

Impact of Pandemics and War in EU's Cohesion Policy: problematics and challenges

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Abstract

The impact of Russia's war in Ukraine, as another external shock, in EU's economy and society is clearly high. It arrived just when another external shock (the covid-19 pandemic) was getting absorbed and overcome.

This research frames this war in an historic evolution of multiple political factors in Europe and then characterizes the consequences of this external shock.

Then an analysis of the degree of asymmetry in the distribution of those impacts across the EU regions is made and a framework for the following years is proposed: the quadruple transition.

The paper finishes with an assessment of how these four transitions are assuming different paces in different EU regions, calling for an intervention of EU's cohesion policy.

1. Cohesion in the EU

“The Council of Europe defines social cohesion as the capacity of a society to ensure the well-being of all its members – minimising disparities and avoiding marginalisation – to manage differences and divisions and ensure the means of achieving welfare for all members. Social cohesion is a political concept that is essential for the fulfilment of the three core values of the Council of Europe: human rights, democracy and the rule of law.” (Council of Europe, 2010, p. 2)

Deprived of a common tax policy, European Union has little more than its Social and Regional Cohesion Policy to correct asymmetries, promote growth on poorest and most peripheral regions, or harmonize income between different countries and social classes, following the fundamental principles of the Treaty of Rome. In today's uncertain and turbulent times, Europe faces strong and new challenges.

Unemployment, economic and financial difficulties, the refugee crisis, the pandemic and more recently the war in Ukraine are forcing policy makers to move forward with a set of social measures like never before. Europeans discontent is evident and manifests itself at the polls, through the election of nationalist and radical governments, for

whom the idea of a Common Europe that takes precedence over States is not exactly welcomed.

This is why European Cohesion Policy is even more important at the moment. Europe has turned poorer and demoralized after the pandemic, many companies are slow to recover, close and leave workers unemployed. Ukrainian refugees are a new concern, with an estimated five million having already entered the EU-27 space. This movement entails costs, human resources and others, which many of the receiving countries find it difficult to bear. The energy problems resulting from the conflict, with the drastic reduction of Russian gas imports, is a strong additional problem. As energy markets operate in a free regime, prices have skyrocketed, affecting the cost of industrial production and consumer prices.

Nuclear or fossil fuels are not environmentally friendly, and clean energies are still incipient to sustain this clash.

In summary, the European Cohesion Policy can be described as a package of measures that aims to promote economic growth, correct asymmetries between countries and regions and focus on the main European political priorities, such as Green Europe and Digital Transition. For the period 2021 - 2027, there are 5 policy goals: achieve climate targets; empower local, urban and territorial

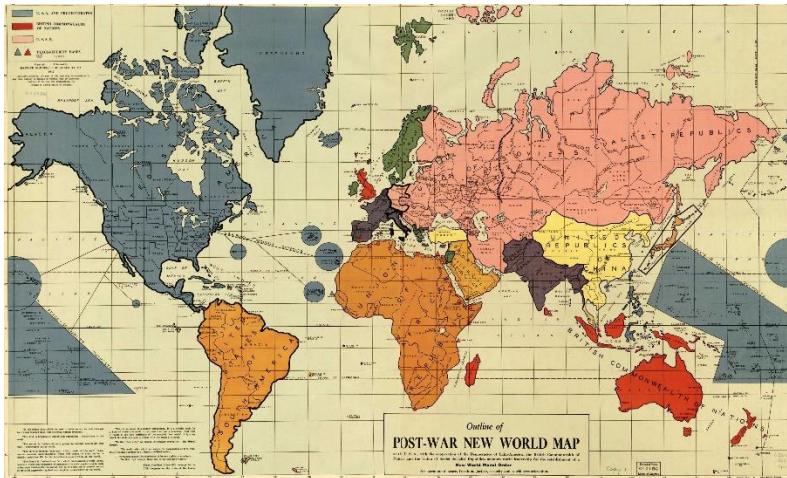
authorities in funds management, simplification of processes, create conditions to success and flexibility to new challenges and emerging needs.

On this basis, the European Cohesion Policy has the following funds to support investment: European Regional Development Fund, European Social Fund, Cohesion Fund, Just Transition Fund and Interreg programmes. The total amount available is 392 billion euros. With the national co-financing, about half a trillion euro will be available to finance programmes in EU regions and countries.

