720 Refreshments

#### Plenary Session Two | Can Europe Gain Momentum or Will It Fall Behind?

1720–1835

- Is Europe falling behind its economic competitors?
- Are Europe's current institutions capable of meeting the economic challenges it faces?
- Are Europe's political structures a hindrance to its ability to respond to these challenges?

**Katinka Barysch**, *Director of Political Relations, Allianz SE*

**Dr Markus Kerber**, *CEO and Director General, Federation of German Industries (BDI)*

**Dr Sylvia Schwaag Serger**, *Executive Director, International Strategy and Networks, VINNOVA*

**Kristin Schreiber**, *Director of COSME Programme and SME Policy, DG Internal Market, Industry, Entrepreneurship and SMEs, European Commission*

Chair: **Dr Daniela Schwarzer**, *Senior Director for Research and Director of the Europe Programme, German Marshall Fund of the United States*

#### Drinks Reception hosted by the British Embassy

1900–2000

## Friday 6 November

0900–0930 Refreshments

### Break-out Session One

0930–1100

#### A | Coercive diplomacy: deterrence, sanctions and defence cooperation

- Do Russia's actions demonstrate the need for Europe to update its deterrence policies and defence posture? What forms of deterrence would be most effective, particularly when facing 'hybrid' threats involving cyber warfare and proxy forces? At a time of fiscal restraint, will European countries be willing to increase their defence budgets to implement them?
- What is needed to ensure that Europe is able to maintain a united front when contemplating the use of sanctions? How effective are sanctions at changing behaviour?  
Defence cooperation is attractive in theory but difficult to put into practice. How can national concerns about the pooling of resources and the technical difficulties of interoperability be overcome?

**John B Emerson**, *United States Ambassador to the Federal Republic of Germany*

**Francesco Giumelli**, *Assistant Professor, Department of International Relations and International Organization, University of Groningen*

**Professor Sten Rynning**, *Associate Professor, Department of Political Science, University of Southern Denmark*

**Steve Williams**, *Regional Executive, Europe and the Americas, Lockheed Martin International Business Development*

**Dr Markus Zoller**, *CEO Division Defence, RUAG Schweiz AG*

Chair: **Dr Patricia Lewis**, *Research Director, International Security, Chatham House*

#### B | Financing European growth

- With bank finance scarce and risk averse, what other sources of finance are available, and what is their appetite for investment?
- The Capital Markets Union promises to shift financial intermediation towards capital markets, thus increasing the availability of risk capital for entrepreneurs. What barriers are there to implementation of CMU, and how can they be overcome?
- At a time of high public debt but low borrowing costs, what role should governments play in helping finance growth?

**Professor Dr Henrik Enderlein**, *Professor of Political Economy, Hertie School of Governance; Director, Jacques Delors Institut – Berlin*

**Christian Staub**, *Managing Director, Country head of Germany, Switzerland, Austria and Eastern Europe, BlackRock Inc*

**Dr Fabrizio Saccomanni**, *Vice-President, Istituto Affari Internazionali (IAI); Minister of Economy and Finances, Italy (2013–14)*

Chair: **Quentin Peel**, *Mercator Senior Fellow, Europe Programme, Chatham House*

1100–1130 Refreshments

### Break-out Session Two

1130–1300

#### A | Europe's energy union: reducing dependency and ensuring energy security

- Europe's energy union strategy aims to ensure secure, affordable and clean energy. How much real progress has been made and how much is simply rhetoric? What are the principal political obstacles?
- Is there a pathway to create a shared definition of energy security at the European level? What would this imply for the balance of supply and demand measures? How can energy and climate policy be linked more

effectively to wider foreign policy goals?  
What role will renewables play in achieving energy security and climate change goals? To what extent can improving energy efficiency contribute towards these goals?

