



# Latvia's EU 2030 vision

Towards a European Union  
prepared for the future

Editors: Aleksandra Palkova un Dr. Kārlis Bukovskis



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# Foreword by the Minister of Foreign Affairs of the Republic of Latvia

Baiba Braže

In 2024, we are marking the twentieth anniversary of Latvia's membership in the European Union and NATO. During the past two decades, Latvia has integrated itself into the core of the European Union, driving the agenda of the European Union together with other Member



States. Now, in the third year since Russia's full-scale invasion of Ukraine, the European Union must take decisive, bold decisions to strengthen its position in the global arena and protect its geopolitical interests. As a mature Member State, it is the duty of Latvia to contribute to views and visions of Europe's future.

Russia's aggression against Ukraine has significantly changed the agenda of the European Union, with the security and defence dimension playing an increasingly important role. It is our duty to continue to provide comprehensive support to Ukraine in its fight against the aggressor, as well as to meet our own security needs. Of course, this can only be done with NATO as the main guarantor of security, but the European Union can contribute by providing funds, developing its defence industry, promoting military mobility and strengthening societal resilience. It is crucial to avoid any duplication of functions in this process.

Russia's war in Ukraine has led to a more united European awareness and new support for the enlargement policy. As a matter of principle, we support Ukraine, Moldova and other candidate countries on their path towards a European future. At the same time, it is important to emphasise that enlargement is, and will remain a criteria-based process and that the candidate states have to fulfil all the conditions related to the rule of law, values and internal reforms. It will not happen tomorrow, but it is in our interest to assist and contribute with our expertise, experience and political will. The European Union also has homework to do – we need to be ready for enlargement and put in place the necessary institutional reforms.

To maintain our role and influence in the world, as well as to ensure better living conditions for our citizens, we need to boost the economic growth and competitiveness of the European Union. This is why we will work to attract new investments and create a more favourable business environment, while at the same time encouraging investments that have gone out of the European Union to return. Our task is also to reduce the bureaucratic burden on business, which must be a priority on the agenda of the new European Commission.

Our climate and environmental policy objectives must not be forgotten either because mitigating the effects of climate change is in the interests of our future prosperity. Of course, the green and digital transition must be inclusive and reduce inequalities, but it is also an opportunity for industries to evolve and improve by finding new and innovative solutions.

Within the context of the growing geopolitical instability and beginning of the institutional cycle in the European Union, our vision for the future of the European Union is clear – a strong, prosperous and united European Union is in the best interests of Latvia. Our citizens expect Latvia's active leadership and contribution to this goal.

# Introduction

## Overcoming Present and Future Challenges for the EU

Aleksandra Palkova

The European Union (EU) has long been seen as a benchmark for stability and cooperation but is now struggling with many pressing challenges. They range from rising populism and increasing political fragmentation in the Member States to external pressures such as climate change, migration crises and the development of global power dynamics. In order to maintain its influence and ensure continued integration, the EU must not only address current challenges but also adapt to future uncertainties. This introduction looks at two key areas: contemporary challenges and an overview of significant events and changes that form the EU trajectory.

Today's geopolitical and socio-economic situation poses a unique set of challenges for the European Union, each of which tests the resilience of its institutions and its commitment to maintaining unity between Member States. One of the most pressing challenges is the EU's response to a changing security environment, especially given Russia's war against Ukraine. The war not only destabilised the region but also challenged the fundamental values of the EU. The Union's collective response, marked by unprecedented sanctions, military aid and diplomatic efforts, has underscored both the strengths and limitations of its foreign policy instruments. The moment has highlighted the need for deeper integration in areas such as defence and security policy, underlining the need for tougher mechanisms to respond to external threats. The

EU's efforts to achieve strategic autonomy, particularly in defence, are shown by initiatives such as the Permanent Structured Cooperation and the European Defence Fund. These programmes reflect the Union's commitment to building its capacity to act independently while maintaining a strong partnership with NATO, particularly in a changing global security environment.

At the same time, the EU faces the need to redefine its energy policy, driven by the twin pressures of achieving climate neutrality and reducing dependence on external energy sources. The war in Ukraine has prompted an urgent reassessment of the EU's energy situation, particularly as regards its dependence on Russian natural resources. At the heart of this transition is the European Green deal, as an ambitious goal to become the world's first climate-neutral continent by 2050. However, in order to balance the immediate need for energy security with long-term sustainability objectives, delicate coordination between Member States, each facing different economic and social realities, is necessary. These competing demands also test the EU's leadership in global climate change as it moves towards green transformation while ensuring no Member State is disproportionately affected.

The internal dynamics of the EU are also characterised by changing political situations. Member States such as Hungary and Poland have been at the centre of disputes over the erosion of democratic norms and judicial independence, leading to tensions with the EU authorities over funding, governance and respect for shared values. The EU's response to these internal challenges has been measured by focusing on dialogue and legal mechanisms to ensure compliance, but the question of how to maintain unity in an increasingly divisive political landscape remains. At the same time, EU is pushing ahead with its digital transformation through initiatives such as the Digital Decade and the European data strategy. These efforts aim to protect Europe's digital sovereignty by promoting innovation, data privacy and cyber security – critical areas in an increasingly interconnected and technologically driven world. The EU's challenge is to ensure that its digital and green transitions mutually reinforce, creating opportunities for sustainable growth while protecting the rights of its citizens in the digital age.



At the same time, the EU must contend with the continuing fallout from the COVID-19 pandemic, which exposed the vulnerabilities of health systems, economic structures and governance. The recovery process, backed by unprecedented financial initiatives such as the NextGenerationEU recovery fund, underscores the Union's ability to stand together in times of crisis. However, the unequal economic recovery among Member States has raised concerns about the widening gap between economically stronger and weaker regions, which questions the EU's commitment to cohesion and solidarity. The EU has demonstrated considerable resilience in the face of these concurrent crises, adapting its institutional system and governance mechanisms to respond effectively. From the eurozone crisis to the pandemic and geopolitical tensions, the EU's ability to learn from these crises has strengthened its overall crisis management capacity and long-term stability.

The past decade has been transformative for the European Union as a whole. One of the highlights of this period has been the UK's decision to leave the EU – a moment that tested the Union's resilience and raised deep questions about its future. Brexit marked a turning point not only as the first time a member country left the Union, but as a symbol of wider tensions between national sovereignty and European integration. While the negotiating process for the UK's departure was complicated and often contentious, the EU has shown a renewed commitment to unity, demonstrating the strength of its institutions and the value of collective action in the face of hardship. The EU has also put itself at the forefront of the global response to the climate crisis, and the European Green Deal is the most ambitious climate policy agenda in its history. Over the past decade, the EU has developed its leadership in environmental policy, pledging to significantly reduce greenhouse gas emissions and promote sustainable energy. However, the implementation of this policy remains a challenge as Member States struggle with the economic and social costs of transitioning to a low-carbon economy. Migration also remains a contentious issue in the EU as Member States continue to struggle with different perspectives on asylum policy and border management. While efforts such as the Pact on Migration and Asylum represent a more coherent and coordinated response, tensions remain between countries

over burden-sharing and integration, which questions the broader EU's goal of promoting unity and shared responsibility.

The publication "Latvia's EU 2030 vision: Towards a European Union prepared for the future" provides a comprehensive framework to address the most pressing challenges and opportunities facing the European Union (EU) over the next decade. The collection brings together expert views on critical areas that will shape the future of the Union, offering detailed insights and strategic solutions to policymakers, academics and stakeholders. Thus, within the scope of this publication, experts on the European Union and external political processes articulate Latvia's interest in the European Union on the most topical issues.

Former President of Latvia Valdis Zatlers provides a geopolitical view in the section on the future role of the EU in the global context. He analyses the dynamics of power change among global actors like the US, China and Russia, as well as how the EU can overcome these challenges to maintain its strategic autonomy and leadership. Dr Inna Šteinbuka delves into the priorities of the EU economy for 2024–2029 by discussing initiatives aimed at promoting sustainable growth, innovation and competitiveness. Dr Šteinbuka stresses the importance of digital transformation and green economic models in positioning the EU as a world leader in these areas. Dr Marija Golubeva's chapter on enlargement explores the strategic and political importance of welcoming new Member States. She argues that enlargement not only strengthens the Union's internal cohesion but also increases its impact on the global stage. Dr Golubeva analyses potential new players and the conditions needed for their successful integration. Dr Ieva Pakere, in the section on climate change, highlights the EU's leadership in global climate policy, focusing on the Green Deal and efforts to transition to a carbon-neutral economy. Dr Pakere outlines key policies and targets aimed at making the EU a pioneer in the fight against climate change, both locally and internationally. Security is a central theme in the chapter written by Māris Cepurītis, which looks at how the EU can maintain stability in an increasingly volatile world. Mr Cepurītis addresses both internal and external security challenges, from migration and terrorism to cooperation on cyber security and defence, offering solutions for a safer and more resilient Union.

# I

## **The European Union in the Future Geopolitical Context**

Valdis Zatlers

The modern world has entered an era of utter obscurity and uncertainty that is fundamentally different from the Cold War era. The Cold War, marked the beginning by the Cuban crisis (1962) in relations between the US and the USSR, was effectively an era of controlled confrontation. The global confrontation began after the end of World War II, but it was stiff and chaotic until the Cuban crisis made the powers realise it could lead to catastrophic consequences for humanity. A compromise between the superpowers, with the subsequent withdrawal of nuclear weapons from Cuba and Turkey, created a new situation: a direct telephone line between Washington and Moscow as a tool to prevent unforeseen clashes and, at the same time, a symbol of the new understanding of the world order. The term “detente” emerged: relaxation and the principle of parity in shaping relations between major powers, with the balance of strength between the US and the USSR becoming the primary objective of global stability. This opened the way for several arms control and even reduction agreements. The Treaty on the Non-Proliferation of Nuclear Weapons (1968–1970) can serve as an example. A bipolar world formed with bipolar controlled confrontation. Stability in Europe was greatly enhanced by the Helsinki Accords (1975). West Germany began Willy Brandt’s eastern politics. All these were positive steps that slowly moved the world closer to lasting peace.

With the collapse of the USSR and hence the bipolar world order, the unipolar world did not justify itself. The talks of a multipolar world as a very progressive and effective change began. But despite positive rhetoric from the mouths of many world leaders, the world came to a multipolar race. What's more, a multipolar uncontrolled confrontation severely injured the prestige and applicability of international laws and international treaties. The goal, parity of terms, was replaced by another goal: dominance over other powers. Comprehensive, respected arms control treaties are no longer in place in the world. There are few regions left that respect the power of international law. There is a reality where the United Nations (UN) is still being invoked as the basis for the world order. However, one gets the impression that the UN has little influence in the practical lives of superpowers. All that is needed is the UN Security Council, where superpowers can demonstrate their right of veto.

## **1. What kind of character will the European Union have in the future?**

This world order without order will one day end. But what could be the possible scenarios for development, and until then, what should the European Union do to preserve its values and place in the future world? How can we get back to at least a controlled confrontation, so that we can build a world order based on cooperation and law in the future? Achieving trust and mutual respect among the poles of today's superpowers would make sense, but virtually impossible, because of historical sentiments and political arrogance. History and human nature prove that alliances with more than two members regroup occasionally on the basis of expediency. The easiest route, it seems, is for countries to cluster around the two most powerful global power centres, once again building a world of two poles. It sounds disappointing, but knowing the big differences of interest between the BRICS States or the countries of the Shanghai Cooperation

Organisation, it won't be an easy and short road. It's hard to imagine the sustainability of such a model in the near future.

As well as developing a clear vision for its economic, political and military development, the European Union must be aware of the place and influence of the EU in the geopolitical system in the future. The EU must create financial, economic, political and military capabilities that would be seriously respected in the world. Knowing that the EU is the most advanced example of multilateral governance will not be enough. A strong Europe must be prepared for global competitiveness and confrontation of any type. Today, the EU's greatest value and success is a strong and stable ethically cultured identity. This identity must be the basis of Europe's future.

EU is still developing as a multi-national Union of multi-speed countries. There are Member States that form the core of EU integration. They use the common currency in euro, are members of the Schengen area, NATO members. It doesn't matter if they are economic powers like Germany or small economies like Latvia. Crucially, they form a single area without border controls, live in a single financial area and have a well-integrated collective security organisation. Being at the core of the EU also means taking responsibility for the future of the EU; being active builders of the vision of the EU's future; recognizing the global challenges of that future. Each Member State plays a major role here, as large countries often have prudent interest-based future policies. This often leads to elusiveness, indecisiveness and stagnation. For small countries, the only interest is a globally strong, values-based EU. We are the main active guardians of values in a diverse Europe. As core values skew, the EU will inevitably weaken.

As with every strong construction, there is a need for safe land, for foundations to be built. In the EU context, it is an area spanning the entire geographically unified Europe, from the Balkans to Ukraine and Moldova. This is a goal that needs to be pursued rather than evaded – looking for reasons why it can't be done, or why achieving this goal needs to be postponed. Enlargement in the Balkans is hampered by pseudo-barriers, in Moldova and Ukraine by the war factor, and in Georgia by geographical and political alienation, which is unfortunately an objective

fact. A united EU in a united Europe will greatly improve the security situation and strengthen the common EU market. It will also end political instability in candidate countries, where the slogan “Europe does not want us” often hampers economic development and the rise of people’s prosperity. Talks about the various undesirable effects of third countries in these regions and the potential conflicts in the Balkans will be a thing of the past.