2. Europe's Defense Policies and Politics after Perestroika

At the end of the Second World War, a new geopolitical order was established, based on the territorial dominance of the main winners: United States of America (USA) and Soviet Union. In a global scale, the Americans had an evident higher level of dominance than the Soviets, namely in the Far East. At this level, Maurice Gomberg built, between 1941 and 1942, even before the Japanese attack on Pearl Harbour, a proposal for a world map that shows in advance the balance of forces at the end of the war. The map is shown in the following figure (Gomberg, 1942, p. 3):

Figure 1. The Gomberg Map



Source: Gomberg (1942)

In Europe, geopolitical scenario was more balanced, with USA and Soviet Union influencing the countries they had freed from nazis. Diercke's world atlas shows on map this distribution between the two superpowers, something that influences European geopolitics until the present:

Figure 2. Europe after the Second World War



Source: Diercke, Dehmel & Harrison (2015)

After the war, communist parties began to play a leading role in several countries liberated by the Soviet Union, something that Americans understood as an expansionist movement of Soviets.

To counter this strategy (NATO, 1998), they founded in 1949 the North Atlantic Treaty Organization (NATO), a way to restrain Soviet expansion and relaunch European military capability. The 12 founding members were USA, Canada, United Kingdom, France, Italy, Netherlands, Belgium, Luxembourg, Denmark, Iceland, Norway and Portugal. In 1952, Greece and Turkey join NATO and in 1955 West Germany also joined.

Immediately after West Germany's entry into NATO, the Soviet Union and seven Eastern European countries signed, in May 1955, the Treaty of Friendship, Cooperation and Mutual Assistance, which became known as the Warsaw Pact. This agreement aimed at the collective defense of the subscribing countries (CVCE, 1955), giving rise to the term East Bloc, which was opposed to the West Bloc, led by the United States of America and NATO. Both had antagonistic visions of the world, at the political, geostrategic, economic and social levels. The creation of the Warsaw Pact was the starting point of the Cold War and of an arms race, which continues until today.

The Cold War manifested itself on several fronts: in addition to traditional weapons, nuclear programs and the race to space were the most important. The American and Soviet military presence, at a strategic, training and even operational level, manifested itself all over the world, namely in the African, Asian and South American

continents. The Cold War and the Warsaw Pact died out at roughly the same time, just before the collapse of the Soviet Union.

Although it only took place in 1991, the collapse of the Soviet Union began about ten years earlier, with the death of Aleksey Kosygin, Leonid Brezhnev's prime minister at the time. Brezhnev and Kosygin are probably the most enduring duo of the Cold War, the politicians who shaped the soviet presence in the world during the 60's to the 80's. With Brezhnev's death in 1982 the Soviet Union is mortally wounded. The following presidents are obscure KGB officials, Yuri Andropov and Konstantin Chernenko. In 1985, Mikhail Gorbachev became general secretary of the Communist Party, and his charisma and influence immediately began.

Opening policies, called glasnost, and restructuring, the perestroika, gained prominence and radically changed the soviet political spectrum. In 1986, a nuclear reactor at Chernobyl explodes, which leads to the beginning of negotiations on nuclear weapons with the USA and the arrival of Gorbachev in 1988 (Faringdon, 1989; Black *et al*, 2000; Judt, 2005; Keeran & Kenny, 2010; Zubok, 2021; History Editors, 2022).

One of Gorbachev's first steps was to open the economy to private entities. But it was too late. On may 15 of that year, the Soviet

military began to withdraw from Afghanistan, an operation that would only end in february of the following year. The dishonour of this defeat and the miserable living conditions in the Soviet Union and other countries of the Eastern Bloc led to increasing manifestations of discontent. These rallies led, on november 9, to the fall of the Berlin Wall (Faringdon, 1989; Black *et al*, 2000; Judt, 2005; Keeran & Kenny, 2010; Zubok, 2021).

In 1990 Boris Yeltsin is elected president of the Russian Federation, which includes a number of soviet socialist republics, while others declare themselves independent. In august of the following year, he suspended the Soviet Union Communist Party, and the following month Congress dissolved Soviet Union. On Christmas Day 1991, Mikhail Gorbachev resigns as President of the Soviet Union (Faringdon, 1989; Black *et al*, 2000; Judt, 2005; Keeran & Kenny, 2010; Zubok, 2021).

Soon after the fall of the Berlin Wall, negotiations began for the unification of the two Germanys, which came to be through the Two Plus Four Treaty, in September 1990. To ensure Soviet approval for the entry of a unified Germany into NATO, it was agreed that foreign troops and nuclear weapons would not be deployed in the former East Germany.