**Dr Robert Habeck**, *Minister of Energy Transition, Agriculture, Environment and Rural Areas, Federal State of Schleswig-Holstein, Germany*

**Hans ten Berge**, *Secretary General, EURELECTRIC*

**Dr Kirsten Westphal**, *Senior Associate Global Issues, Stiftung Wissenschaft und Politik (SWP)*

Chair: **Dr Sabrina Schulz**, *Head of Berlin Office, E3G*

#### B | Industrial transformation: productivity and work in the digital age

- As the economy becomes more disaggregated, and the distinction between manufacturing and services blurs, how will this affect productivity and the nature of work?
- What infrastructure, both physical and financial, will be needed for the digital age?
- What role can governments play in supporting this shift?

**Ulrich Coenen**, *Head of Digital Transformation, Commerzbank*

**Dr Jan Mischke**, *Senior Fellow, McKinsey Global Institute*

**Dr Michael Osborne**, *Associate Professor in Machine Learning, University of Oxford*

**Peter Scherrer**, *Deputy General Secretary, European Trade Union Confederation*

Chair: **Dr Robin Niblett**, *Director, Chatham House*

1300–1400      Lunch

#### Keynote Conversation

1400–1500

**Professor Marek Belka**, *President, National Bank of Poland*

**Dr Wolfgang Schäuble**, *Federal Minister of Finance, Germany*

Chair: **Quentin Peel**, *Mercator Senior Fellow, Europe Programme, Chatham House*

#### Break-out Session Three

1520–1650

##### A | Religious extremism: European domestic responses

- What are the current approaches to countering extremism, and which are showing the most promise?
- To what extent is it important to challenge the Islamist narrative in order to prevent violent radicalization?
- What is the correct balance between freedom of expression and the protection of group identities against offence? Should governments strive to foster an identity rooted in common citizenship?

**Dr Matthew Goodwin**, *Associate Fellow, Europe Programme, Chatham House*

**Jacob Mchangama**, *Founder, Justitia*

**Professor Peter Neumann**, *Professor of Security Studies, War Studies Department, King's College London; Director, International Centre for the Study of Radicalization and Political Violence*

Chair: **Professor Dr Joachim Krause**, *Director, Institute for Security Policy, University of Kiel*

##### B | Supporting innovation: risk, regulation and finance in the high-tech and green technology sectors

- What role should individual European governments play in encouraging innovation?

- How can these efforts be harmonized towards simplicity, to provide a common framework for research and innovation?
- What are the best mechanisms to leverage government finance to encourage private investment into innovative industries? How can the risk in longer-term projects be mitigated?

**Professor Maria da Graça Carvalho**,  
*Adviser, Cabinet of Carlos Moedas, European Commission*

**Dr Ulrich Dohle**, *Chairman of the Executive Board and CEO, Rolls-Royce Power Systems AG*

**Dr Klaus Borgschulte**, *Managing Director, Operations, Fr Lürssen Werft GmbH & Co KG*  
Chair: **Dr Robin Niblett**, *Director, Chatham House*

### Keynote Conversation

1650–1735

**Ine Eriksen Søreide**, *Minister of Defence, Norway*

Chair: **Krzysztof Blusz**, *President, demosEUROPA*

1735–1900 Opportunity for bilateral meetings

## Saturday 7 November

0900–0930 Registration and Refreshments

### Moderated Conversation: Break-out Session Findings

0930–1030

**Professor Dr Joachim Krause**, *Director, Institute for Security Policy, University of Kiel*  
**Dr Patricia Lewis**, *Research Director,*

*International Security, Chatham House*  
**Dr Robin Niblett**, *Director, Chatham House*  
**Dr Sabrina Schulz**, *Head of Berlin Office, E3G*

**Quentin Peel**, *Mercator Senior Fellow, Europe Programme, Chatham House*  
Chair: **Krzysztof Blusz**, *President, demosEUROPA*

### Plenary Session Three | Europe in the World

1030–1200

- Are European nations and governments in danger of losing their common vision for the future of Europe?
- Are there institutional reforms that might help Europe rediscover a common sense of purpose?
- Are the external challenges to Europe's east and south and the ongoing migration crisis going to drive Europe further together or further apart?
- How important do transatlantic relations remain for Europe's ability to play a strong role in the world?