We need to be brave, to say to the world, “This is our territory.” Once candidate country status has been declared, everything needs to be done so that the process is led and stimulated by the EU. Enlargement fatigue is a weak disclaimer. There is a need for active action. Europe’s future is not just settling on the Russian war against Ukraine. It depends upon the EU’s own purpose and decisiveness. If the expansion of the EU requires reform of the EU itself, it needs to be talked about and debated now. As historical experience has shown, reaching a consensus in a multilateral EU takes time. History confirms that every difficult decision has been a step forward in strengthening the EU. The EU political system must be able to respond quickly to global challenges. The current structure of the EU foreign policy-making is ineffective. It lacks a clear policy-making mechanism: an EU foreign policy must be developed in a way that is clearly understood by the Member States and aimed at the EU’s common interests and those of each Member State. Hungary’s example shows that the current EU foreign policy instrument serves these requirements poorly.

## **2. What economy should be put at the heart of a strong EU in the future?**

The good functioning of every organism requires strong blood circulation. In the case of the EU, it is a stable, dynamic and unified financial system. Despite the fact that the introduction of the euro was not a very well-prepared political decision, the euro becomes a stronger and better managed, more internationally respected currency with each

year. But the euro is far from being able to emulate the impact of the US dollar, globally. Many EU Member States find the global role of the euro marginal, perhaps impossible. In fact, geopolitical provincialism prevails in many things in the EU. Our kronas, our zlotys are more important than the common European cause. Economically advanced countries such as Sweden, Denmark and Poland should become users of the single EU currency. This will be an important political decision with a very strong positive impact on the future of the EU.

Member States should not be so selfish in today's geopolitical situation. Unfortunately, this so crucial decision of the EU is hampered by national populism and national egoism. The goal of creating the euro as one of the global reserve currencies is not achievable overnight. Let's not forget it will also be direct competition with the US dollar. The status of the global reserve has a major impact on global processes. This is vital for Europe if we are to compete successfully in the future. China has set a clear goal of making its national currency, the yuan, a global reserve currency. It is currently hampered by China's domestic financial system's lack of compliance with Western global financial system standards. It will take about a decade, according to China itself. Knowing the purposefulness of its people, that will be the case. The Chinese are fed up with the not-too-successful attempts to settle on national currencies and barter trade. The EU can't afford to get carried away with just their own internal problems. No one is capable of answering the question of whether the world will need three or more reserve currencies in the future. If we don't want to stay behind, the EU currency must become globally strong alongside the US dollar and a potentially growing influence of the Chinese yuan. Nor should it be forgotten that India has not yet filed its global claims.

Of course, only a dynamic, single European market can provide EU with the economic power. Many will say that one already exists and functions successfully. Much has been done in the digital market. However, there is room for many improvements. Hidden and undisguised protectionism is still thriving. Laws restricting free competition and free movement of labour in the EU are often enacted. It is worth mentioning the legal framework for road haulers, which is completely illogical and uneconomic. There are still many legal hurdles and cultural prejudices that

should be removed. Even a simple thing like the Schengen area: Romania and Bulgaria have still only partially acceded to it. The question is, why? Why only partly? This may seem irrelevant, but it is still very important for a United Europe. Most people don't notice it in their everyday lives. What should Romania and Bulgaria do, themselves? What is at the heart of the caution, or perhaps whim, of other EU States? If it is migration, it is fair to admit that at the beginning of the migration crisis, "old" Schengen was far from ready for it. Each new Member State is causing economic alarm as to how this will affect competition in one of the sectors. Only free competition and an innovative approach to business activity can provide development. We all want to be more comfortable at lower cost, but without competition, we won't get it. The EU still has a penchant for the usual comfort zone. But the world is changing, and our comfort zone can turn into discomfort as a result of our own inaction. The EU common market will only be competitive when able to respond quickly to global challenges. To compete with the major economies of the world, the EU needs to achieve concentration and consolidation of scientific and industrial resources. Cooperation for strong European science, not fragmented internal competition.

A comprehensive framework for territorial, market and financial governance is a political framework of the EU; the EU political framework is based on the Treaty of Lisbon. Each subsequent Member State shall begin its journey to the EU by fulfilling the requirements of the *acquis communautaire*, by passing through the negotiations of the accession chapters, and gradually concluding them all. Accession negotiations are not a buffoonery, but minimum requirements to align the political, legal and security structure of a given country with standards already in the EU. Accession negotiations help the candidate country to integrate more easily and smoothly into a single Europe. At the same time as accession, the nation also joins a common ethical-cultural identity, a way of being European that is definable and usable. Identity is characterised by solidarity, not national selfishness. It's a stepping stone in a new, yet unorthodox ethical dimension. It is this task, exposed to each person's mind, that is the most difficult and often unattainable in a short time. This process continues long after formal accession to the EU.



Any democratic political system is not static. It is constantly evolving. Democratic institutions, both the European Commission and the European Parliament, are also evolving. Their effectiveness increases with every subsequent election. At the same time, the weaknesses of these institutions are also emerging, when they are unable to rapidly resolve the problems that arise suddenly and continuously. We are now near the point at which we need to start discussing changes in EU governance, especially in light of the next enlargement process, which will conclude the creation of a United Europe and last longer than before. Let us remember that the Treaty of Lisbon came after the negative vote in France on the EU constitution. Today, the understanding is much more mature, among politicians and European citizens, of the path to be taken together. The point is not to forget the basic principles of democracy and practice them every day. Crises are forming in people's minds, and the path forward must also address these confused minds. All is well with democracy. At least it looks optimistic in Europe.

### **3. What to do about conflicts in the European Union in the future?**

In today's world, another big challenge is existing and potential military conflicts. Talk of World War Three is increasingly common. In addition to the Russian war against Ukraine, the escalation of war in the Middle East is threatening to erupt, with unpredictable consequences. The world is walking along a knife-edge where a global catastrophe can ignite after any failed political or military decision. All EU development is based on preventing military conflicts on our continent: Europe as a port of peace with a welfare society. The war seemed to Europeans like a tragedy caused by unreasonable people somewhere far away. We thought it would never be tolerated here, with us, in Europe. Consequently, national military budgets were small. The military capabilities of the armies were not considered a priority. People didn't see the point of these

expenses. We're peaceful, we're not threatening anyone. We build friendly, collaborative relationships with our neighbours.

All this is true until one of the neighbours becomes aggressive, threatens to destroy Western civilisation and enters an unprovoked war against his neighbour. We're so surprised that it's hard for our brains to overcome the inertia of wishful thinking. In addition, the US, which so far carried out the role of the European military umbrella, is starting to encourage Europeans to think more about their own security and building military capabilities. In a world where authoritarian military alliances like Russia, Iran and North Korea are forming, the possibility of a military conflict is increasing. We cannot guess how long these alliances will last, whether there will be any regrouping and whether new lines will be drawn in national relations.

The EU needs to wake up from the comfortable, pacifistic mindset. A military threat from Russia is a reality. Moreover, a lasting reality, given the Russian state's military and now war ideology, which is based on Russia's currently functioning war economy. Economic sanctions won't be enough. The EU must build a strong military industry of its own. From the very first steps, it must be shaped as an integrated and unified military industry with the clear aim of creating strong EU military capabilities. There is no need to talk about a European army. There is a need to ramp up the military capabilities of the EU States within NATO, where the armies of the EU States operate unilaterally as NATO's European flankers. The priority objective is to create a European military capability capable of protecting its own eastern border.

In summary, if we want to systematise the framework of the EU vision of the future, it shall be expressed succinctly:

- a single EU area within Europe's geographical borders;
- a single EU currency in euro;
- a single EU market without protectionism and legal barriers;
- a unified democratic EU that launches a debate on reform of EU political governance.

All of this requires fresh ideas and leadership. Can Latvia take a lead in this? Definitely, yes. All we have to do is to begin generating ideas and work in this direction. Without elusiveness or indecisiveness. Brave, with European confidence.

# II

## The Strategic Priorities of the European Union in the Economy 2024–2029

Dr Inna Šteinbuka

The European Union (EU) has faced a number of challenges in recent years. The fallout from the pandemic and Russia's war crises led to economic stagnation, and rapid development is not forecast anytime soon. Living standards in the EU have grown at a slower pace than in the world as a whole. The EU lags behind the US and China in several key technology areas. The key to success in the coming years is to increase Europe's competitiveness by boosting productivity, fostering innovation, reducing skills shortages, developing new technologies and giving targeted support to competitiveness-enhancing projects. Economic security issues and appropriate foreign trade and investment policy are at the forefront, as the geopolitical environment changes rapidly. Military production is also insufficient and does not meet today's requirements. Policymakers need to adapt existing mechanisms and trigger new ones effectively to promote EU growth, competitiveness and prosperity while strengthening security.

On the agenda of the new EU political leadership will be the search for unorthodox solutions in almost all areas – EU enlargement, security in a wider context, the European Green Deal, cohesion, social and common agricultural policies – all directions require a very thorough assessment of financial opportunities and constraints. What economic policy instruments will be triggered and what will be prioritised in the next multi-annual budget will be of particular importance.

The priorities and challenges of the next five years of economic policy of the EU and Latvia are similar. However, it should be noted that Latvia's average income level is currently almost 30% lower than the EU average, and Latvia's gross domestic product (GDP) per capita in 2023 was 70.7% of the EU average (according to purchasing power parity). Although productivity dynamics in Latvia have been quite rapid in recent decades and have exceeded the average growth rates of the EU compared to the EU's highly developed countries, the productivity level of Latvia remains substantially low. In 2022, the productivity level in Latvia at current prices was only around 60% of the average EU level, which is one of the lowest indicators in the EU. Latvia lags significantly behind the advanced EU countries in the quality of production resources (people and capital), digitalisation, innovation and application of new technologies. A future economic breakthrough is only possible if strong economic policy instruments are triggered. Increasing productivity and competitiveness requires a comprehensive and broader approach: strong performance in one area cannot compensate for poor performance in another. There is no single "magic wand" that will cardinally improve Latvia's competitiveness.

The purpose of this Article is to examine the EU's new strategic priorities in the economy for the next five years, identify possible financial mechanisms for the implementation of new priorities, analyse the public vision regarding the role of the EU in the future and provide recommendations to Latvian policymakers regarding the actions corresponding to the EU strategy.

## **1. Strategic priority of the EU – promoting economic growth**

The COVID-19 crisis, the rise of geopolitical tensions and notably Russia's invasion of Ukraine have exposed the vulnerabilities of the European Union economy. The economic shock experienced during the pandemic and the energy crisis led to sharp price rises and low to even

negative EU economic growth. However, after the economic stagnation that began in Q4 2022 and continued throughout the previous year, hopeful trends have finally marked the EU economy.

According to the European Commission's (EC) revamped forecasts in May 2024, the EU economy could grow by 1% this year and 1.6%<sup>1</sup> next year. According to the first half-year report, economic growth could even exceed the projected 1% in 2024. However, economic growth is very modest and does not ensure its breakthrough.

At present, the EU lacks the necessary conditions to stimulate faster economic growth:

- Monetary policy continues to be restrictive. The European Central Bank (ECB) is in no rush to take the next steps in this direction after minimal interest rate cuts. This means that credit will be expensive, which puts a brake on consumption and makes it harder to do business.
- Budget expenditure restrictions are already on the agenda of eurozone countries, because in many countries the economy is unable to generate enough budget revenue. The excessive deficit procedure has been initiated against France, Belgium, Italy, Hungary, Malta, Poland and Slovakia. For these seven countries, the deficit has exceeded 3% of gross domestic product, thus violating the requirements of the EU. Belgium and Italy, for example, will have a deficit of 4.4% this year, while national debts of 105% and 138.6% of GDP respectively. France's deficit for this year is estimated at 5.3% and its debt at 112.4% of GDP. In previous years, the debt and deficit levels of many EU countries increased significantly and must now be reined in line with the new EU fiscal framework.
- The EU has relatively low productivity and competitiveness, making it harder to export. Rising energy prices and inflation had a negative impact on production costs, which made competitiveness even worse.

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<sup>1</sup> European Commission. (2024). *Spring 2024 economic forecast: Gradual expansion amid high geopolitical risks*. [https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/spring-2024-economic-forecast-gradual-expansion-amid-high-geopolitical-risks\\_en](https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/spring-2024-economic-forecast-gradual-expansion-amid-high-geopolitical-risks_en)

- Unemployment rates in some EU Member States are chronically high, for example in Spain the previous year the unemployment rate was 12.2% and in Greece 11.1%.

*The first strategic priority of the EU economy is to foster faster economic growth.* Policymakers need to ensure inclusive growth and remain competitive on the global market, while closing disparities between countries and contributing to the levelling (convergence) of Member States' living standards.

A key step in the short term would be to further reduce inflation to the 2% target set by the European Central Bank. Differences in levels of inflation between Member States may affect their competitiveness and hinder the growth of the EU economy. Fiscal policy should be tailored to each country's specific levels of debt and inflation, which will also contribute to improving conditions in the EU single market.

It cannot be overlooked that real incomes of the population fell in 2022, and we are currently seeing wage increases across the EU. Such a process will continue for some time, while the decline in purchasing power is offset, especially for low-income workers. However, policymakers must carefully monitor that wage growth does not trigger a new wave of inflation and that competitiveness does not deteriorate.

Full implementation of reforms and absorption of investments under the Recovery and Resilience Facility (RRF) and cohesion policy funds is essential under the multi-annual budget by 2027. Although the implementation of the national recovery plans has been initiated in good time, progress varies between Member States, and in some cases, processes need to be accelerated to avoid delays. It is also necessary to foster investment and innovation at the national level by promoting the implementation of EU industrial policies in the Member States, the continuation of the Green Deal and digitalisation.

Competitiveness should be promoted in the long term. The productivity of developed countries, which has contributed to their competitiveness and prosperity, is growing slowly or not at all. This is also the case in the EU. Today, the slowdown in productivity is mainly explained by the consequences of the global economic and financial crisis (high debts of countries, lack of investment), the gradual disappearance of the effects of the Internet revolution, the lack of effective structural reforms, limited educational gains (the increase in the level of education is no longer

achievable in developed countries, as integration into the education system is already close to 100%), as well as the rise in protectionism.