As late as 1990, according to Cold War historian Mark Kramer (Kramer, 2017), during a conversation between former US Secretary of State James Baker and Soviet leader Mikhail Gorbachev, Baker suggested that the German reunification negotiations resulted from an agreement in which "there would be no extension of NATO forces to the East", interpreted as the non-entry of NATO in the countries of Eastern Europe (Savranskaya, Blanton & Zubok, p. 675).

But in 1992, Polish President Lech Walesa expressed to Russian Federation President Boris Yeltsin his intention to join NATO, and Yeltsin did not object to, what he later denied (Eichler, 2021).

From then on, the Russian position was always of opposition to the enlargement of NATO to East, culminating on an agreement with NATO in may 1997, in which it was stated that new accessions to the Alliance of Eastern European countries would be seen by Russia as a threat to its national security (Eichler, 2021, p. 35).

In february 1991, Poland, Hungary and Czechoslovakia form the Visegrad Group, to boost the integration of their countries into the European Union and NATO, as well as move forward with reforms in their armed forces, already in line with NATO standards. Despite an initial negative reaction from NATO, the Rome Summit in november

1991 introduced a set of requirements that these countries had to fulfil, in order to formalize their membership.

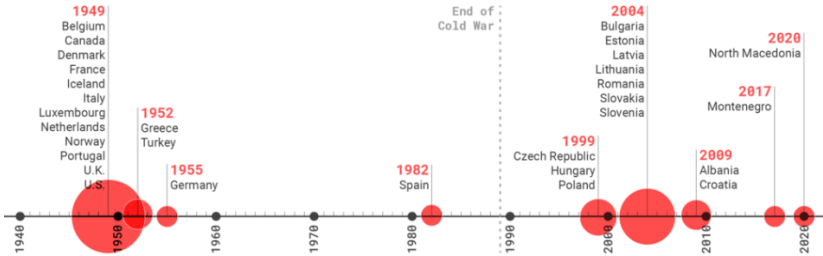
Meanwhile, the Bush and Clinton Administrations have made the eastward enlargement of NATO one of their main political orientations for Europe. Thus, at the 1997 Madrid Summit, Poland, Hungary and the Czech Republic (which meanwhile had separated from Slovakia) were formally invited to join NATO, as well as Romania and Slovenia. Slovakia was left out, due to the practices considered undemocratic by its prime minister at the time, Vladimir Meciar. The entry of Poland, Hungary and Czech Republic into NATO was formalized in march 1999 (Eichler, 2021).

At the 1999 Washington Summit, NATO outlined new plans for the accession of countries, aimed in particular at Albania, Bulgaria, Estonia, Latvia, Lithuania, North Macedonia, Romania, Slovenia and Slovakia (US Government, 1999).

In May 2000, these countries joined Croatia and formed the Vilnius Group, in order to cooperate in the NATO accession process. At the Prague Summit in 2002, seven of them were invited, and their accession took place at the Istanbul Summit in 2004. Albania and Croatia were left out, but they joined in 2009 (NATO, 2002).

All the socialist republics of the Eastern Bloc joined the NATO and the Western Bloc in about 10 years, except Belarus and Ukraine. However, in 2008 NATO Bucharest Summit (NATO, 2008), Ukraine and Georgia showed their interest in joining NATO Membership Action Plan. In this way, Russia became increasingly isolated in the European geopolitical context, with only Ukraine to the south, Belarus to the southwest and Finland and Sweden to the west as barriers to NATO. This situation did not please Vladimir Putin, for whom the main part of his country's geostrategic chess was played on the European front (Eichler, 2021).

Figure 3. NATO Timeline



Source: Menon (2022)

Figure 3. Geopolitical Europe in 2022



Source: The Economist (2022)

But during this period of the collapse of the Soviet Union and the enlargement of NATO in Europe, what happened in Western Europe? In 1948, France and England founded the Western European Union (WEU/UEO), with a military component. However, from 1950 onwards, NATO completely cannibalized this organization, between the 50s and 80s.

From the Single European Act, in 1986, Europe began to pay greater attention to the role of security and defense in its foreign policy. With the Maastricht Treaty in 1993, the European Union adopted its Common Foreign and Security Policy (CFSP). In 1999, the European Union fully integrates the tasks of the WEU/UEO and the CFSP becomes a fact (Grevi, Helly & Keohane, 2009).