**Claudia Crawford**, *Director, Moscow Office, Konrad Adenauer Stiftung; Federal Minister for Family Affairs, Senior Citizens, Women and Youth, Germany (1994–98)*

**Sir Simon Fraser**, *Member of Council, Chatham House; Permanent Under-Secretary, Foreign & Commonwealth Office, UK (2010–15)*

**Dr Enrico Letta**, *Dean, Paris School of International Affairs (PSIA), Sciences Po*  
Chair: **Professor Dr Joachim Krause**, *Director, Institute for Security Policy, University of Kiel*

1200 End of conference and lunch

## INTRODUCTION:

### AN ESSAY ON EUROPE'S STRATEGIC CHOICES

*Quentin Peel, Mercator Senior Fellow, Chatham House*

Over the past five years, the European Union has struggled to cope with a constant stream of crises, both internal and external, that have called into question its integrity and its very capacity for survival.

From the collapse of the Greek economy in 2010, and the consequent strains on the eurozone, through the confrontation with Russia over Ukraine to the mass influx of refugees and migrants in the current year, each new emergency has tested the cohesion of the institutions of the union.

Yet perhaps the greatest threat of all to the integrity of the EU is the challenge to its self-confidence, and the growing popular scepticism about the capacity of its leaders to handle the challenges they face.

That was the real concern that underlay the latest Chatham House conference in Berlin on Europe's strategic choices, and in spite of the optimistic sub-title – 'building prosperity and security' – the focus was summed up by the opening debate, on Europe's Role in a World of Disorder. There were more questions than answers to the European dilemma.

Inevitably, the ongoing refugee crisis dominated the proceedings in the German capital, where the issue has swept all other questions in the national debate off the political agenda. But doubts about Europe's capacity to revive its economic growth, patch up its relations with an ever more quarrelsome Russian regime, and douse the conflicts in the 'ring of fire' stretching from Ukraine through Syria to Libya, ran through a series of anxious debates.

There were also at least two elephants in the room: the upsurge in nationalist, Eurosceptic and anti-immigration movements in countries ranging from France to Poland and Greece; and the UK's determination to renegotiate its terms of membership, before holding a referendum on whether to stay or leave the club.

All told, the conference was forced to indulge in some profound soul-searching.

'We cannot build Europe against the people,' declared Enrico Letta, the former Italian prime minister, in the closing session.

Yet the European conundrum is more complex. Although the continent as a whole is suffering from slow growth, an ageing population, and daunting levels of youth unemployment, not to mention the political backlash against the EU, it remains a haven of security and prosperity to the outside world, and particularly to its strife-torn neighbours.

That is why hundreds of thousands of desperate refugees and migrants are risking their lives, their children and their meagre savings to cross its borders. It is why there is still a queue of states that want to join the union, foreign investors seeking to buy European assets, and international students clamouring to study at its universities.

Meanwhile, European voters and their political leaders fearful of the future and plagued by insecurity, doubtful of their capacity to compete in the global marketplace, and tempted to throw up new border controls to keep out unwanted immigrants.

'We are attractive, a zone of stability,' said Robin Niblett, the director of Chatham House, in his introduction. Yet Europe lives in a disastrous neighbourhood. The dilemma is 'how can we share our success?'

The refugee question thrust itself on to the agenda from the start, when Dietmar Woidke, the prime minister of the state of Brandenburg, which surrounds Berlin, spelled out the challenge for his administration. Some 40,000 asylum-seekers will arrive in the state in 2015 – the equivalent, in proportion to its population, of a million refugees coming to the UK in a single year. He was too polite to underline that the British government has said it will only take 20,000 refugees from Syria over the next four years, but he did predict that 'the current refugee crisis will change Europe'.