The concern is that lagging behind in labour productivity in the “new” EU Member States poses a major obstacle to their convergence with the “old” European economies’ income levels. Many countries, including Latvia, face a persistent state of lagging behind. The single market, which allows goods, services, capital and people to move freely, remains the key to EU competitiveness. However, new momentum is needed to complete the single market in areas such as services, energy, defence, finance, electronic and digital communications. Research and innovation must be at the heart of the EU economy. Digital technologies and artificial intelligence, as well as investment in modern technologies, are sources of productivity and competitive growth.

## 2. The economic security strategy of the EU

Economic security is an essential part of the EU security and collective defence policy. In today’s geopolitical context, competition between countries, especially the US and China, in the field of technology is increasing rapidly. It is necessary to find EU economic instruments that, on the one hand, promote EU competitiveness, innovation and modern technologies and, on the other hand, do not jeopardise EU security. The pandemic and Russia’s war crises clearly demonstrated that interstate economic cooperation ties, especially in foreign trade and finance, can easily become a threat. The manipulation and economic coercion of Russia and China, which distort the functioning of the market, clearly illustrate the economic vulnerability of the EU.

The EU should maximise the benefits of its economic openness and minimise the risks of globalisation and interdependence *by creating a common strategic framework for EU economic security*.<sup>2</sup> Publication of the

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<sup>2</sup> Center for Strategic and International Studies (CSIS). (n.d.). Evaluating Europe’s economic security strategy. Retrieved October 1, 2024, from <https://www.csis.org/analysis/evaluating-europes-economic-security-strategy>

concept of an EU security strategy in June 2023 is of paramount importance because the EU, unlike the US, China and Russia, failed to address economic challenges in the context of defence and external policy during its lifetime. For the first time, an EU strategy that focuses on Russia's disregard of international law and the continuation of the war in the heart of Europe highlights the economic risks associated with geopolitics.

The risks associated with globalisation were also underestimated. However, the disruptions in supply chains experienced during the pandemic and Russia's war led to critical assessments of the shortcomings of the liberal economy and the realisation that economic instruments can become a weapon in health, energy and other areas. Namely, terms such as "de-risking" and "decoupling" have entered European lexics (terminology related to risk mitigation and deglobalisation).

Implementation of the strategy requires the identification and assessment of risks to economic security and the smart use of available or new tools to address these risks. The risks could be divided into five groups:

- resilience of supply chains;
- security of supply of energy resources;
- physical security and cyber security of critical infrastructure;
- technology security and technology leakage;
- the weaponisation of economic ties and economic coercion.

The EC has already developed several instruments to improve economic security, including evaluation of Foreign direct investment (screening), export control, anti-subsidy mechanisms, measures to limit economic pressure, the Critical Raw Materials Act and others. In the future, it is necessary to assess on a regular basis (around half-yearly) the effectiveness of existing mechanisms and what new risk mitigation instruments could be triggered.

It is vital to ensure the sharing of existing and emerging instruments. There is currently a lack of common understanding among EU Member States in a number of areas, including the inflow of Chinese investment. Unlike the US, the EU's economic security strategy does not highlight China's destructive role, but the EC's warnings about risks are unequivocal. Even so, Chinese investment continues to flow into the EU, though not so rapidly. An extremely salacious stance is demonstrated by Hungary – the



only EU Member state to participate in China's New Silk Road initiative. China is building a railway section of about 350 kilometres between Budapest and Belgrade, as well as building large factories in Hungary to make electric cars and their batteries. Hungary remains keen to seize the opportunities offered by China's access to investment and technology. Building consensus on critical investment assessments (not just with Hungary) is a time-consuming process that requires the involvement of the EU and Member State governments, the private sector and non-governmental institutions.

In mitigating risks, the EU needs to act with caution, as strengthening its economic security must not provoke further fragmentation of global interstate economic interactions. In cooperation with trusted partners, a balance should be sought to address common security challenges through diversified and improved trade agreements, strengthening international rules and institutions and investing in sustainable development. The statement by G7 leaders on economic security and resilience<sup>3</sup> marks the principles of secure economic cooperation. Similar principles could be used in cooperation with other countries around the world.

### 3. Strategic directions for a prosperous and competitive Europe

Strategic guidance from the EU Executive for the next five years follows Ursula von der Leyen's report in the European Parliament on 18 July 2024.<sup>4</sup> It is only logical that, by continuing to lead the EC, its President will continue her work in all spheres, including the economy, in her second term,

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<sup>3</sup> The White House. (2023, May 20). *G7 leaders' statement on economic resilience and economic security*. <https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/g7-leaders-statement-on-economic-resilience-and-economic-security/>

<sup>4</sup> European Commission. (2024). *Political guidelines 2024-2029* [PDF]. From [https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648\\_en?filename=Political%20Guidelines%202024-2029\\_EN.pdf](https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648_en?filename=Political%20Guidelines%202024-2029_EN.pdf)

but new priorities are also emerging. European sustainable development, prosperity and competitiveness are based on a modern industry, a unique socially oriented market economy, the rule of law and a level playing field. Europe has many advantages, from world-class universities and researchers to thriving businesses and a stable economic environment. But Member State companies have been operating in a turbulent world in recent years, experiencing Russian energy blackmail and China's raw materials monopoly (for example, products that are necessary for the manufacture of batteries or chips). The threat of shrinking supply chains is growing. Europe and the transatlantic Union, faced with the experience of the Russia war in the Ukraine, had to increase budgetary resources for the armed forces. Defence has become one of the priority sectors in a number of Member States. After neglecting several decades, the military industry is regaining its prominence, and the EU will seek new opportunities to adapt industrial policy to the new challenges.

Despite the difficulties of geopolitical uncertainty, Europe cannot afford to fall behind and lose its competitive edge in the global race. What needs to be done over the next five years to allow Europe to develop much faster without falling behind its competitors? Key strategic priorities can be combined into six blocks. The EU economic development directions for the next five years fully coincide with Latvia's priorities.<sup>5,6</sup>

### **3.1. Improving the business environment**

Improving the business environment is one of the strategic priorities of the economy. Firstly, in today's circumstances, a new approach to competition policy is needed, one which is better adapted to the requirements of companies, helps to prevent excessive market

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<sup>5</sup> Latvian Productivity Council. (n.d.). Latvian Productivity Report. from [https:// www.lvpeak.lu.lv/lv/latvijas-produktivitates-padome/latvijas-produktivitates-zinojums/](https://www.lvpeak.lu.lv/lv/latvijas-produktivitates-padome/latvijas-produktivitates-zinojums/)

<sup>6</sup> LSM. (2024, April 30). The Ministry of Economics sets goals for 2035: Raise Latvia's GDP to 83 billion euros. LSM.LV. <https://www.lsm.lv/raksts/zinas/ekonomika/30.04.2024-ekonomikas-ministrija-izvirza-merki-lidz-2035-gadam-latvijas-ikp-celt-lidz-83-miljardiem-eiro.a552482/>

concentration, prevents unjustified increases in prices and costs and does not reduce the quality of goods and services. Secondly, the business environment must be simpler. This requires reducing administrative burdens and bureaucracy, as well as targeted state aid to help innovative businesses grow. In particular, small and medium-sized enterprises (SMEs) whose size and funding capacity cannot be compared with large corporations should be supported. Often, the existing framework for large companies is too burdensome for SMEs, hampering their competitive development.

## **3.2. Green industry**

The EU must maintain its momentum towards the objectives of the European Green Deal by promoting industrial policies that would help reduce emissions by 90% by 2040 and achieve climate neutrality by 2050. Maintaining the leader role of the EU in climate initiatives is of strategic importance. Renewables have already hit record highs, which currently account for about 50% of EU electricity generation. Dependence on Russian fossil gas has dropped significantly. However, further development of the EU energy market is needed so that consumers feel the benefits of lower costs of clean energy production and lower energy prices. The strategic priority is to increase investment in clean energy infrastructure and technologies, energy efficiency measures, digitalisation of the energy system and deployment of the hydrogen grid. In particular, there is a need to promote investment in infrastructure and industry, especially in energy-intensive sectors.

## **3.3. A Resilient circular economy**

The green industry is only part of a sustainable production and consumption model that will allow valuable resources to be preserved for longer. The EC intends to introduce the new circular economy act to help create market demand for secondary raw materials and a single

waste market, in particular for critical raw materials. The economy must be more resilient and less dependent on third countries. This is particularly important in the pharmaceutical industry. The EU has faced severe shortages of medical devices and drugs when antibiotics, insulin, painkillers and other products have become difficult to access. The European Health Union should be established with diversified supply chains, access to the most advanced treatments and more resilient healthcare systems. The health system is becoming increasingly the target of cyber attacks, so security is vital.

### **3.4. Research, innovation, investment and competitiveness**

Europe's competitiveness will depend on the use of new inventions in the industry. Research spending needs to be substantially increased, focusing on strategic priorities, groundbreaking fundamental research, innovation and scientific excellence. Europe must also be at the forefront of promoting the link between science, technology and industry. Europe needs to maximise investment from EU and Member States' budgets, in close cooperation with the European Investment Bank. The completion of the capital markets union could attract additional investments of EUR 470 billion per year. Innovative European companies need to be able to grow in Europe without looking for better opportunities in the US, Asia or other countries. The EC will propose the European Competitiveness Fund as part of the bloc's next multi-annual budget, to invest in European strategic technologies including artificial intelligence, clean industry and biotechnology. The European Competitiveness Fund will support important projects of common interest (IPCEIs). The first proposals for new IPCEI projects will be presented in early 2025.

### **3.5. Quality of a workforce**

Europe lacks ambition and action to improve human capital education and skills, which is an important prerequisite for competitiveness. In this context, the EC's intention to create a Skills Union is attractive, allowing people to effectively apply their skills in all EU countries. STEM education and lifelong learning are essential in the Skills Union. At the same time, it is necessary to address the worrying shortage of qualified teachers in areas related to science, technology, engineering and mathematics by increasing support for teacher training. The rapidly changing economy needs to respond more to the needs of businesses. To this end, it is important to strengthen vocational education and training by giving people the skills that businesses are looking for. This initiative will require an increase in funding from the EU budget to promote skills that meet labour market requirements. A skills portability initiative will be proposed to ensure that skills acquired in one Member State are recognised in all EU countries.

### **3.6. European Defence Union**

Russia's war in Ukraine has exposed chronic underinvestment in the EU military sector. Total EU spending on defence increased by 20% between 1999 and 2021 and is too fragmented. During this period, Russian defence spending increased by almost 300% and Chinese spending by almost 600%. Over the next five years, this lag must be alleviated, and work will focus on creating a genuine European Defence Union. Member States will always retain responsibility for their armed forces, from doctrine to deployment, but Europe can do much to support and coordinate efforts to strengthen the industrial basis of defence, innovation and the single market. The objective will require significant investments from the EU and Member States' budgets.

## 4. Wishes of European citizens

It is clear from the Eurobarometer<sup>7</sup> conducted before the European elections that European citizens (one third of respondents), including Latvia (LV), expect the new EU leadership to reduce poverty and social exclusion (EU – 33%, LV – 30%) and improve public health (EU – 32%, LV – 33%). Support for the economy and job creation (EU – 31%, LV – 40%) is a high priority on people’s wish list. Defence and security ranked fourth in the EU (31%), while Latvians put security first (47%). EU citizens believe that measures against climate change (27%) follow the importance of security. Latvian respondents do not consider the “green economy” to be an important priority, as only 6% support the importance of climate measures. Agricultural policy occupies a particular place together with the wishes of European citizens. 23% of EU and 28% of Latvian residents want improvement. About 20% of respondents in the EU and LV want to increase EU autonomy in the industrial and energy sectors. Digitalisation of the European economy and society is also important (EU 9%, LV 14%).

Although the effects of the Covid-19 pandemic, Russia’s war against Ukraine and rising inflation have had a negative impact on well-being, leading to a decline in people’s living standards (45% of European and 39% of Latvian respondents think so), the majority of people believe that overall things are moving in the right direction in the EU. 32% of citizens in the EU and 45% in Latvia think so. Achieving the EU average standard of living is regularly mentioned as a desire of citizens and an important goal for Latvia’s development. Given that Latvia is now as prosperous as the EU average was ten years ago, Latvia can only reach the European average in the long term, provided that a formula for success is found to outstrip European economic growth rates. However, according to a Eurobarometer survey, 15% of Latvian respondents believe that their living standards will increase in the next five years (the EU figure is much higher at 35%). Young people aged 15-24 and 25-39 in Latvia are much

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<sup>7</sup> European Parliament. (2024). *Spring 2024 economic barometer: Country results* (EB045EP). EP\_Spring\_2024\_EB045EP\_country\_results\_lv\_lv

more optimistic: around 60% of respondents are confident that their living standards will improve in five years' time.

The “Youth Sentiment Survey”<sup>8</sup> conducted by the University of Latvia think tank LV PEAK is in line with the Eurobarometer findings. Young people in Latvia believe that the knowledge and skills they have acquired contribute to a stable position on the labour market today and in the future, correspond to the prospects of a highly paid job and provide the opportunity to start their own business. Almost all respondents believe that new knowledge and skills should be acquired throughout life. The main barriers to acquiring additional knowledge and skills to improve personal competitiveness are difficulties in combining work and study, lack of financial resources, and difficulties in combining study and family life.