In 2004, the European Defense Agency (EDA) was created. Based in Brussels, its main goal is to promote and facilitate integration between member states within EU Common Security and Defence Policy (CSDP), the new designation to CFSP since 2009 (Rehrl, 2021). Only Denmark stayed aside. However, practical results of EDA performance were not positive, as UK several times blocked measures of more operational nature, permanently adopting a pro-NATO attitude and leaving EDA in the background. In 2009, the Treaty of Lisbon includes a mutual defense clause between member states, and some immediately accept more demanding criteria in the context of a Permanent Structured Cooperation (PESCO).

The Lisbon Treaty also led to the extinction, in 2011, of WEU/UEO, which became redundant in view of the newly adopted measures (Rehrl, 2021). The mutual defence clause was first time invoked in november 2015, following the Paris terrorist attack. In 2016, EDA leader Federica Mogherini presented a new european security and

defense strategy, called European Union Global Strategy (EUGS) (Mogherini, 2016). This strategy was the EU updated doctrine to improve defence and security effectiveness of the Union and its members states, cooperation between member states armed forces, civilians protection, management of immigration, crises, etc.

The strategic autonomy concept was an important part of EUGS, expressed on a document titled Implementation Plan on Security and Defense (IPSD). This concept refers to European Union ability to defend Europe and act militarily in its neighbourhood, without so much reliance on the United States, showing that Europeans collectively have capability and will to stand up for themselves from a security and defense scope.

After Russia annexation of Crimea in 2014, British referendum supporting UK Brexit in June 2016 and Donald Trump campaign to US presidency in the same year, the CSDP gained new strength, which gave rise to a set of new initiatives: Permanent Structured Cooperation (PESCO; 2017 to present), European Defence Fund (EDF; 2017 to present), Military Planning and Conduct Capability (MPCC to present), Coordinated Annual Review on Defence (CARD; 2019 to present) and Directorate General for Defence Industry and Space (2019 to present) (Duke, 2018; Nunes, 2018; Engberg, 2021).

EDF and PESCO are instruments that, in their institutional and legal-legal basis, constitute distinct, although complementary, realities. In their complementarity, both seek to: (i) strengthen common security and defense; (ii) promote european defense cooperation; (iii) establish an integrated, robust, sustainable, innovative and competitive european defense technological and industrial base; (iv) moving towards the creation of a more efficient defense market; (v) empower Europe with a broad and coherent set of credible, interoperable and highly operationally military forces, in complementarity with NATO. Their joined purposes leverages european defense economy forward, rising it into a global competitive level.

The Russian invasion of Ukraine has provided a big opportunity for western allies to work together on common responses. NATO and European Union have continued to work together, despite the rising energy crisis caused by the western sanctions on the Russian economy and the Russian interruption to gas supplies.

The 7th Progress Report on EU NATO cooperation was published on 20/06/2022. The opening sentence of this report includes the allies answer to the threat posed by this invasion. *“Since the first day of Russia’s invasion of Ukraine, the EU and NATO, EU Member States and NATO Allies, have been standing and working together. Our*

strategic partnership is more robust and relevant than ever at this critical moment for Euro-Atlantic security. Political dialogue at all levels has further intensified, demonstrating NATO and EU unity and our common resolve in condemning Russia's war of aggression and in expressing full solidarity with Ukraine, its sovereignty and territorial integrity, as well as its right to self-defence. EU-NATO staff cooperation mechanisms have also been enhanced to support coherence and mutual complementarity of efforts in responding to Russia's invasion of Ukraine" (EU & NATO, 2022, p. 2).

The report deals with the common proposals implementation, which were endorsed by EU and NATO Councils in 2016 and 2017, with parallel processes and reports on progress achieved each year and emphasise the enhanced EU–NATO political dialogue and common messaging developed, as well as the increased frequency of cross-participation in respective high-level meetings. These included regular meetings between the North Atlantic Council (NAC) and the EU Political and Security Committee (PSC). The report also notes that *"The adoption of the EU's Strategic Compass in March as well as the forthcoming adoption of NATO's next Strategic Concept in June offer a unique opportunity to further enhance coherence and synergies between the two organizations"* (EU & NATO, 2022, p. 2).

The report shows how the two staffs are working on agreed proposals for common action. These are grouped under specific areas such as: Hybrid Threats, Cybersecurity and Defence, Operational Cooperation and Exercises (including maritime issues), Defence Industry and Research, Defence Capabilities (including interoperability), Defence and Security Capacity Building and Political Dialogue.