'The sheer scale of the crisis is staggering,' said Ine Eriksen Søreide, Norway's defence minister, from the perspective of a NATO member state that is not an EU member. 'In Europe we have so far not been able to address [it] in a coherent way. If not handled correctly, the refugee crisis could lead to further fragmentation in Europe... It could have consequences in other areas, such as security policy [and] could undermine European and transatlantic unity.'

Even Wolfgang Schäuble, Germany's veteran finance minister, who first entered the Bundestag in 1972, spoke more about the refugee crisis than about the economic travails of the eurozone. It was the greatest crisis he had known in his entire political career, he said.

'No European state can cope with these challenges alone,' he insisted, underlining Germany's determination to find a common solution to the crisis. But as a convinced proponent of European integration, he added a grim warning: 'If Europe is not able to solve this problem, to get back some control over [its] external borders, Europe without borders will be destroyed.'

When the eurozone economic crisis began in 2010, when Greece's state borrowing overwhelmed the government in Athens and threatened to force a default, Angela Merkel, the German chancellor, declared: 'If the euro fails, Europe will fail.'

Today in Germany, the feeling seems to be that the refugee crisis is even more of a threat to European cohesion than the eurozone crisis. But in reality they are two aspects of Europe's division and self-doubt. The eurozone crisis opened a deep divide between mainly southern member states – such as Greece, Italy, Spain and Portugal, as well as France – opposed to excessive austerity and spending cuts, and the northern states, led by Germany, who have refused to sanction new borrowing to fuel the recovery. The migration crisis has now opened up a new divide between eastern and western members of the EU, with the new member states of the east expressing grave misgivings about accepting any quota of refugees to alleviate the burden on countries such as Germany and Sweden.

There was just a hint from Dr Schäuble that the refugee crisis might change his total commitment to a 'black zero' in his annual budget. 'I would like Germany to grow a bit faster,' he said. But he still insisted that the problem of insufficient growth in the eurozone was not caused by austerity policy or 'the fiscal policy of Germany'.

'It is caused by the fact that many of my colleagues underestimate the challenge of the globalised economy,' he said. 'We face competition for every job, and not just for investment.' The slower-growing members of the eurozone must introduce more structural reforms – especially in their labour markets – to improve their global competitiveness.

'The average growth rate of the eurozone is lower than the average growth rate of the EU,' he said. 'But this cannot be changed by Germany. It must be changed by the member states that have a lower growth rate.' He declined to name them.

Yet it was precisely the question of European competitiveness and capacity for innovation – and the lack of investment, including in Germany – that concerned the economic debates at the conference, which sought to bring together the twin themes of security and business.

For Markus Kerber, director-general of the BDI, the leading federation of German industries, the main problem was the lack of a proper single market in the EU. 'We don't have a unified business model, we have 28 business models,' he said. 'If any one of you wanted to start up a digital business in any EU country, and you wanted to offer your services (across the EU), you would have to comply with 28 different digital regimes. In the US there is just one regime.'

Dr Niblett, who chaired a break-out session on innovation, said that Europe was entering 'a period of discomfort with the digital age'. The question was whether it would be an opportunity or a roadblock.

'Europe is not used to changing quickly,' he said. Anxieties about internet security also delayed agreement on a digital union.

What was needed was a clearer focus in education on change and creativity, more flexible labour laws, EU digital infrastructure that allowed companies to gain scale rapidly, and clearer focus of financial institutions on innovative projects and small start-ups.

The other key economic theme was how to finance faster growth. There was praise for the European Commission's 'Juncker plan' to focus on investment, and its proposals for a capital markets union, to complement the banking union now established. But neither was thought to be enough on its own.

For a start, the capital markets union had no institutional champion, unlike the banking union, which was backed by the European Central Bank. And the Juncker plan relied on private sector finance complementing relatively modest public investment.

A further complication would be reconciling the EU-wide capital markets union, with by far the largest concentration of financial institutions in the City of London, with the ever-more integrated rules of the eurozone. And that brought the conversation to Brexit – the threat of a British exit from the EU.