## Recommendations

Latvia's strategic priorities for the five-year economic cycle generally coincide with the EU economic priorities for the next five years. One of the main challenges is the innovation that promotes productivity, competitiveness, growth and prosperity. Innovation, in turn, requires investment, including investment in research and development, and the development of people's knowledge and skills. In parallel, funding of credit institutions to businesses should be encouraged. The lack of business finance is one of the main reasons why Latvia's growth lags behind Lithuania and Estonia over the last decade. Latvia's main challenge is to make the most effective use of state budget resources and to invest all available EU funds, including ANM funds, in a targeted way, to strengthen economic competitiveness. Promoting private investment requires further improvement of the business environment and reduction

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<sup>8</sup> University of Latvia. (2023). Economic Barometer: II quarter 2023 [PDF]. [https://www.lvpeak.lu.lv/fileadmin/user\\_upload/lu\\_portal/lvpeak.lu.lv/LU\\_domnica\\_LV\\_PEAK/LVPEAK\\_Ekonomikas\\_barometrs/2023/LV\\_PEAK\\_BAROMETRS\\_LV\\_2023\\_II.pdf](https://www.lvpeak.lu.lv/fileadmin/user_upload/lu_portal/lvpeak.lu.lv/LU_domnica_LV_PEAK/LVPEAK_Ekonomikas_barometrs/2023/LV_PEAK_BAROMETRS_LV_2023_II.pdf)

of bureaucracy. Given geopolitical uncertainty, it is vital to strengthen energy security.

Latvia's priorities are defined in the government's declaration: defence, healthcare and education. Each of these priorities requires significant budgetary resources. Both the OECD and the EC have recommended that Latvia pursue a tighter fiscal policy. It is dangerous to increase public debt above 50%, as a cushion is needed for unforeseen future crises. Within the deficit ceiling, defence is now the top priority. Financial resources must be found to promote, as far as possible, the development of a military industry that would serve national security, export capacity and economic growth.



# III

## Climate: Leadership in the Global Green Transition

Dr Ieva Pakere

The summer of 2023 was the hottest in world observation history,<sup>1</sup> exceeding the average air temperatures by 0.66 °C, and it is quite likely that the summer of 2024 will exceed this increase even further. Climate change is happening and scientifically proven to be the root cause of greenhouse gases (GHG) from human activity.<sup>2</sup> Rising global average air temperatures lead to a range of other environmental challenges, the most prominent of which are the loss of biodiversity and extreme weather.

### 1. Sustainability pioneers: EU climate goals and initiatives

Aware of the clear evidence and the dangerous consequences of climate change in the future, the European Union (EU) and its Member

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<sup>1</sup> Copernicus, the European Union's climate service, 5 September 2023. Available online: <https://climate.copernicus.eu/summer-2023-hottest-record>

<sup>2</sup> IPCC, 2021: Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Masson-Delmotte, V., P. Zhai, A. Pirani et al.] In Press. Pieejams tiešsaistē: [https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC\\_AR6\\_WGI\\_SPM.pdf](https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM.pdf)

States have set ambitious climate targets and initiatives to reduce GHG emissions as much as possible and move to a greener, more sustainable economy. These objectives are included in the European Green Deal, which is a comprehensive strategy for Europe to become the first climate-neutral part of the world in 2050.<sup>3</sup> The European Green Deal highlights key policies that should be pursued across sectors including energy, transport, agriculture, industry in order to reduce emissions and pollution as effectively as possible and to promote sustainable resource use. At the same time, this roadmap highlights the need to maintain economic prosperity and social justice in all Member States, which is a major challenge in the fight against climate change and mitigation of its consequences.

The first milestone in achieving this objective is already very close: by 2030, the EU Member States have committed themselves to reducing total net emissions by at least 57% compared to 1990 levels. The “prepared for targets 55%” or “fit for 55” package is a set of different legislative acts that oblige Member States to define and meet individual climate targets and implement certain measures in different sectors. It should be noted that following Russia’s invasion of Ukraine and the energy crisis in 2022 and 2023, this package of objectives and regulations was revised with a new RePowerEU plan,<sup>4</sup> to accelerate the deployment of renewable energy sources and reduce energy consumption by promoting energy efficiency. Climate change mitigation is very difficult because of the impact of economic sectors on each other, which is why the Green 55% target package also contains a wide range of legislative texts requiring Member States, for example, to strengthen natural carbon sinks (including forests), improve the emissions trading system, attract investment in zero-emission technologies, improve energy efficiency, and set limits and tighter

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<sup>3</sup> European Commission, Directorate-General for Research and Innovation, *European Green Deal – Research & innovation call*, Publications Office of the European Union, 2021, <https://data.europa.eu/doi/10.2777/33415>

<sup>4</sup> European Commission. Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions. REPowerEU. Available online: <https://eur-lex.europa.eu/legal-content/LV/TXT/HTML/?uri=CELEX:52022DC0230>

standards for emissions generated. One of the initiatives is the creation of a Social Climate Fund to provide social support and investment for citizens and small businesses.

An important tool for Member States to achieve ambitious climate targets of the EU is the NextGenerationEU Recovery Instrument, which has a total budget of over €800 billion.<sup>5</sup> The objective of this fund is to address the economic losses caused by both the global pandemic and the energy crisis, while promoting the transition to innovative and climate-friendly technologies such as sustainable transport. One of the foundation's cornerstones is to support digitalisation, ideas such as wider access to the 5G network and the use of digital identity, and the development and use of artificial intelligence to solve a variety of challenges while taking care of personal data and security on the internet. In the context of climate change, advances in digital technologies can significantly improve energy efficiency and reduce energy consumption by processing and analysing available data and automating different processes. The EU's vision for the future envisages a broader development of the smart cities concept when digital solutions can more effectively manage urban infrastructure such as water and power supply, lighting, and traffic regulation.

In order to continuously adapt to global challenges, the EU sets not only long-term objectives but also key priorities over the five-year cycle. The EU Strategic Programme for 2024–2029 is a response to the fallout from the global pandemic, the impact of the war caused by Russia, the situation in the Middle East and the need to combat climate change.<sup>6</sup> One of the pillars of the programme is a “prosperous and competitive Europe”, which underlines the need for Member States to cooperate more closely in strategic sectors such as energy and finance, as well as to step up the pace of technological and digitalisation development. Sustainable development of the agricultural sector also plays an important role. Another pillar of the programme, “a free and democratic Europe”, includes activities that

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<sup>5</sup> European Commission, Directorate-General for Budget, EU budget policy brief – The EU as an issuer – The NextGenerationEU transformation. #3, July 2022, Publications Office of the European Union, 2022, <https://data.europa.eu/doi/10.2761/111076>

<sup>6</sup> European Commission. Strategic Agenda 2024-2029. Available online: [https://www.consilium.europa.eu/media/4aldqfl2/2024\\_557\\_new-strategic-agenda.pdf](https://www.consilium.europa.eu/media/4aldqfl2/2024_557_new-strategic-agenda.pdf)

defend values such as respect for human dignity, freedom, democracy, equality, the rule of law and human rights. Security is also a key priority for the next 5 years, so the programme’s “strong and secure Europe” will continue to support Ukraine, increase defence capacity and capacity to respond to various crises, and include a comprehensive approach to migration and border management.

## **2. Research into new green technologies and sustainable energy solutions in the EU**

Technological development is the most important weapon in the fight against climate change, as only new technologies and solutions are able to decouple economic growth from increasing emissions. Only by developing innovations can more be produced with the same or lower amounts of emissions and pollution. This is why research and the implementation of advanced technologies in different sectors of the economy are among the main priorities of the EU. The most important innovations and search for new solutions take place in the energy sector, where the main development directions are the use of renewable energy sources and energy storage, increasing the efficiency of district heating supply and expanding networks, as well as the development of smart energy systems.<sup>7</sup>

In 2023, 44.7% of EU electricity consumption was already produced from renewable energy sources,<sup>8</sup> and while most of it was made up of wind and hydropower, solar power generation is also developing very rapidly. Research and development of production technologies have allowed the investment costs of solar panels and wind turbines to be rapidly

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<sup>7</sup> Chyong C., Pollitt M., Reiner D., Li C, Modelling flexibility requirements in deep decarbonisation scenarios: The role of conventional flexibility and sector coupling options in the European 2050 energy system, *Energy Strategy Reviews*, 52, 2024, 101322

<sup>8</sup> EUROSTAT. 2024. Renewables take the lead in power generation in 2023. Pieejams tiešsaistē: <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20240627-1>

reduced and their efficiency increased, respectively. Renewable electricity generation in the EU has increased by 50% over the last 10 years. It is electricity from solar and wind that is expected to be the main source of energy in future energy systems, requiring a range of adjustments to the overall energy sector, as the availability of these resources is variable.

Scientific research has evolved in different directions to efficiently use variable electricity from solar and wind. The first is the development of energy storage systems, which would allow electricity to be stored when available. Extensive research and new innovations are being developed to minimize the cost and environmental impact of electric batteries and increase their storage capacity.<sup>9</sup> The alternative to electric batteries is to convert “excess” electricity into synthetic fuels (such as hydrogen), which can be stored, transported and used more widely for longer. This line of technological development is labelled the power-to-x technology concept, which is currently developing rapidly.<sup>10</sup> Scientists are looking for new solutions to increase efficiency and to lose as little electricity as possible in conversion processes, as well as reduce technology costs, ensure safe fuel storage and optimize transportation.

Any construction of a storage or electricity conversion system requires additional investment, so scientists have come up with a smart energy system concept that interacts more widely with different energy sectors.<sup>11</sup> The main objective of such sector linkage is to make greater use of renewable electricity when available, for example by supplying heat or by operating an electric car. Electricity can be converted efficiently to thermal energy using heat pumps, which are already extensively integrated into the Northern States’ heating systems. The added benefit is heat storage

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<sup>9</sup> Zhang R., Lee M., Huang L., Ni M., Optimization of battery energy storage system (BESS) sizing in different electricity market types considering BESS utilization mechanisms and ownerships, *Journal of Cleaner Production*, 470, 2024, 143317, <https://doi.org/10.1016/j.jclepro.2024.143317>

<sup>10</sup> V. Battaglia, L. Vanoli, Optimizing renewable energy integration in new districts: Power-to-X strategies for improved efficiency and sustainability, *Energy*, Volume 305, 2024, 132312, ISSN 0360-5442, <https://doi.org/10.1016/j.energy.2024.132312>

<sup>11</sup> H. Lund, P.A. Østergaard, D. Connolly, B.V. Mathiesen Smart energy and smart energy systems. *Energy*, 137 (2017), pp. 556-565

tanks, which are a cheaper option than electric storage and allow you to align your energy consumption and demand.

Smart energy systems also play an important role with the end-user of energy, which by actively engaging in a common energy system can help to balance the system, for example by reducing energy consumption during peak load times and shifting it to periods of widespread availability of renewable electricity. Many and varied studies are underway on how to motivate energy end-users to change their habits, introduce digital solutions and what their overall impact could be.<sup>12</sup>

The EU has also identified the creation of a fully integrated, interconnected and synchronized energy system in Europe as one of the priorities for the development of the energy sector, enabling efficient coordination of electricity supply between different EU countries.<sup>13</sup> International grid connections are another solution for the efficient use of renewable electricity when imported or exported to other countries. This aspect should also be taken into account when planning the expansion of the EU, as new Member States may have access to renewable energy sources that can be used in the common European electricity system. The EU aims to increase the share of renewable energy in the overall energy mix to 45% by 2030. By integrating countries such as Ukraine and Moldova with significant renewable energy potential, the EU can increase its installed renewable energy capacity. In 2022, the synchronization of the Ukrainian and Moldovan electricity grid with the total EU electricity grid took the first step towards exporting and importing the electricity produced.<sup>14</sup> EU candidate countries have

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<sup>12</sup> Pakere, I.; Gravelins, A.; Bohvalovs, G.; Rozentale, L.; Blumberga, D. Will Aggregator Reduce Renewable Power Surpluses? A System Dynamics Approach for the Latvia Case Study. *Energies* 2021, *14*, 7900. <https://doi.org/10.3390/en14237900>

<sup>13</sup> Council of the European Union, 2024. Advancing Sustainable Electricity Grid Infrastructure – Council conclusions. Pieejams tiešsaistē: <https://data.consilium.europa.eu/doc/document/ST-10459-2024-INIT/en/pdf>

<sup>14</sup> Kardas S. Energising Eastern Europe: How the EU can enhance energy sovereignty through cooperation with Ukraine and Moldova. European Council on Foreign Relations. Policy Brief, March 2024. Pieejams tiešsaistē: <https://ecfr.eu/wp-content/uploads/2024/03/Energising-eastern-Europe-How-the-EU-can-enhance-energy-sovereignty-through-cooperation-with-Ukraine-and-Moldova.pdf>

pledged to continue investing in the installation of solar and wind power plants, as well as in various storage systems and hydrogen production that meet the EU's long-term climate goals and reduce greenhouse gas emissions.

Significant technological development and transformation are also taking place in the heating sector, as significant amounts of energy resources are consumed for the heating of buildings and for the preparation of hot water. In buildings, both individual solutions and district heating can provide heat generation. It is the development of district heat generation and transmission that has been identified as a cornerstone of the development of the EU energy sector, as this can integrate innovative solutions and increase the efficiency of heat production. Various models of simulation and optimisation of the energy sector have shown that the development of future heating supply will focus on the integration of large-scale heat pumps through greater availability of renewable electricity.<sup>15</sup> Heat pumps can use both ambient thermal energy and low-temperature heat released from different processes (waste heat) as a source of heat. Many industrial and cooling processes (e.g. data centres, supermarkets, warehouses) generate such heat, which could be recovered and usefully used in heating by reducing energy consumption and heat production costs. In many EU countries, pilot heat recovery projects have already been introduced demonstrating the significant development potential of the heating sector.

It is important to note that the EU Green Deal and the “ready for goals 55%” package lay down the principle of “energy efficiency first”, which means that before planning the development of heating and electricity production, it is necessary to look for ways to reduce energy consumption. In the EU Member States, there is still very high energy efficiency potential both in the buildings sector, where heating can be carried out and more efficient installations can be installed, and in the industrial and agricultural sectors, where new technologies can be introduced and

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<sup>15</sup> Pakere, I., Freimanis, R., Allena-Ozoliņa, S., Asaris, P., Demurtas, A., Gorner, M., Yearwood, J. Cost-Optimal Policy Strategies for Reaching Energy Efficiency Targets and Carbon Neutrality. *Environmental and Climate Technologies*, 2023, 27999-1014.

production processes optimised.<sup>16</sup> Achieving the EU climate goals will only be possible by combining energy efficiency improvements with innovative technologies and solutions.