In 21/03/2022, the European Union has formally approved its Strategic Compass, the first security and defence strategic document held in a period of war in Europe. It delivers EU an ambitious plan of action, defining security and defence policy until 2030. In investment scope, Strategic Compass supports a substantial increase in defense spending by Member States (4%, 6%, 8% or more), as well as the reduction of critical gaps in military and civil capacity, reinforcing the European Defense Technological and Industrial Base (EDTIB) and stabilizing national goals on defense spending, to meet security needs of each Member State and the European Union itself. Strategic Compass focus on collaborative capabilities development in the EU defense industry, proposing increased incentives for these projects, including next-generation equipment to operate on land, sea air and cyber.

Alternatively, it intends to boost technological innovation in defense, in order to fill strategic gaps and reduce technological and industrial dependence on third parties.

In order to act quickly and vigorously whenever a crisis arises, with partners if possible and alone when necessary, the EU will establish a 5.000 soldiers rapid mobilization and intervention force for different types of crises, among other actions such as increasing military mobility and full use of the European Peace Facility to support partners. *“If a Member State is a victim of armed aggression on its territory, the other Member States shall have towards it an obligation of aid and assistance by all the means in their power, in accordance with article 51 of the United Nations Charter”* (EU, 2022, p. 17).

After Strategic Compass, on 29-30 June Madrid Summit, NATO leaders set the Alliance strategic direction for near and long-term future. The agenda's main item was NATO 2022 Strategic Concept. This is a guiding document, reflecting the new security reality that emerged since previous Strategic Concept, in 2010 (NATO, 2022b).

NATO 2022 Strategic Concept identifies Russia as significant and direct threat to allied security, addresses China for the first time and includes other challenges like terrorism, cyber and hybrid warfare. It sets the biggest change on allied collective security and defence since

Cold War, upgrading defence plans, with more forces at high readiness and specific forces pre-assigned to defend specific allies. There will be more troops, pre-positioned equipment and weapon stockpiles on Alliance’s eastern flank, enhancing NATO’s multinational battlegroups as showed below:

Figure 4. NATO’s Eastern Flank (june 2022)



Source: NATO (2022c)

The Summit also focused on increase investing in defence and reaffirmed Allies commitment to spend at least 2% of GDP on defence by 2024. Another important decision was a strong Comprehensive Assistance Package for Ukraine, including support in secure communications, anti-drone systems and fuel as well as long-

term help for Ukraine to transition from Soviet-era military equipment to modern NATO equipment.

Regarding EU-NATO relations, the Summit final declaration stated: *“Taking into account our unprecedented level of cooperation with the European Union, we will continue to further strengthen our strategic partnership in a spirit of full mutual openness, transparency, complementarity, and respect for the organisations’ different mandates, decision-making autonomy and institutional integrity, and as agreed by the two organisations. Our common resolve in responding to Russia’s war against Ukraine highlights the strength of this unique and essential partnership”* (NATO, 2022b).

2.1 Where do we stand?

Essentially, Europe emerged from the Second World War with two well-defined geostrategic blocks, to the west and to the east, which over time were repositioned according to the evolution of conjunctures, in political, economic and military terms. The creation of NATO, the EEC/EU and the collapse of the Soviet Union marked recent European history, the former contributing to greater development and cohesion to the west and the latter to an enlargement of NATO to the east, reducing the field of action first of Soviet Union and then Russia.

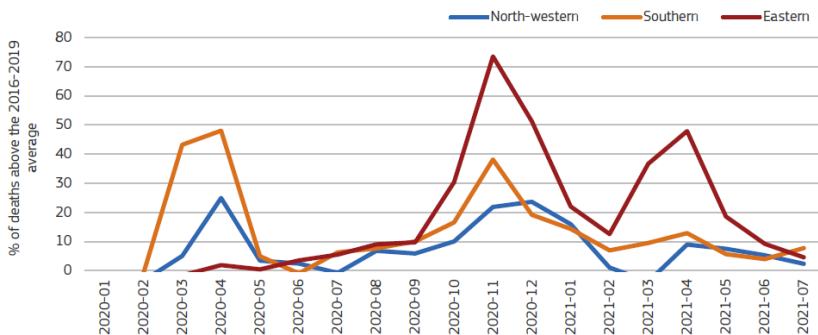
The Russia-Ukraine conflict brought the opportunity to strengthen strategic, tactical and operational cohesion between the EU and NATO, with greater alignment of objectives, joint development and training projects, as well as the joint presence of troops on the eastern European flank, under the joint banner of these two institutions.

