



## What are the prospects for European strategic autonomy?

December 2023

The recent crises faced by the European bloc, from Covid-19 to the war in Ukraine, have put the question of its strategic autonomy back at the centre of public debate. This concept is subject to very different interpretations within the European Union (EU), none more so than between France and Germany. Fundamentally, it relates to the EU's ability to pursue and protect its own interests independently; more pragmatically, it is about the EU choosing its dependencies. The concept, of course, covers matters of security, defence and foreign policy, but it seems more and more obvious that it also – and in particular – involves the economy and the ability of European countries to attract industries that are essential to their autonomy – or attract them back.

When we talk about sovereignty or autonomy, reindustrialisation plays a critical role. It is the key to strengthen the economic and technological capacities that the EU needs in order to be more resilient in the face of geopolitical tensions and potential public health crises. It stimulates economic self-sufficiency and reduces dependence on external actors in terms of critical resources and technologies. It boosts job creation, growth and social stability. Yet, this hard reality has taken time to reach consensus. Fortunately, minds are changing.

### A welcome set of untimely measures

The 'soft', non-interventionist approach to economic and industrial issues long practised by the European Union is no longer sufficient to meet today's challenges. Public authorities' ambitions for sovereignty must be accompanied by more proactive measures to favourably influence investment decisions into the European market. EU sovereignty implies the deployment of targeted measures to support the relocation of companies in strategic sectors. Otherwise, the strategic autonomy that so many seek will remain wishful thinking. This is all the more urgent as the need for autonomy is now combined with the equally pressing need for the energy transition and decarbonisation of the economy, which could give rise to new forms of dependency.

The European Sovereignty Fund and the Net Zero Industry Act at the European level, as well as the French Green Industries Bill and France 2030 investment plan, are all steps in this direction, even though they were only announced in response to critical events, such as the implementation of the US IRA and Chinese protectionism. But if we are to optimally target these measures and assess their long-term efficacy, one fundamental question remains: in which sectors can strategic autonomy become a reality? And what cards does the EU have up its sleeve to attract or encourage the emergence of key industries?

### Targeting efforts on the most promising sectors

When it comes to strategic autonomy and reindustrialisation, energy is the mother of all battles. It accounts for around 10% of production costs on average in industry and determines the competitiveness of many sectors of our economy. By positioning itself as a key player in the energy transition, Europe can genuinely strengthen its strategic autonomy. However, the EU will only achieve this objective if it has access to abundant, competitively priced sources of carbon-free energy.

Investment in renewable energies, 'green' or 'yellow' hydrogen, batteries and energy efficiency can reduce dependence on fossil fuels and the import of technology from Asian markets. While progress is being made on some of these fronts – for example, with the gradual creation of a genuine battery production industry – major efforts are still required. Let's take the example of energy efficiency, which is both essential for reducing carbon emissions and for cutting the energy costs faced by industry: the European Investment Bank (EIB) notes that only four out of ten European companies had invested in improving their energy efficiency by 2021! This proportion has probably increased as a result of the conflict in Ukraine, but the project remains titanic. Similarly, as far as hydrogen is concerned, we are seeing growing interest from investors and an outpouring of projects, but they are struggling to scale up because the distribution network is still very limited.

Against this backdrop, nuclear power remains the preferred option for rapidly and sustainably reinforcing Europe's energy autonomy. This will involve the development of large units, as France has announced with the construction of six EPR2s, but also innovation and the emergence of new nuclear technologies. Some European countries, including France, are well



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positioned to accelerate innovation in the small modular reactor (SMR) sector, but the lack of alignment on this issue at EU level is regrettable.

Europe's strategic autonomy must then be strengthened by investment in key technological sectors, a European weakness in the face of American and Asian competitors. The dependence of European markets in this area is clear, something that can be seen in the development of cutting-edge technologies, such as artificial intelligence, cybersecurity, quantum technologies, secure communications and space technologies, as well as semiconductor production. On this last point, the growing awareness of EU bodies and European governments is to be welcomed. In response to the disruption to supply chains in the wake of the Covid-19 pandemic, the EU's Chip Act aims to achieve a global market share of 20% by 2030, twice as much as today. Given that almost 90% of components currently come from Taiwan, investment in European production capacity is absolutely strategic.

The pharmaceutical sector could also be crucial to Europe's strategic autonomy. We have seen that the member countries all face major difficulties in the event of health crises and with regard to the supply of molecules. A more robust pharmaceutical industry in Europe can strengthen its strategic autonomy, but this cannot be achieved without working to strengthen its attractiveness and economic competitiveness. Despite the ambitions expressed by public authorities, no real trend towards relocation has yet been observed in this sector.

As the last year and a half has cruelly reminded us, there can be no autonomy without a clear defence and security strategy. By encouraging the integration of the European defence industry and promoting joint research and development projects, the EU can gradually increase its strategic autonomy. Beyond the defence agreements in place and the discussions underway on NATO strategy, the EU's autonomy implies a greater capacity to produce the military equipment of tomorrow and to develop advanced cyber defence capabilities. Here again, however, it has to be said that industrial partnerships remain limited, and investment is lacking. In March 2022, the defence ministers of the member states affirmed their desire to facilitate the defence industry's access to private finance, in particular by making the best use of the possibilities offered by the European Investment Bank. However, this has been slow to take effect, and the industry's exclusion from the Taxonomy is holding back the inflow of investment.

### No real autonomy without greater capacity for innovation

As we can see, the concept of strategic autonomy can quickly become dizzying, but a consensus on priority industries would already make it possible to put in place targeted and effective strategies. The EU also has a number of key assets at its disposal, including its political stability, the size of its internal market with over 500 million consumers, its regulatory capacity and business environment, the high quality of its infrastructure and its skilled workforce. However, it is unfortunate that it still too often relies on these levers alone.

After the realisation of the need for a more proactive industrial strategy, perhaps the next major challenge to Europe's strategic autonomy lies here: becoming a more dynamic land for technological investment and innovation.



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