### **3. Insight into Latvia's climate goals and what are the main challenges**

Latvia's total GHG emissions decreased by 59.6% between 1990 and 2020, mainly due to deindustrialisation in the 90s. Since 2005, total GHG emissions have remained fairly stable and decreased by only 4.5% by 2020.<sup>17</sup> The energy sector is the largest producer of GHG emissions in Latvia (35.1% of all emissions in 2020), however, emissions in this sector have decreased significantly over the last 10 years, largely due to the fuel transition from natural gas to biomass use. The second biggest emitter of GHG emissions is the transport sector, with 29.8% of all emissions in 2020, and there is no significant reduction in emissions in this sector yet. A significant share of emissions in Latvia is attributable to the agricultural sector, where GHG emissions have increased by 25.5% since 2005. This is mainly influenced by the number of livestock. It should also be noted that Latvia's land use and forest sector has mostly attracted more CO<sub>2</sub> emissions than emitted, but this tendency has also changed in recent years primarily due to the increase in logging rates. Land use emissions are mainly due to wetlands, as the peat industry is one of the sectors that generates the most GHG.

Latvia's climate goals in various sectors are determined by the Latvian National Energy and Climate Plan 2021–2030, published in 2020 and renewed in 2024, as the goal is to promote climate change mitigation and

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<sup>16</sup> Knoop K., Lechtenböhmer S. The potential for energy efficiency in the EU Member States – A comparison of studies, *Renewable and Sustainable Energy Reviews*, 68, 2017, 1097-1105, <https://doi.org/10.1016/j.rser.2016.05.090>

<sup>17</sup> Latvia report to UNFCCC (2022), National Inventory Report (NIR) <https://unfccc.int/documents/461908>



climate resilience in Latvia in order to achieve climate neutrality by 2050 at the latest, taking into account the sustainability of the environment, social, economic and governance. The targets set out in the plan for 2030 include a 65% reduction in total GHG emissions compared to 1990, an increase in the proportion of RES in final consumption to 62%, an improvement in energy efficiency reaching 26.3 TWh cumulative savings, as well as other sectoral objectives, including innovation, improvement of research and competitiveness.

In order to achieve Latvia's climate goals, substantial public involvement is also necessary. One of the most obvious examples is the need to increase the energy efficiency of housing. While many residential buildings are outdated and urgently in need of building renovations, residents are engaging in building renovation programs. So far, the state's available support for building insulation has not been able to summon the "renovation boom" in the residential sector either, mainly because funding is available periodically, apartment dwellers find it difficult to agree on renovations between themselves, and energy costs are relatively low. In combination with low environmental awareness, these conditions do not encourage active action towards saving energy.

A slightly different trend can be seen in renewables, where declining technology costs combined with state aid were able to significantly increase the capacity of solar panels installed in private homes. It is not clear whether the use of solar energy increased for economic reasons or because citizens are aware of the climate commitments imposed.

Companies also play an important role in achieving Latvia's climate goals. For several years, it has been imperative for major Latvian enterprises and electricity consumers to carefully analyse the possibilities of reducing their energy consumption by conducting energy audits or introducing an energy management system. Many companies are aware that energy efficiency and the use of renewables are a way of increasing their competitiveness, especially in the face of high energy prices. However, many companies lack funding to introduce ambitious energy efficiency measures.

The adoption of the Corporate Sustainability Reporting Directive has also made companies more serious about assessing climate and

other impacts,<sup>18</sup> which also forces major Latvian companies to include a sustainability report in their management reports. It will also need to include the company's GHG reduction targets, a strategy to achieve climate neutrality in 2050 and the sustainability efforts made. Accordingly, businesses will increasingly need to think about meeting climate commitments.

## Recommendations:

Climate change mitigation is a complex set of measures across sectors that can interact with each other. For example, increased use of biomass in the energy sector may contribute to more intensive deforestation and reduced carbon sequestration. Consequently, the long-term impacts of the various measures need to be carefully assessed when implementing climate policies. It is important that climate decisions are science-based, which is often lacking in Latvia.

As the energy sector will become increasingly complex in the future, there is a need to improve cooperation between the different actors involved. (e.g. electricity and heat producers, transmission operators, municipalities). Decision makers should encourage the deployment of well-researched and economically sound solar and wind technologies. As the share of variable energy sources (solar and wind) increases in the overall energy mix, it is necessary to significantly increase the flexibility of the energy sector in order to be able to balance production and consumption loads by integrating storage systems and by aligning sectors.

The results of these studies show the Latvian energy sector that if there are large installations of wind power, approximately 20–30% of

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<sup>18</sup> DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU as regarding corporate sustainability reporting. Official Journal of the European Union. L 322/15. 16.12.2022

the electricity produced comes from periods without sufficient demand profile, and there is a surplus of electricity. Optimal use of this excess electricity requires the introduction of storage systems and sectoral alignment, such as the integration of high-capacity heat pumps into heating systems that would use electricity at times when consumption is lower than the electricity produced. The development of long-term planning documents for the transition to smart energy supply, to which policy support instruments are subordinate, is an important step.

Biomass resources play an important role in heating and will continue to play a role, but it is important that the energy sector uses only low quality wood, which cannot be used in the production of various high value added products. Further research into the development of biogas use is needed so that existing biogas plants can be transformed from cogeneration to biomethane production. Heating needs to further develop the use of solar energy and increase the proportion of waste heat used, as well as promote efficient resource management.

Taking into account the fundamental principles of sustainable use of resources and bioeconomic guidelines, the use of wood resources should be made more efficient. It is important to focus on reducing exports of wood resources in order to maximise the use of local resources to replace imported fuels. In the wood processing sector, it is important to promote the entry of innovative solutions and products. Sustainable use of resources should also be taken into account in other sectors when implementing the principles of the circular economy. This is particularly important in the waste management sector, where it is important to promote the sorting and recycling of waste by avoiding incineration to the maximum extent possible.

Energy security is an essential aspect in the context of different variables. Changes in fuel and energy prices, differences in climate conditions, and increasing environmental requirements pose risks to economically unjustified investments and increases in additional costs. Diversification of energy resources used by maximising local energy resources, increasing energy efficiency and reducing final consumption, as well as interconnection of sectors, are the future solution for energy security. To achieve this, the first step is to establish a detailed energy

sector database by providing public access to vital raw data such as final energy consumption, energy output and fuel consumption in different sectors and regions. Collecting such information would allow the identification of synergies between energy producers and consumers at the local, regional and national level.

# IV

## Enlargement: the Accession of New Member States to a Stronger Union

Dr Marija Golubeva

EU enlargement is an historic opportunity to secure a place for Ukraine, Moldova and the Western Balkans (and possibly Georgia) in Europe. This moment offers a chance to foster the rule of law and democracy, while eliminating “grey zones” at the EU borders that could be exploited by Russia. According to the European Council: “The enlargement process is a geostrategic investment in peace, security, stability and prosperity.”<sup>1</sup> In order to join the European Union, candidate countries must not only go through a negotiation procedure, in which the opening and closing of each chapter is a political decision of all existing EU Member States, but countries must also meet certain criteria. These two factors – the political interests of the Member States and the normativity of the criteria – also determine the dynamics of EU enlargement.<sup>2</sup>

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<sup>1</sup> European Council (2024) GENERAL EU POSITION. Ministerial meeting opening the Intergovernmental Conference on the Accession of the Republic of Moldova to the European Union.

<sup>2</sup> “On how the political interests and understanding of EU objectives by large member states affect the perspectives of candidate countries, see, for example, Marija Golubeva, Nicolas Tenzer, Katarzyna Pisarska, and Sam Greene (2003), A European Home for Ukraine: Perspectives on the EU’s Enlargement Challenge from Berlin, Paris, and Warsaw. CEPA. [<https://cepa.org/comprehensive-reports/a-european-home-for-ukraine>](<https://cepa.org/comprehensive-reports/a-european-home-for-ukraine>).”

For countries qualifying for EU membership, criteria were set in the 1990s to provide a clear framework for the integration of post-Soviet nations, ensuring that the new Member States comply with the Union's values and standards.

Although these criteria have served an important purpose, there is growing debate about their relevance and rigour. Relaxing these criteria could facilitate faster accession for countries such as Ukraine, which may not fully meet all the requirements but are strategically and politically important. However, such an approach, if applied too broadly, could undermine the principles for which the EU stands, and could threaten the integrity and cohesion of the Union. The most important criteria, in addition to economic and fiscal requirements (Maastricht criteria), are the rule of law, human rights and the protection of minorities, and good governance (Copenhagen criteria), the observance of which – or rather progress in their application in all areas of governance – is a key indicator of the progress of the candidate countries.

## **1. Eastern and Southern Horizons**

Since the Western Balkan countries began their journey towards the EU in 2003, the progress of the candidate countries has always been imbalanced. This was also the case for the Central and Eastern European countries before the 2004 enlargement round, but now there are other – often geopolitical – reasons for this. Of the Eastern Partnership candidate countries whose governments expressed their desire to join the EU after Russia's invasion of Ukraine in February 2022, Georgia is a particularly good example of the role of geopolitics in a candidate country's progress, or lack thereof. Since the Rose Revolution, which solidified the geopolitical course towards the West, Georgia has undergone ambitious public administration reforms. Some of these – first and foremost, police reform – have become textbook examples around the world. This spirit of reform and orientation towards EU integration have long been the driving

force behind the Georgian public administration. The failure of President Mikheil Saakashvili and his government to uphold the principles of good governance was one of the accusations that led Georgian voters in 2012 to elect the Georgian Dream party, which promised to restore good governance and bring the country closer to the EU and NATO. However, after Georgia was finally granted candidate status in December 2023, the main donor to Georgian Dream and the de facto leader of the party, Bidzina Ivanishvili, put his economic interests in Russia first. Ivanishvili forced the parliamentary majority to vote in favor of the Foreign Influence Transparency Law, which imposed unjustified restrictions on civil society<sup>3</sup> and left the EU institutions with no choice but to freeze Georgia's accession process.<sup>4</sup>

In a less dramatic but similar way, progress is being held back in some Western Balkan countries. The Western Balkan countries are still significantly more integrated with the EU in terms of trade than Eastern Partnership countries such as Ukraine or Moldova. However, especially in the case of Serbia, the government of the candidate country lacks the political will to take a clear position on foreign policy issues, which are becoming increasingly important in the EU – first of all, regarding the war in Ukraine and sanctions against Russia. The progress of Bosnia and Herzegovina in the field of EU integration is also negatively affected by the Russia-friendly policy of its component – the Republika Srpska.

Even without geopolitical fluctuations, the Western Balkans' path to the EU has been very long and difficult. This is largely due to the relatively low interest on the part of EU member states (with the exception of Croatia) in truly gaining member state status once and for all, but also due to the relatively low motivation of these countries to undertake

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<sup>3</sup> Maia Nikoladze and Ana Lejava (2024) Why Georgia's ruling party is pushing for the foreign agent law - and how the West should respond. Atlantic Council. <https://www.atlanticcouncil.org/blogs/new-atlanticist/why-georgias-ruling-party-is-pushing-for-the-foreign-agent-law-and-how-the-west-should-respond/>

<sup>4</sup> Radio Free Europe/Radio Liberty (2024) EU Halts Georgia's Accession, Freezes Financial Assistance. <https://www.rferl.org/a/eu-halts-georgia-accession/33027858.html>

comprehensive reforms.<sup>5</sup> Currently, of the six non-EU countries in the region, accession negotiations have been launched with Albania and North Macedonia, and are ongoing with Serbia and Montenegro, which obtained candidate status significantly earlier. As the European Commission's progress report on Bosnia and Herzegovina shows, in the year since it was granted candidate status, its progress on integration-oriented reforms has been greater than in the entire previous decade.<sup>6</sup>

Despite their lower level of economic integration, political will in Ukraine and Moldova is currently stronger than in Western Balkan countries, whose citizens are sometimes tired of years of uncertainty about EU integration. The biggest challenge for Ukraine and Moldova on their path to the EU, apart from the losses inflicted on Ukraine by Russia and the threats to Moldova, are the reforms that need to be completed before the most important chapter of the negotiations can be closed. In Ukraine, as in Moldova, despite significant progress in the countries' commitment to the rule of law, the courts do not enjoy universal trust. Judicial reforms in both countries have not yet been fully successful.<sup>7</sup> The completion of judicial reforms is one of the most important prerequisites for the integration of both countries into the EU. The judicial systems in both countries are haunted by suspicions of corruption, threatening not only the trust of the citizens of the country, but also of foreign investors in the judiciary.

Accession negotiations with both countries were launched in June 2024, but their progress has not yet been widely reviewed by the

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<sup>5</sup> Marek Dabrowski, Luca Léry Moffat (2024) The changing dynamics of the Western Balkans on the road to European Union membership: an update. Brueghel. <https://www.bruegel.org/policy-brief/changing-dynamics-western-balkans-road-euro-pean-union-membership-update>

<sup>6</sup> European Commission (2024) Commission proposes to open EU accession negotiations with Bosnia and Herzegovina and updates on progress made by Ukraine and Moldova, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_24\\_1423?fbclid=](https://ec.europa.eu/commission/presscorner/detail/en/ip_24_1423?fbclid=)

<sup>7</sup> Oleg Sukhov (2024) Ukraine's judicial reform relaunch shows mixed results so far. Kyiv Independent, <https://kyivindependent.com/cleansing-of-ukraines-judiciary-kicks-off-with-mixed-results/>; Angela Popil and Andrian Ermurachi (2024) Ongoing efforts in justice reform in the Republic of Moldova. IPRE. <https://ipre.md/2024/06/19/eforturile-de-implementare-a-reformei-justitiei-in-republica-moldova-op-ed-de-angela-popil-si-andrian-ermurachi/?lang=en>



European Commission. The potential contribution of the candidate countries and the challenges they face when joining the EU differ from country to country. They range in the size of their economies, but also the capacity and degree of modernization of their public administrations. For example, in Ukraine, the success of digitalization in terms of the availability of public services on the Internet has been exemplary, and many EU countries could learn from it, but Moldova still faces many problems in this area. As for the potential contribution of the candidate countries to the EU economy, it is likely to be positive, but the integration of a country as large as Ukraine into the EU will require accelerating structural reforms.