Dr Schäuble insisted that a deal could be done. 'I think it is possible we can agree on a solution that will be acceptable to euro member states as well as for non-euro member states,' he said. 'There is an opt-out (for the UK). That is not disputed.'

'If membership of the EU is only sustainable if you are a member of the eurozone, the UK will leave. We have to find a way that you can be a member of the EU without being a member of the eurozone.'

He agreed that a lot of regulation in the eurozone was excessive, and could be reduced. 'We would be thankful for this.'

At the same time, he said, the UK government agreed that European monetary union must be strengthened, to complement it with 'a fiscal and economic union'.

'In the long term, a monetary union without fiscal and economic union lacks cohesion,' he said. If this could be 'combined with the British desire to have fair rules for member states of the EU that are not members of the eurozone' a deal could be done.

He also underlined the internal problem of the Eurozone: the very different living standards among the member states. These must be reduced, he said. But for a German finance minister to talk about 'solidarity' brought instant accusations that he was in favour of a 'transfer union' – a poisonous term in German politics. However, such solidarity was essential. 'If you are not in favour of this, you should leave.'

In spite of Dr Schäuble's relative optimism, there were warning notes from British participants at the meeting about how finely balanced the UK referendum result might be.

Sir Simon Fraser, former head of the UK Foreign Office, said there was a need for a more positive European narrative, but the reality was that the UK would be distracted from serious engagement in security policy until the referendum had been held.

He warned of the dangers of complacency, and the assumption that 'the end of the Cold War meant we were entering a period of post-nationalism. Instead, we are faced by a lot of old challenges.'

The economic crisis had compounded the problem of credibility of traditional political parties, and fuelled a revolt in many countries against the political process.

Finally he underlined the problem of confidence. 'There has been a sort of introspection. We are less inclined to look out and be confident,' he said. At the same time, the US was perceived to be withdrawing, which meant that Europe must play a more active role in conflict resolution in its region. 'But we don't have a very confident, coherent western European narrative.'

It was a view that really summed up the whole conversation. The most positive conclusions were twofold: that, in times of crisis, European unity was a key to finding sensible solutions; and that European progress usually came from overcoming crises.

'I am deeply convinced that when Europe acts together, it becomes a superpower,' said Marek Belka, the governor of the Polish central bank and a former prime minister of Poland. 'What really is necessary is what Europe lacks: to forge a common foreign and security policy, and a common immigration or asylum policy. When Europe acts together, it happens to be successful. Even in monetary affairs, when Europe acts together, it is successful. When there is no ability to act together, we fail.'

## BREAK-OUT SESSION ONE

- a. *Coercive diplomacy: deterrence, sanctions and defence cooperation*
- b. *Financing European growth*

### A. Coercive diplomacy: deterrence, sanctions and defence cooperation

This session discussed the ways in which states pursue their interests through coercive diplomacy, focusing in particular on the role of sanctions and the European response to Russian action in Ukraine.

A number of participants felt that well-designed sanctions might be highly effective, pointing to the success of the sanctions against Iran and their role in creating an environment in which a deal on the nuclear issue could be brokered. It was suggested that one of the benefits of sanctions was the effect of deterring companies from making dubious investments. Sanctions are complex and the costs of non-compliance are high. The role of the private sector, it was asserted, was simply to comply and mitigate risk.

However, on Russia there was a sense that the EU does not have a clear endgame. The most important political goal in the short term is to maintain consensus to sustain the sanctions. But in the longer term, does the EU expect a change in Russian behaviour in Ukraine, or is it trying to establish rules of the road that might affect future decisions by the Kremlin? Is it seeking a more effective balance of power in the region, or does it reject notions of spheres of influence? One participant argued that the effectiveness of sanctions was impaired by this lack of a clear goal, and that sanctions are being undermined by some other EU policies, for example around energy.