3. Pandemic & War

Since the first quarter of 2020, the covid-19 virus entered Europe from China, probably via Italy. This country and others in the Mediterranean basin saw the first major exposure, but the virus quickly spread northward, reaching France, Germany, Austria, England, the Netherlands, Denmark and other geographies.

At the same time, Greece, Spain and Portugal saw the number of infected and deaths rising rapidly, while the World Health Organization, the European Union and other institutions tried as quickly as possible to understand the disease and develop a vaccine. The pandemic declaration was quick and what followed demonstrated the effectiveness of European cohesion.

Figure 1. EU Excess mortality by geographic region, jan2020 - jul2021



Source: European Commission (2021)

Indeed, we saw a coordinated and enormous cooperation between countries and regions, as well as between the various national and European entities and institutions.

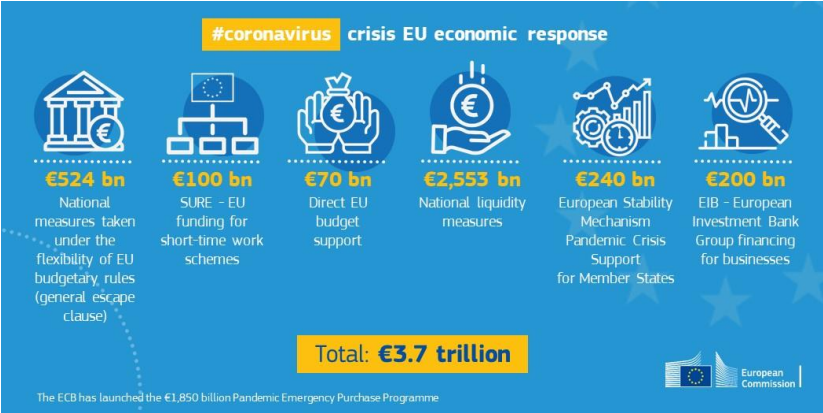
Civil society, military and paramilitary forces, universities, economic agents and health infrastructures, immediately began an enormous struggle against an unknown enemy. Contingency plans were thought, designed and implemented in a very short period of time, always in articulation between areas and countries.

Several universities soon began to develop and test vaccine prototypes, which over the time were optimized to the level they are today. Procedures in public places, travel, schools, hotels, restoration, commerce and other situations have been defined at

European and global level. It is not meaningless to say that Europe was the world leader in the fight against covid-19 and, if the fight is not yet won, Europe is certainly the place where this fight has gone the furthest.

How was this effort financed? Thanks to introduced flexibility in the Cohesion Policy, EU mobilised €3.7 trillion in investments to tackle the effects of coronavirus pandemic, through European Regional Development Fund (ERDF), European Social Fund (ESF) Cohesion Fund (CF), European Investment Bank, European Stability Mechanism and member states budgets. These funds helped national, regional and local communities in countering negative socio-economic impact of the coronavirus pandemic.

Figure 2. Coronavirus Crisis EU Economic Response



Source: European Commission (2022b)

The pandemic situation has not yet been extinguished, subsisting as peaks that temporarily affect countries or groups of countries. For this reason, European cohesion funds remain active on supporting this event, based on the European Union support architecture, above defined. However, since february 24, Russia has invaded Ukraine, opening a new war in Europe and creating the need to support populations, refugees and humanitarian infrastructure.

“By ordering Russian armed forces into Ukraine, President Vladimir Putin has arguably made the greatest blunder of his twenty-two-year long rule. The Russian president seems to have underestimated not just Ukraine’s capacity to resist the invasion, but also the resolve of the United States and its partners to oppose it. If that is indeed the case, the greatest surprise must have come from the European Union” (Alcaro, 2022, p. 2).

Effectively, the European Union not only responded forcefully with its NATO allies, but also advanced with a wide range of economic and financial sanctions against Russian interests and maintained Ukrainian candidacy to join EU. Used to a more concerted, political and diplomatic position, and therefore ponderous, Europeans and the World awoke to a new version of the EU, more muscular and intervening, something that had rarely happened, for example, in Bosnia or Kosovo. This attitude is certainly not strange to the strategy

of union and cooperation that EU implemented two years earlier, with covid-19 pandemic, which has remained until today.