## **2. The vision of an enlarged EU: institutional and economic impacts**

While there are no comprehensive economic forecasts yet on the economic impact of the next round of enlargement, the experience of the previous round of enlargement suggests that growth will be accelerated as a significant outcome. Trade between the old and new Member States increased almost threefold during the formal accession process from 1994 to 2004, and fivefold between the new Member States themselves. The economies of the CEE countries grew by an average of 4% per year from the start of the accession process until 2008, and the accession process is found to have contributed half of this growth.<sup>8</sup>

Despite the challenges associated with EU enlargement, its overall economic contribution to the EU in the future could be rather positive, provided that the EU is well prepared for the challenges that the enlargement process will pose in the medium term – in particular in the area of EU governance and support fund policies. The biggest impact on

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<sup>8</sup> Mirek Dušek, Andrew Caruana Galizia (2024) The forgotten economics of EU enlargement. World Economic Forum. <https://www.weforum.org/agenda/2024/01/the-forgotten-economics-of-eu-enlargement/>

the EU economy will undoubtedly be on Ukraine, whose accession will put an end to the current EU common agricultural policy (CAP). Ukraine has more than 42.5 million hectares of agricultural land and the country is largely dependent on agriculture as its main source of export revenue. Ukraine produces an average of 27 million tonnes of wheat per year, corresponding to around 20% of EU production, and 34 million tonnes of maize per year, compared to 52 million in the EU as a whole. Ukraine's sunflower seed production is almost twice that of the EU.<sup>9</sup> If the EU CAP is not reformed, Ukraine's accession will mean that a large part of the funds earmarked for this policy will go to Ukrainian farmers. Ukraine would be entitled to €96.5 billion in CAP funds, which would result in a reduction of agricultural subsidies for current EU member states by around 20%.<sup>10</sup> In cohesion policy too, Ukraine's accession would mean a fundamental redistribution of funds. Ukraine would be the poorest member state of the EU: its pre-war gross domestic product (GDP) per capita (\$5,000) is less than 50% of that of Bulgaria (the poorest member state) with \$12,000 per capita per year. With the accession of the 9 candidate countries, most of the current beneficiaries of cohesion funds would become donor countries.

These and other considerations cast doubt on whether a new round of EU enlargement is possible without reforms of the EU institutions and policies themselves. The debate on EU institutional reform has been going on for several years – chiefly regarding decision-making in the Council – but its outcome is still uncertain. The debate most concerns the way in which political decisions are taken in the Council regarding the EU's foreign and security policy,<sup>11</sup> as well as regarding EU enlargement.

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<sup>9</sup> Mirek Dušek, Andrew Caruana Galizia (2024) The forgotten economics of EU enlargement. World Economic Forum. <https://www.weforum.org/agenda/2024/01/the-forgotten-economics-of-eu-enlargement/>

<sup>10</sup> IDDRI (2023) Should we (already) be thinking about the next reform of the Common Agricultural Policy? <https://www.iddri.org/en/publications-and-events/blog-post/should-we-already-be-thinking-about-next-reform-common>

<sup>11</sup> See, for example, Arnis Lauva (2024) The Latvian voice in the discussion on the EU's institutional adaptation to current and future challenges. *Jurista Vārds*, No. 18/19, <https://m.juristavards.lv/doc/285197-latvijas-balss-diskusija-par-es-institucionalo-pielagosa-nu-esosajiem-un-nakotnes-izaicinajume/>

Currently, according to EU treaties and practice, such decisions must be taken unanimously, but there are growing calls to change this principle to the so-called Qualified Majority Vote (QMV).

The principle of unanimity can easily be abused by blocking important decisions with the vote of one member state – as Hungarian Prime Minister Viktor Orbán has done from time to time, blocking important decisions for Ukraine or decisions on sanctions against Russia. This prevents rapid agreement on important decisions in the field of foreign policy and security, which can seriously undermine the EU’s ability to act in critical situations. At the same time, a number of EU countries are unwilling to abandon the principle of unanimity, because their governments believe that decisions that do not satisfy all member states amount to imposing their will on other countries.

Since the signing of the Lisbon Treaty, most EU Member States have not wanted to make any further changes to the Treaty. However, there have been several initiatives to use Passerelle or “transitional” clauses that would allow a switch to other decision-making procedures without amending the Treaty: from unanimity to qualified majority voting, or from special procedures to the ordinary legislative procedure, under which Parliament would be allowed to co-decision with the Council in certain cases.<sup>12</sup> One initiative to use Passerelle clauses more frequently was outlined in 2023 by the foreign ministers of seven EU Member States.<sup>13</sup>

Without changing the principles of formation and operation of EU institutions, enlargement would also mean a significant increase in the number of EU commissioners, which raises some skepticism about the capacity and effectiveness of an enlarged European Commission. Taken together, these considerations mean that EU enlargement is hardly possible without at least some of the named reforms, requiring consensus among member states. Until this consensus is reached, the integration process of the candidate countries will most likely be decelerated.

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<sup>12</sup> Nikolaj von Ondarza, Isabella Stürzer (2024) The State of Consensus in the EU. Stiftung Wissenschaft und Politik. <https://www.swp-berlin.org/10.18449/2024C16/>

<sup>13</sup> Politico (2023) It’s time for more majority decision-making in EU foreign policy. <https://www.politico.eu/article/eu-foreign-policy-ukraine-russia-war-its-time-for-re-majority-decision-making/>

### 3. Public opinion on enlargement

While support for EU membership is generally very high in the candidate countries – especially in Ukraine<sup>14</sup> and Georgia<sup>15</sup> – not all EU citizens view the prospects for EU enlargement with the same enthusiasm. In Germany, for example, in 2023, only 57% of the population agreed with the statement that Ukraine should join the EU when it is ready.<sup>16</sup> On average, according to the Eurobarometer of June 2023, 53% of EU citizens support enlargement in principle, while 37% are against it.<sup>17</sup>

The factors that influence the attitude of citizens and policymakers towards enlargement, as pointed out by experts from EU think tanks, include both geopolitical considerations and concerns about economic well-being, with the beneficiaries receiving a larger proportion of EU funds.<sup>18</sup> At the time of writing, the author did not find any in-depth research on the attitudes of Latvian citizens, including entrepreneurs, in recent years, but such a study would be useful.

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<sup>14</sup> “Public Opinion on EU Membership in Ukraine 2022. Statista, accessed August 22, 2023.

<sup>15</sup> NDI (2023), <https://www.ndi.org/publications/ndi-poll-georgian-citizens-remain-committed-eu-membership-nation-united-its-dreams-and>

<sup>16</sup> CEPA. Comprehensive report. <https://cepa.org/comprehensive-reports/a-european-home-for-ukraine/>

<sup>17</sup> Internationale Politik Quarterly (2023) What Europe Thinks ... about EU Enlargement. <https://ip-quarterly.com/en/what-europe-thinks-about-eu-enlargement>

<sup>18</sup> Piotr Buras and Engeljushe Morina (2024) Catch-27: The contradictory thinking about enlargement in the EU. ECFR. <https://ecfr.eu/publication/catch-27-the-contradictory-thinking-about-enlargement-in-the-eu/>

## Recommendations

At the Baltic Event on EU Enlargement conference held in Riga in May 2024, representatives of civil society, academia and think tanks from Latvia, Lithuania and Estonia formulated some recommendations for the Baltic states in the field of EU enlargement.

- In order to revive the enlargement process, the Baltic states should call on other EU leaders to more consistently affirm the EU's core values and effectively address both internal and external contradictions that are holding back EU enlargement.

- EU member states should pay attention to the internal resistance of some citizens to EU enlargement, directly addressing citizens' concerns and at the same time countering the influence of external, EU-unfriendly actors.

- Baltic policymakers should respond more actively to external influences from unfriendly states that are trying to disrupt the EU enlargement processes in the Eastern Partnership countries.

- EU enlargement criteria should balance strategic flexibility with respect for EU fundamental values and standards. The EU should take a more assertive stance, ensuring that funding for candidate countries is conditional on real steps towards harmonizing national legislation and policies with EU standards.

- The Baltic States should use their good reputation in Ukraine to promote a more EU-oriented and transparent approach to public administration reforms. While ad hoc assistance to Ukrainian state institutions to overcome the enormous challenges posed by Russian aggression is important, overall support should be more strategic and goal-oriented, as part of the EU path. Support should also promote the participation of the non-state sector in decision-making at all levels.

- There are currently no estimates available on how EU enlargement will affect the Baltic economies. Such calculations are hampered by the lack of clarity about, first, the duration and outcome of the Russian invasion of Ukraine and, second, the speed, sequence and conditions of the enlargement process. The Baltic states should develop scenario-based impact assessments of the impact of EU enlargement on their economies.

Overall, given the enormous potential role of EU enlargement in strengthening the EU as a global player and ensuring the sustainability of EU fundamental values in the future, Latvian policymakers should pay more attention to preparing national positions in this area; consult more with civil society, business and economists on EU enlargement issues; and consider a more flexible position on EU institutional reforms, including the qualified majority principle in EU foreign and security policy, in order to ensure the survival of the EU in the geopolitical turmoil of our time.

# V

## **Security: Ensuring Stability in a Changing World**

Māris Cepurītis

Security issues have become one of the most important challenges of the 21st century, especially in the context of a changing global political situation. The term “security” encompasses far more than just physical protection against external threats; it also covers economic, cybernetic and social stability. In the twenty years since Latvia’s accession, the European Union has progressively improved its collective security and defence measures, in particular as regards the prevention of hybrid threats, border strengthening and crisis management, and trends suggest that security will continue to be one of the EU priorities.

However, in addition to these achievements, the feeling of insecurity in the region has increased, particularly in the context of Russian and Belarusian aggression and global geopolitical instability. Migration, which is used as a political weapon, also poses additional security challenges. These issues highlight the need for enhanced security and defence policies, as well as the promotion of public and business resilience to emerging threats, so that the European Union and its nearby region could enjoy much higher security and stability by 2030.

# 1. Between openness and security: challenges posed by migration

Migration has been one of the most pressing issues for the EU, with an impact on the EU's external relations with neighbouring regions and countries, as well as on the exchange of views between countries, such as the mechanism for redistributing immigrants. The new EU Migration and Asylum Pact was adopted in May 2024. Its launch was set after the 2015 migration crisis, when Frontex recorded more than 1.8 million attempts to cross the EU's external border, especially in coastal Mediterranean Member States.<sup>1</sup> Since the 2015 European migration crisis, the European Union has continued to face regular pressure on its external borders. Compared to 2015, attempts to enter EU territory illegally have been significantly lower in recent years. This is due to the COVID-19 pandemic as well as the agreements reached with the countries of origin and transit of migrants. But since 2020, there has been a gradual increase in migrant flows in the EU direction, such as just over 125 thousand illegal border crossings recorded in 2020, 196 thousand cases listed in 2021,<sup>2</sup> rising to 330 thousand in 2022<sup>3</sup> and in 2023, up to 380 thousand cases.<sup>4</sup>

Migration is affected by a number of factors in Europe's neighbouring regions and Member States. The 2015 crisis was partly due to instability in Syria, Iraq and other countries in the Middle East and Africa, with residents in those regions seeking safer, more stable residences. In 2024,

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<sup>1</sup> Frontex. (2015). General Report 2015. [https://www.frontex.europa.eu/assets/Key\\_Documents/Annual\\_report/2015/General\\_Report\\_2015.pdf](https://www.frontex.europa.eu/assets/Key_Documents/Annual_report/2015/General_Report_2015.pdf) pp 10

<sup>2</sup> Frontex. (2022, January 11). *EU external borders in 2021: Arrivals above pre-pandemic levels*. <https://www.frontex.europa.eu/media-centre/news/news-release/eu-external-borders-in-2021-arrivals-above-pre-pandemic-levels-CxVMNN>

<sup>3</sup> Frontex. (2023, January 13). *EU's external borders in 2022: Number of irregular border crossings highest since 2016*. <https://www.frontex.europa.eu/media-centre/news/news-release/eu-s-external-borders-in-2022-number-of-irregular-border-crossings-highest-since-2016-YsAZ29>

<sup>4</sup> Frontex. (2024, January 26). *Significant rise in irregular border crossings in 2023, highest since 2016*. <https://www.frontex.europa.eu/media-centre/news/news-release/significant-rise-in-irregular-border-crossings-in-2023-highest-since-2016-C0gGpm>



there are several active or fierce conflicts in the EU's nearby regions: Russia's invasion of Ukraine, the Israeli-Palestinian war, civil wars in Syria and Libya, instability in Iraq, Lebanon, Yemen and rising tensions with Iran, as well as conflicting relations between Armenia and Azerbaijan. Instability also persists in Africa's central and eastern regions. Even if a quick solution is found to these conflicts, it can be predicted with high credibility that tensions will persist in the coming years.

Africa, especially in its central part, is the region with the highest population growth in the world, which, combined with one of the world's highest birth rates, indicates significant population growth in years to come. Combined with socio-economic challenges such as job shortages, this can lead to the migration of young people, also towards the European Union.