More broadly, participants felt there is significant divergence in attitudes to Russia in Europe, and no agreed view on whether Russia is acting out of strength or out of weakness. Europe needs to update its stance towards Russia, but some felt that progress is being made, as seen by the commitments at the 2014 Wales Summit. NATO is setting up the skeleton of a more advanced deterrence policy, but there is still a long way to go, and it was stressed that this deterrence must go beyond nuclear. Deterrence requires both capability and will, and progress is needed in both areas. One participant argued that Europe needs to learn (or re-learn) the 'language of power' in its dealings with Moscow. On the capability side, it was suggested that industry has responsibility to provide affordable solutions, including establishing effective partnerships.

One participant stressed that threats are viewed differently across Europe. This affects the EU's ability to build a consensus for action. Perceptions of the correct response to challenges also vary. For example, some countries don't see a need for European defence structures and cooperation beyond that provided by NATO, even if both are part of the 'concert' of the West and have a role in dealing with current challenges. The differences within the EU have led to an emphasis on developing policy in areas other than defence, where it has been easier to build consensus (development assistance, etc.).

Several participants stressed that the best tool available for responding to the challenges posed by Russia remains the transatlantic alliance, but that this has to be perceived in much broader terms than military means – incorporating trade power and other economic tools, which also emphasises the importance of the Transatlantic Trade and Investment Partnership (TTIP).

## **B. Financing European growth**

### **Investment**

There was a broad consensus in this session that Europe needs growth and investment. This becomes particularly apparent when compared with the US and China. Europe is currently at half the level of US growth and is experiencing double the unemployment rates. In addition, China's public sector is benefiting from extensive infrastructure investment, which raises questions about the efficiency of the democratic system in Europe in attracting investment.

Generally, it was agreed that there is a lack of appetite for investment, or rather a European hesitation to take risks. The rates of saving in Europe are too high, which is limiting capital flow into the market. Some argued that if Europe wants to stimulate growth, it must get a bit more 'uncomfortable' and take more risks. The root of this problem might actually lie at the macro level: Europeans need to prioritize growth and create a climate of confidence, which is a key to building growth momentum.

Some suggested that Europe might need to experience more systemic shocks in order to shake Europeans out of inertia. The refugee crisis might compel Europeans to rethink their current economic choices.

### **Capital Markets Union**

Europe is too dependent on bank finance. Some participants suggested that a more flexible market would require the involvement of other financial institutions as well. However, Europe is subject to 28 different taxation, legal, regulatory, and accounting systems, which presents difficulties both to young entrepreneurs and potential investors. There was a consensus that the Juncker plan is going in the right direction, but that it will be difficult to implement without unified management structures. The ECB has pushed for the banking union, but it is still unclear who will be responsible for leading the Capital Markets Union. There is also the problem that most financial transactions in Europe take place in London, which is outside the eurozone.

It was felt that the ECB and eurozone leaders have to be reasonable about how much they can regulate institutions outside the eurozone, but that the UK in turn needs to accept a degree of eurozone regulation.

### **Regulation**

Although a common regulatory space would be desirable for investment and start-ups, the first step towards an environment in Europe enabling growth and investment requires regulatory clarity. It was felt that this needs to be driven by national governments. Without a minimum of consistency between member states' regulatory regimes, there will be a continued lack of risk appetite among investors.

There is a point to be made that Europe has over-regulated as a result of the financial crisis. Some suggested that different regulatory regimes can lead to greater competition, and thus investment. Therefore, regulatory convergence would be preferable to total nominalization.

## BREAK-OUT SESSION TWO

- a. *Europe's energy union: reducing dependency and ensuring energy security*
- b. *Industrial transformation: productivity and work in the digital age*

### A. Europe's energy union: reducing dependency and ensuring energy security

The EU has made much progress on plans for an energy union since the idea was first introduced over a year ago. Generally, participants felt that the EU might be trying to do too much at the same time. The EU still needs to prioritize if an energy union is to be successful over the long run.

#### Decarbonization

The EU has about 35 years to reduce its greenhouse gas emissions by between 80 and 95 per cent to achieve a near-zero carbon energy system. This is against the economic lifetime of much of the new energy infrastructure being built today.