Geopolitical and socioeconomic stability can be negatively affected by climate change, for example by deteriorating access to drinking water, causing drought or excessive flooding, and thus making certain regions less fit for life. In the Gallup World Poll opinion poll, 7.9% of respondents from the Middle East and North Africa region believe they will have to change their residence due to serious climate problems, but 14.7% of respondents expressed a desire to do so. Much higher rates are in sub-Saharan Africa, where 15.7% of respondents believe it will be necessary to leave their residence, but 29.3% have expressed a desire to do so.<sup>5</sup>

Migration is affected not only by the situation in the regions closest to Europe, but also by the situation in the EU Member States, especially in the field of labour. The ageing of Europe's population, and the decline in the birth rate coupled with the increasing demand for labour will motivate migrants to move into the EU and allow some Member States to maintain relatively free migration conditions. Geopolitical instability, the demographic and socio-economic situation in the EU's nearby regions, the challenges posed by climate change and the attractiveness of the labour market in the Member States will be factors pointing to increasing migratory flows towards the EU in the future.

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<sup>5</sup> Deuster, C. (2024). *The Link between Disaster Displacement and Migration Intentions. Evidence from global survey data*. JRC Technical Report. <https://doi.org/10.2760/900146> pp. 9

The influx of migrants to the Russian-Norwegian border post in 2015, crossing on bicycles, illustrated the shortcomings of the earlier invasion framework and how they can also be used to achieve political goals. In a much more direct way, migration became an instrument for the implementation of national interests in July 2021, when Latvia, Lithuania and Poland began to encounter a new phenomenon, targeted migratory flows from Belarus. The purpose of Belarus's migrant instrumentalisation was to target countries that supported protesters and opposition, not its authoritarian leader Alexander Lukashenko, after the Belarusian presidential election in 2020 and the protests that followed.

The instrumentalisation of migrants as an instrument of influence initially sought to misuse asylum procedures to overload responsible institutions with significant flows of migrants and potentially create the conditions for a humanitarian crisis. With Latvia, Lithuania and Poland rapidly adapting national laws and regulations to address this new type of threat, significantly limiting the places where asylum can be claimed, the burden of border guarding forces became a goal of the Belarusian regime. It was complemented by information activities in order to show Latvia, Lithuania and Poland as the countries responsible for the presence of migrants at the border, while denying any responsibility of Belarus.

Similar migration instrumentalisation was evident on the Russian-Finnish border when migrant flows were directed to Finnish border crossings in 2023 to punish Finland in this way for abandoning neutrality, joining NATO and strong support for Ukraine. The flow of migrants to the south of Europe, and in particular the instrumentalisation of migration in the north-eastern Member States of the European Union, has necessitated the creation of a more robust border protection infrastructure, such as fences, sensor systems, routes and paths necessary for patrolling and preventing border violations. Border security infrastructure in itself does not prevent border violations, but makes them more difficult while increasing the response rate of border security forces to prevent violations. Another benefit of building border security infrastructure is the restriction of smuggling.

Cooperation between the European Union and third countries, in particular the countries of origin and transit of migrants, such as the

2016 agreement with Turkey or contacts between representatives of the Baltic States and EU with Iraq and other countries of origin of migrants subject to instrumentalisation, has played an important role in limiting the flow of migrants and their instrumentalisation. Cooperation with third countries does not fully prevent flows of migrants towards EU, but reduces possible support from the countries concerned, otherwise, countries risk deteriorating relations with the EU. However, the case of Turkey shows that the State may also seek to use the agreements reached as an instrument to achieve even more favourable conditions from the EU. Diplomatic activities also don't work on regimes that deliberately instrumentalize migrants, like Belarus and Russia.

The newly adopted EU Migration and Asylum Pact will enter into force in July 2026 and will include a specific framework for the instrumentalisation of migration, allowing Member States to prioritise national security and to apply for exemptions from the standard asylum procedure in crisis situations. Similarly, the new framework discourages situations where migrants tend to enter the EU through safe third countries without obliging the EU Member States to accept asylum applications in such situations.<sup>6</sup> The role and support of Frontex and the institutionalisation of cooperation with third countries (of migrants' origin and transit) play an additional role in situations where Member States are confronted with a rapid increase in migrants. It should be noted that the Pact on Migration and Asylum has at the same time drawn criticism from human rights and migrant rights defenders, who see the new regime as too restrictive, especially for those fleeing war and persecution in their home countries.

The EU Pact on Migration and Asylum addresses a number of legal challenges faced by countries taking measures to curb the instrumentalisation of migrants, but the practical capacity of States to ensure physical protection of borders and to attract support from other EU Member States and institutions in the event of crises will be crucial.

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<sup>6</sup> European Parliament and the Council. (2024). Regulation (EU) 2024/1348 establishing a common procedure for international protection in the Union and repealing Directive 2013/32/EU. [https://eur-lex.europa.eu/legal-content/LV/TXT/HTML/?uri=OJ:L\\_202401348](https://eur-lex.europa.eu/legal-content/LV/TXT/HTML/?uri=OJ:L_202401348)

## 2. Secure Union: initiatives to strengthen defence capacity

Since Russia's full-scale invasion of Ukraine on February 24, 2022, and the need to provide military assistance to Ukraine in its fight with the aggressor, a number of challenges to Europe's defensive capabilities have come to light. From the need to realistically review the suitability of European armed forces for modern warfare, to the size of national arms arsenals and the ability to provide ammunition to the armed forces in the short term, to rebuild and repair the armaments.

From the perspective of Latvia, NATO guarantees the most appropriate framework for protection against external aggression, as the primary objective since its founding has been the protection of Member States, including collective measures to deter potential aggressors. At the same time, geopolitical turmoil in Europe makes it necessary for the EU to play a more active role in strengthening Member States' defence capabilities. Within the framework of the European strategic autonomy idea, progress has been made in recent years towards closer integration of the EU on security issues, such as the creation of the Permanent Structured Cooperation (PESCO) in security and defence in November 2017. Since its launch, the PESCO framework has facilitated closer cooperation and coordination between Member States, including on issues of importance to Latvia such as military mobility and joint development of defence capabilities. 68 projects are currently under development under PESCO,<sup>7</sup> which, after successful implementation, will make an important contribution to improving the defence capacity of the EU Member States. Past activities under PESCO have also revealed a number of challenges, such as slow progress of projects, insufficient funding, as well as divergent national visions or lack of interest in the progress of projects.

In response to the challenges posed by the Russian invasion of Ukraine in the field of arms and arms production, the first Defence Industrial Strategy (EDIS), as well as a new Defence Industrial Programme

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<sup>7</sup> PESCO. (n.d.). *PESCO Projects*. <https://www.pesco.europa.eu/#projects>

(EDIP), was developed in the EU in March 2024. Both initiatives aim at strengthening Europe's defence technological and industrial base by promoting closer cooperation in procurement and boosting the capacities of local defence industries.<sup>8</sup> The new European Defence Industrial Programme, with €1.5 billion in funding, focuses on adapting the defence industry.

Given the relatively short duration of the two initiatives, it is too early to assess their impact on Europe's defence capabilities, but in light of the objectives, EDIS will allow for strengthening the strategic autonomy of the EU by making Member States less dependent on external procurement and strengthening security of supply chains. Promoting joint procurement between Member States can serve as a signal to the defence industry, for its part, to further invest in increasing production capacity and developing new technologies. From the perspective of Latvia, the EDIP's focus on small and medium-sized defence industry companies and ways of integrating them into cross-border production chains is positive.

At the same time, EDIS and EDIP have been criticised mainly for their limited funding, mentioning that €1.5 billion over the 2025–2027 period is insufficient to meet Europe's defence adaptation needs. The implementation of the strategy will also depend on the position of the Member States, the balance between promoting the interests of their defence undertakings and openness to wider cooperation within the framework of the EU.

Latvia's policy within the framework of European Union security initiatives can be described as supportive, while also seeking to ensure that EU initiatives do not overlap or compete with similar initiatives within NATO. PESCO, EDIS and related initiatives addressing EU defence issues, such as military mobility or capacity building of the defence industry at its core, are beneficial as they enhance the defence capabilities of EU Member States (most of which are also NATO members), through which

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<sup>8</sup> European Parliament, Council, European Economic and Social Committee and Committee of the Regions. (2024). *A new European Defence Industrial Strategy: A responsive and resilient European defence industry as a guarantee of EU preparedness*. [https://defence-industry-space.ec.europa.eu/document/download/9ba01e49-1d3e-4617-a9a4-14e92eb34c91\\_en?filename=JOIN\\_2024\\_10\\_1\\_LV\\_ACT\\_part1\\_v2.pdf](https://defence-industry-space.ec.europa.eu/document/download/9ba01e49-1d3e-4617-a9a4-14e92eb34c91_en?filename=JOIN_2024_10_1_LV_ACT_part1_v2.pdf)

deterrence is also strengthened. In the context of the defence industry, initiatives focusing on the security of supply chains and the involvement of the local defence industry are particularly important for Latvia. The Law on Defence and Security Procurement already provides for the involvement of the local industry in the performance of the procurement contract,<sup>9</sup> but EU-level initiatives open up more possibilities for the involvement of Latvian defence sector companies in the development and production of new defence technologies, not only for the needs of Latvia but also for other countries.

### 3. European Union solutions for public safety in Latvia

The European Union's security policy has in recent decades become an essential tool to ensure the internal and external security of Member States, as well as to combat new threats such as cyber and hybrid threats. The EU's more active role in implementing security and defence-enhancing measures is also justified by the gradual changes in public opinion.

In a Eurobarometer survey conducted one year after Latvia's accession to the EU, in which respondents were asked to name three EU priorities, 36% of respondents from Latvia considered that maintaining peace and security in Europe should be the third most important priority for the EU, with the fight against poverty and social exclusion (62%) and the fight against unemployment (51%) being more important.<sup>10</sup> Answering the same question almost 20 years later, in a poll conducted in 2024, 45% of respondents thought safety and protection should be the highest priority for the EU. As the second most important priority, 41% of respondents

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<sup>9</sup> Saeima. Defense and Security Procurement Law. <https://likumi.lv/ta/id/238803-aizsardzibas-un-drosibas-jomas-iepirkumu-likums> Article 23.

<sup>10</sup> European Commission. (2005). *Standard Eurobarometer 63 – Spring 2005*. <https://europa.eu/eurobarometer/api/deliverable/download/file?deliverableId=45582> pp. 33

said the resolution of the Ukrainian war, while 25% of respondents cited irregular migration as the third most important priority for the EU.<sup>11</sup> In the same survey, asked to assess their concerns about EU safety in the next five years, 28% of Latvian respondents said they were very concerned (highest among all Member States) and 44% were partly concerned.<sup>12</sup>

Respondents' priorities highlight the EU's need to address security and defence issues, and point to a growing demand for security and safety-enhancing measures. EU activity covers a wide range of issues, and already the organisation has developed initiatives that strengthen Member States' resilience to hybrid threats. In addition to promoting military mobility and supporting the defence industry, the EU aims to strengthen national cyber defence capabilities by improving cyber security standards and cooperation between national authorities responsible for cyber security. The introduction of common EU cyber security standards increases the overall level of EU cyber security and reduces the likelihood of supply chain attacks.

In reducing external outreach the EU has also played an active role, such as the EU Action Plan to combat disinformation, launched in 2018, and the EU Digital services Regulation, launched in February 2024, which focuses on protecting consumers in the digital environment against both illegal content and attempted fraud.<sup>13</sup> The EU's ability to regulate large information and technology companies that maintain social networks is also important, to motivate these companies to handle harmful content more responsibly and to streamline content.

From a public perspective, the role of the EU in strengthening civil protection should also be highlighted, for example through the EU Civil Protection Mechanism, where Member States can be assisted in disasters

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<sup>11</sup> European Commission. (2024). *EU Challenges and Priorities*. <https://europa.eu/eurobarometer/api/deliverable/download/file?deliverableId=93492> pp. 1

<sup>12</sup> European Commission. (2024). *EU challenges and priorities: Flash Eurobarometer 550*. <https://europa.eu/eurobarometer/api/deliverable/download/file?deliverableId=93535> pp. 27

<sup>13</sup> European Parliament and the Council. (2022). Regulation (EU) 2022/2065 on the single market for digital services and amending Directive 2000/31/EC (Digital Services Act). <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX%3A32022R2065>



by resources, specialists and technical assistance such as firefighting aircraft and medical resources. On the other hand, the EU Solidarity Fund can support countries' recovery after disasters with financial assistance, for example, by helping to restore damaged infrastructure.

National economies are closely linked to the capacity of countries to strengthen defence, security and prosperity for their citizens. In a situation of fragility in the vicinity of the EU, it is important to mitigate the overflow of instability on the economic pillars of the EU Member States – private companies. In this case, it is important to continue the work on building business resilience, especially in companies providing services critical to society and the state. EU initiatives focused on combating disinformation and promoting cyber security also directly enhance business resilience. Support measures provided by the EU, for example, to mitigate the economic fallout from the COVID-19 pandemic, are also helping businesses recover from crises.

Geopolitical instability, especially Russia's and Belarus's aggressive policies, is likely to continue to pose security challenges by 2030 that the European Union and its Member States will be forced to respond to. The EU's security and defence policies will need to focus on strengthening borders by 2030, as well as tackling cyber security and hybrid threats that require even closer cooperation with NATO and the use of new technologies in defence.

Managing migration will remain a major challenge in the future, especially given the growing pressure from Africa and the Middle East regions, where climate change and socio-economic factors will boost migration flows. The EU will need to further develop migration policies by 2030 to balance security and human rights aspects. Russia's invasion of Ukraine has highlighted the high importance of the defence industry, especially in long-running and intense conflicts. The EU will need to continue the European Defence Industry Development program and other defence industry-supporting initiatives to promote the development of new technologies and industry capacity building, thereby strengthening the EU's strategic autonomy.

The role of the European Union as a player in security and defence can also be seen in the context of potential enlargement. Currently, there



are several countries from the Western Balkans and Eastern Europe with their own security features as candidate countries. Several EU candidate countries from the Western Balkans are already NATO members, which will strengthen the need to coordinate EU and NATO actions to strengthen defence. At the same time, the participation of the Western Balkan countries may highlight other risks related to national internal security, such as organised crime. The participation of Eastern European countries may require the EU to focus on regional security challenges, including the resolution of frozen conflicts. Public demand for greater EU role and security activity will help decision-makers, thus providing a strong mandate to drive even wider EU engagement in strengthening security across the region.