Some argued that the EU should leave it up to the market to determine the most favourable forms of energy. Others disagreed, arguing that market forces alone will not deliver the low carbon economy that the EU and the world need. An energy union will require smart and integrated policy-making – a real challenge at a time when member states' energy policies diverge and interconnectors are few and far between.

#### Costs and finance

The move towards a decarbonized economy is costly and will require smart investment. There was an inconclusive discussion on how European member states should pay for this transition, whether through consumer bills or taxes for all.

In addition, to create a fully functioning fair and open European energy market, member states may need to relinquish energy subsidies to create a level playing field in the EU. This may require some government intervention, in particular in deciding who qualifies as an investor and which financial instruments should and could be made available.

#### Integration of different sectors

It was felt that the move towards a fossil fuel energy system will require new efficiency measures for the building and transport sectors. While smart technologies are providing new opportunities in these areas, the market uptake has remained limited.

#### Integration of different policy areas

The energy union should provide the impetus for greater synergy with other policy areas such as the Digital Single Market, the Better Regulation Agenda, the Capital Markets Union (CMU) and the European Fund for Strategic Investments (EFSI) to encourage investment in the field of energy.

Participants felt the EU also needs to focus on the external dimension of energy policy, which has often been overlooked. The EU and its member states need new and carefully designed diplomatic strategies if Europe is to diversify away from traditional suppliers and supply routes. Some added that the EU must also think ahead about the security and economic consequences of a carbon-free Europe for supplier countries like Russia, whose economies are tightly linked to the export of fossil fuels to the EU.

Looking more globally, the emergence of a multi-polar world will also affect future energy choices in Europe. Non-European actors are looking to capitalize on the strategic shift in global energy patterns, and

the EU must start looking outward and keep a close eye on developments such as the One Belt, One Road initiative in China.

### Conclusion

Progress towards an energy union is likely to be incremental, but the quality of the debate at national and European levels will be decisive for driving positive change. The EU will need to be forward-thinking and outward-looking if it wants to ensure a low-carbon energy future.

## **B. Industrial transformation: productivity and work in the digital age**

### Industrial transformation

Digitalization has profoundly impacted the way we manufacture and provide services over the past 10 years. At present, Europe's economy is not adapted to respond to this change and Europe faces two options: it can either modernize its economy in line with new digital opportunities such as nano-bio manufacturing, or miss out and lag behind.

### Productivity and Work

Digitalization offers new opportunities to maximise productivity, but the speed at which these new technologies are developing is inevitably disrupting traditional employment patterns. It was felt national governments will need to adapt quickly to this fast-changing environment.

Engineering and IT, but also non-automatable skills such as innovation, creativity and social intelligence, should be at the heart of today's education curriculum. Schools and universities need to be at the front line in encouraging students to develop the skills necessary to complement these technologies. In addition to the required changes to the educational system, Europe needs more flexible labour laws, which take into account social aspects such as pensions and healthcare.

### Data and security

In addition to IT literacy, participants felt Europe needs to gain access to big data. Unlike the US, Europe does not yet have ownership of big data, which is problematic as no automated system can fully function without access to the necessary data. However, the internet was not designed to be secure, which is why Europe and the rest of the world still need to build resilience in this regard, particularly in terms of data privacy and security.

## **BREAK-OUT SESSION THREE**

- a. *Religious extremism: European domestic responses*
- b. *Supporting innovation: risk, regulation and finance in the high-tech and green technology sectors*

### **A. Religious extremism: European domestic responses**

This session explored the character of religious extremism in Europe and the ways in which European societies are responding.