## Recommendations

In light of developments in recent years, particularly the proliferation of global and regional security challenges and instability, the European Union will need to focus more on security issues in the coming years and become a more active player in regional security issues in particular. From the perspective of Latvia, it is important to maintain the EU and NATO as complementary frameworks for defence and security and to avoid duplication of functions. NATO is the primary organisation for defence and deterrence, especially in the military and nuclear security sectors, while EU capacity needs to be developed in a wider range of security scenarios, especially in building resilience between countries and societies. It is important for the EU to further develop support measures for the European defence industry by facilitating investment attraction, and strengthening the security of supply chains within the framework of the EU, both through the involvement of Member States' companies and promoting joint national procurement, thus ensuring demand.

It is important to further strengthen the role of the EU in cyber security and information space protection issues, including through

the improvement of cyber security standards, thereby increasing shared cyber resilience and reducing the likelihood of attacks on supply chains. In the protection of the information space, the EU should continue to use regulatory instruments to promote a more responsible attitude of large information and technology companies and social networks to disinformation.

The challenges posed by migration mean that more attention will have to be paid to border protection issues, encouraging cooperation and support between Member States and Frontex in the event of migrant arrivals.

In the coming years, it is important for the EU to maintain strategic focus in its nearby regions without changing the “Open Door Policy” on membership, thus providing neighbours and their societies with development perspectives that can serve as a stabilising tool in the wider European region.

# Summary of Recommendations

As the European Union approaches 2030, it is imperative that Member States, including Latvia, adopt a proactive and unified approach, to overcome the myriad challenges and make use of the opportunities. These recommendations aim to strengthen EU resilience, unity and global influence by ensuring that it remains a prominent player in the global arena.

## 1. Promoting economic resilience and innovation

In order to maintain its economic competitiveness in a rapidly changing global environment, the EU should prioritise innovation and digital transformation. Member States should invest in EU-level research and development (R&D), particularly in green technologies and digital infrastructure. A strong EU-wide strategy that promotes cooperation between the public and private sectors can promote the development of innovative solutions to address societal challenges, from climate change to healthcare. In addition, promoting entrepreneurship and supporting small and medium-sized enterprises (SMEs) can stimulate job creation and economic growth. EU should improve access to finance and resources for start-ups, especially in emerging areas such as artificial intelligence and biotechnology. By promoting a vibrant business ecosystem, the EU could position itself as a leader in innovation and economic sustainability.

One of the main challenges is innovation, which promotes productivity, competitiveness, growth, and prosperity. Innovation, in turn, requires investment, including investment in R&D, and the development of people's knowledge and skills. In parallel, funding of credit institutions to businesses should be encouraged. The lack of business finance is one of the main reasons why Latvia's growth lags behind Lithuania and Estonia over the last decade.

## **2. Strengthening internal cohesion and solidarity**

The challenges facing EU are not just external; they also stem from internal divisions and differences between Member States. Promoting a sense of solidarity and a common goal between all Member States is essential to address these issues. This can be achieved by establishing a stronger framework for dialogue and cooperation, allowing for the exchange of best practices and experiences in areas such as economic policy, social welfare and environmental sustainability.

Furthermore, the EU should prioritise the integration of marginalised regions and communities, ensuring that all citizens benefit from Union policies and initiatives. This may include increasing funding for cohesion programmes and promoting regional development projects that empower local populations. By promoting inclusion and eliminating regional disparities, the EU can strengthen its internal coherence and resilience.

Latvia's priorities are defined in the government declaration: protection, healthcare and education. Each of the priorities requires significant budgetary resources. Both the OECD and the European Commission have recommended that Latvia follow stricter fiscal policies. It is dangerous to raise public debt above 50% because of the need for an airbag for an unforeseen future crisis. As part of the budget deficit ceiling, protection is now the top priority. Financial sources need to be found to contribute as much as possible to the development of the military industry serving both national security and export capacity and economic growth.

### 3. Leading the global Green Transition

As the EU aims to become a global leader in the fight against climate change, it is important to develop and implement ambitious environmental policies in line with the objectives of the European Green Deal. Member States should commit to carbon neutrality by 2050, while setting milestones for reducing emissions by 2030.

In addition to regulatory measures, the EU should promote sustainable practices in all sectors, from agriculture to transport. This can be achieved through financial incentives for green technologies, as well as public awareness campaigns that promote responsible consumer behaviour. By positioning itself as a pioneer of sustainable development, the EU can influence global climate policy and inspire other countries to follow suit.

Climate change mitigation is a complex set of measures across sectors that can interact with each other. For example, increased use of biomass in the energy sector may contribute to more intensive deforestation and reduced carbon sequestration. It is therefore necessary to carefully assess the long-term impacts of the various measures when implementing climate policies.

As the energy sector will become increasingly complex in the future, cooperation between the various stakeholders needs to be improved. Decision makers should encourage the deployment of well-researched and economically sound solar and wind technologies. At the same time, energy security is also an essential aspect in the context of different variables. Changes in fuel and energy prices, differences in climate conditions and increasing environmental requirements pose risks to economically unjustified investments and increases in additional costs. Diversification of energy resources used by maximising local energy resources, increasing energy efficiency and reducing final consumption, as well as interconnection of sectors, are the future solutions for energy security.

Sustainable use of resources is also an essential aspect of the fight against climate change. This can be achieved by developing circular economy principles that minimise waste and encourage re-use of

resources, especially in sectors such as waste management and wood processing. For example, the use of local resources in the wood and biomass sectors not only contributes to energy independence, but also reduces the need for imported energy resources. This can be an important step in developing sustainable resource management by promoting long-term economic and climate resilience. Integrating these elements highlights not only the scientific validity of climate policy, but also the role of energy diversification and the circular economy in future climate and economic sustainability.

## **4. Improving security and defence cooperation**

From the perspective of Latvia, it is important to maintain the EU and NATO as complementary frameworks for defence and security, avoiding duplication of functions. NATO should remain the primary organisation for defence and deterrence, especially in the military and nuclear security sectors, while the EU should develop capacity in the wider security spectrum, especially in building resilience between countries and societies. It is important to further develop support measures for the European defence industry by encouraging investment attraction and strengthening security of supply chains within the framework of the EU, as well as promoting joint procurement by Member States. It is important to further strengthen the role of the EU in cyber security and information space protection issues by improving cyber security standards and reducing the likelihood of attacks on supply chains. In order to protect the information space, the EU should use regulatory instruments to promote a more responsible attitude of large information and technology companies and social networks to disinformation. In the context of the challenges posed by migration, more attention needs to be paid to border protection issues, strengthening cooperation and support between Member States and Frontex in the event of an influx of migrants. In the coming years,

the EU must maintain strategic attention in the nearby regions without changing the “open door policy” on membership, thereby providing the neighbouring countries with prospects for development and promoting stability in the wider European region.

The authors of the publication recommend that in order to revive the enlargement process, the Baltic States should call on the other EU leaders to demonstrate more consistently the core values of the EU and to effectively address both internal and external contradictions that stifle the expansion of the EU. EU Member States should pay attention to the internal opposition of some citizens to the expansion of the EU, addressing citizens’ concerns directly, while addressing the impact of external, EU-unfriendly actors. Baltic policymakers should respond more actively to external influences from unfriendly countries that seek to disrupt the EU enlargement processes in the Eastern Partnership countries. In order to achieve a strategic balance, the enlargement criteria must ensure that the fundamental values of the EU are respected, while requiring candidate countries to adapt national legislation to the EU standards. By positioning itself as a mediator and facilitator on global issues, the EU can increase its influence and promote stability in strategically important regions. The Baltic States should also use their reputation in Ukraine by promoting reforms based on the EU standards and helping the Ukrainian administration move towards EU integration while improving the involvement of the non-governmental sector in decision-making.

## **5. Overcoming geopolitical challenges with strategic diplomacy**

As the global balance of forces changes, the EU must navigate complex geopolitical landscapes with a strategic and unified approach. Member States should prioritise the development of a comprehensive foreign policy that reflects common values and interests by enhancing the ability of the EU to act as a single force in international relations. This

means strengthening partnerships with key global players, engaging in multilateral diplomacy and supporting a rules-based international order. In addition, the EU needs to strengthen its technological autonomy and innovation capacity to become a global leader in the digital and technological fields. This requires more investment in the development of artificial intelligence, cyber security and digital infrastructure, as well as a stronger digital ecosystem. This autonomy will reduce the influence of external countries and strengthen the EU's economic and security position. At the same time, the EU need to strengthen the protection of the information space by combating disinformation and foreign disinformation campaigns more effectively that undermine internal cohesion and trust in democratic values.

The recommendations set out above serve as the basis for a future-ready European Union. By focusing on economic resilience, internal cohesion, environmental leadership, security cooperation and strategic diplomacy, the EU can overcome the challenges of the 21st century and become a strong, united and influential player in the global arena. Through collective action and a commitment to shared values, the EU can ensure a prosperous future for their citizens and make a positive contribution to global governance and sustainability.



# Biographies

**Dr Kārlis Bukovskis** is the Director of the Latvian Institute of International Affairs and Associate professor of the Faculty of European Studies at Riga Stradins University. Kārlis Bukovskis is the author of about a hundred analytical and scientific articles and also the scientific editor of several books. In 2021, Kārlis Bukovskis was a visiting scientist at Johns Hopkins University in the US as part of the Fulbright grant, as well as an Associate Researcher at the European Council on Foreign Relations (ECFR) from 2017 to 2021. He studied at the University of Trier in Germany, and he acquired master's degrees from the University of Latvia and the University of Helsinki and a doctoral degree (Dr. SC. Pol.) in International Politics at Riga Stradins University. He has dealt with the future of the EU and issues regarding the EMU at the Latvian Foreign and Finance Ministries, and he developed a six-month work programme for the Latvian Presidency of the Council of the EU. Kārlis Bukovskis is also one of two creators and managers of the programme “Diplomatic Lunch” on Latvian Radio 1. Dr Kārlis Bukovskis's main research topics are the issues of the European Union and the International Political Economy.

**Dr Marija Golubeva** is a policy analyst and international development practitioner, chairwoman of the board of the think tank Baltic Initiative for EU Reform. She studied at the University of Latvia and the University of Cambridge (UK), where she received a doctorate in history. She worked in public administration and worked for a long time at the PROVIDUS think tank and later at ICF in Brussels. In 2018–2022 she was deputy of the Saeima and in 2021–2022 – Minister of the Interior.

**Māris Cepurītis** is the director of the Centre of East European Policy Studies and lecturer at Riga Stradins University. Māris Cepurītis has previously worked in the diplomatic service at the Ministry of Foreign Affairs. Māris Cepurītis has obtained a master's degree in international relations and completed a doctoral programme at Riga Stradins University, as well as being an adviser to Prime Minister Krišjānis Kariņš on national security issues.

**Dr Ieva Pakere** is a lead researcher at the Institute of Energy Systems and Environment of the Faculty of Science and Technology of Riga Technical University. Dr Ieva Pakere is the author of more than 50 scientific publications, participated in various scientific conferences and the implementation of scientific projects. Her research interests include sustainable development of energy systems, renewables and energy efficiency. She has gained practical experience in the field of energy efficiency improvement through her work as a certified energy auditor.

**Aleksandra Palkova** is the Head of the EU Programme at the Latvian Institute of International Affairs, where she oversees projects under the Horizon Europe and Citizens, Equality, Rights and Values (CERV) programs. Aleksandra Palkova organizes high-level international conferences, publishes books and provides expert analyses and opinion commentary. While attending a doctorate in International Relations, Aleksandra Palkova holds the post of researcher at Riga Stradins University, specializing in EU crisis management and security issues. Since 2021, Aleksandra Palkova has made a significant contribution as an associate researcher at the European Council on Foreign Relations (ECFR), playing a key role in the development of influential analyses used by the European Commission and the European Parliament. In addition, since 2022 Aleksandra Palkova has been a lecturer at Riga Stradins University and Vidzeme University, working with both undergraduate and master level students. From 2023 to 2024 Alexandra Palkova served as a Researcher for the Political Committee of the NATO Parliamentary Assembly (NATO PA).

**Dr hab. Inna Šteinbuka** is a professor at the University of Latvia, a Member of the Council of the University of Latvia and chairwoman of the Fiscal Discipline Council of Latvia. Since October 2018, Inna Šteinbuka has been an adviser to the Vice-President of the European Commission Valdis Dombrovskis. From 2011 to 2018 she headed the European Commission's Representation in Latvia. Since 2005 she worked in the European Commission, serving as the Director of Eurostat's Department of Economic and Regional Statistics and the Department of Social and Information Society Statistics. Prior to that, she headed the Latvian Public Utilities Commission, was a Senior Adviser to the Director of the Nordic-Baltic region of the International Monetary Fund in Washington, as well as held various positions in the Latvian Ministry of Finance. She is a Member of Operates in the "Economists' Association 2010". Inna Šteinbuka is a full Member of the Latvian Academy of Sciences. In 2008, Inna Šteinbuka was awarded the Order of the Three Stars for outstanding financial and economic achievements.

**Valdis Zatlers** is a Latvian doctor, politician, and President of Latvia (08.07.2007–08.07.2011). As President of Latvia actively advocated promoting political and economic competitiveness of Latvia, strengthening the rule of law and modernising the political system. Valdis Zatlers' foreign policy activities have strengthened Latvia's external security, confidence in Latvia's economic sustainability. Valdis Zatlers has advocated for building national self-awareness, emphasized the role of Latvian in social cohesion, as well as promoted dialogue with minorities in Latvia. A longtime head of the Hospital for Traumatology and Orthopaedics.