It was suggested that the threat from Islamist extremism is higher than ever before and that Europe is facing a 'perfect storm' in which a number of factors have combined to raise the risks of attacks, including:

- The emergence of Islamic State, which is serving as a rallying point for an attempt to construct what is presented as an Islamic utopia;
- The phenomenon of foreign fighters, which is not new but is taking place at an unprecedented scale and coming in greater numbers from Western Europe;
- The number of supporters of Islamic State not travelling to Syria but living in Western Europe and posing a threat, with the majority of attacks coming from people with this profile; and
- The still active threat of Al-Qaeda, which is trying to reassert its role as leader of global jihad, possibly through attacks on the West.

Social media analysis of young Muslim men who are travelling to Syria reveals three broad groups:

- 'Defenders' – who are persuaded that what is happening in Syria is an attempted genocide of Sunnis, and believe that no one else is helping. By this view, action in Syria is a defensive jihad.
- 'Seekers' – from difficult backgrounds, with poor prospects and sometimes with criminal records, who are seeking respect, heroism, adventure or a cause. They are chasing an identity, masculinity, and meaning.
- 'Hangers on' – from small towns, generally going to join people they know. The distribution of foreign fighters is not even, as the internet's role in recruitment would suggest, but rather appears in clusters, with groups of fighters linked by friendships.

At the same time, it was suggested that there is a trend towards declining tolerance in the West. The current counter-radicalization approach in some Western countries makes martyrs of certain groups, and risks creating double standards around free speech. One speaker stressed that democracies must have confidence in their ability to deal with sensitive issues or confront divisive points of view through discussion and debate. Studies suggest that rational counter-radicalization arguments are more persuasive than radicalizing ones. Although it remains difficult to define the boundaries of free speech, there was agreement that the line might be drawn around movements that advocate violence.

There is also a growing challenge from far right groups, for which the current political climate was judged to be very favourable. There are no simple explanations for the rise of the far right. Economic issues are not the sole motivator, as shown by support for such groups regardless of the economic cycle and their success in some of the world's richest states. Similarly, the discourse about exclusion on the right extends beyond concern about the role of Islam in Western societies; rather it reflects a backlash to growing immigration, to rapid social change, changes to employment and industrial decline, and a loss of trust in politics and institutions.

Many of these far right movements feel that their fears, including about large scale immigration from the Islamic world, have been borne out by recent events. This is a difficult challenge for mainstream politics. More research is needed on what draws people into violent extremism, and there should be greater evaluation of programmes to counter extremism. Some schemes are regarded as best practice without a rigorous sense of whether or not they work.

One speaker discussed the tendency to view different forms of extremism in isolation. In fact, religious extremism, right-wing extremism and other radical movements can have a more symbiotic relationship. These 'extremisms' interact with one another, a relationship that needs to be better understood.

## **B. Supporting innovation: risk, regulation and finance in the high-tech and green technology sectors**

This session noted that digitalization represents one of the most important strategic shifts facing Europe over the next couple of years. It is more than just about connecting industries: it will transform products, systems and services and be key to driving innovation forward in the long term.

### **Europe is ill-equipped to take advantage of digitalization**

It was felt that Europe is about to enter a period of acute discomfort unless it manages to seize the benefits of digitalization to improve its economic and business models.

### **Economies of reach, not just economies of scale**

In the case of Europe, it is not only important to have economies of scale but also economies of reach. Before creating economies of reach, however, Europe will need to address the disparities among the member states' diverging regulatory systems. Greater synergies will be key to managing activities across Europe in the technology sector.

### **Digital infrastructure**

The next generation considers itself a start-up generation and digital infrastructure will be key to help its start-ups gain scale rapidly. The EU needs to ensure investment and finance for digital infrastructure, even in the event of market failures.

### **Financing**

It was felt there is a market failure of innovation in Europe and access to finance for start-up ventures is difficult to come by. Banks are cautious about lending money and tax regimes are not flexible enough. Funding procedures are too oriented towards placing a product on the market, as opposed to integrating it in the market.

To create a stable, reliant and consistent environment for research and innovation in Europe, access to finance would be paramount. The EU will need coordinated public vehicles to facilitate access to finance, with governments playing a central role in balancing cyber security threats with data privacy.

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