But the context was different and, little by little, sanctions have turned against the EU itself, especially with regard to energy costs. Trapped by mechanisms of free market, the EU has been powerless to stop the incremental rise in energy prices, especially in terms of fossil energy and electricity. The radical cut with Russian supplies, just a few months before Nordstream 2 went operational, further pushed EU into an inflationary spiral, born in the pandemic days, in which energy costs directly influence the price of industrial production and the costs for final consumer. Few countries have managed to minimize this effect, and none manages to get unscathed.

As time runs, rallies are increasingly frequent and crowded, populism is exacerbated and solutions are scarce, apart from occasional supply agreements, almost begged with smaller countries in Asia and Africa. In this scenario, the growing weight of Norwegian and American gas in European supply chain stands out, but neither individually nor together they show capacity to replace the flow of imports from Russia.

Josep Borrell said in march this year that *“The three ways of cutting our dependence on Russia are diversification of supplies, energy efficiency and the acceleration of renewables”* (Borrell, 2022, p. 4).

How is Europe dealing with this situation? Three words mark the actions coming from Brussels: unity, strength and money. The EU has responded with one voice to the challenges that Ukrainian conflict has brought. Apart from Hungarian doubts regarding the sanctions dossier, little or no opposition has been felt regarding the positions adopted by Ursula von der Leyen. The union is constant. Strength has come from an augmented EU-NATO partnership, at the military level, from intransigence regarding sanctions, confiscation of assets and border control, in political field, and from adherence to UN positions, in international field. Finally, money corresponds to the support, through Cohesion Funds and other financial instruments, that Europe gives to refugees, families and companies that struggle daily against this crisis.

At the end of February, EU put forward a wide range of sanctions on Russia, which affected energy, transport, border, financial, technological, media, visa relations and individuals. EU also decided to finance Ukraine weapons purchase programme. At the same time, EU approved the first emergency package of 90 million euros, to support Ukrainian refugees from the war. In March, joint scientific

research programs were suspended. Through Cohesion Funds, EU began to support Ukrainian refugees exodus: activating Temporary Protection Directive, launching Cohesion Action for Refugees in Europe (CARE) and Flexible Assistance to Territories (FLEX-CARE) and, above all, a substantial share of Cohesion Funds through Assistance for Recovery of Cohesion and Territories in Europe (REACT-EU).

Another important support was available under Macro-Financial Assistance (MFA). Until 19 October, the total amount of EU help to Ukraine was 41,6 billion euros, as shown below.

Table 1. Total EU support to Ukraine

Name	Total Amount (billion €)	2022 (until 19/10)							
		feb	mar	apr	may	jun	jul	sep	oct
European Peace Facility (EPF)	3,100	0,500							2,600
EU Humanitarian Aid (EHA)	0,865	0,090	0,500	0,050	0,020	0,205			
Cohesion's Action for Refugees in Europe (CARE)	10,000	10,000							
Home Affairs Funds (HAF)	0,420		0,420						
Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU)	10,000		10,000						
Macro-Financial Assistance (MFA)	17,200		1,200		9,000		1,000	5,000	1,000
European Innovation Council (EIC)	0,020					0,020			
	41,605								

Source: Self-elaboration (based on several EU information)

3.1 What now?

It is speculative to predict how or when the Ukrainian conflict will end, but its effects will certainly continue to be felt in Europe for a long time to come, particularly regarding refugee crisis, energy costs, inflation, depletion of populations and support for Ukraine's reconstruction.

Europe will quickly have to start fighting the rise in prices with drastic and effective measures, such as strongly intervening in energy prices, which should start being fixed by Brussels on a weekly basis and by member state as soon as possible.

This is the only way to counteract the speculative effect that energy markets have been targeting, reducing production costs and consumer prices. If today's European politicians do not do so, others, more extremist and populist, will not hesitate.

4. Impact on cohesion and cohesion policy

Although this research started by setting up a methodology to gather primary data on the impacts of the war on EU's regions, multiple studies have been published along the year gathering and analysing data to answer the very same research questions we had decided to work with. This made us choose to use secondary data.

The Ukraine war impacts on EU we had chosen to study were somehow grouped like this:

- Sanctions

The sanctions packages that have been put in place after the invasion by the EU are having an intentional result of drastically reducing the exports to Russia and Belarus. This affects the economy of different EU regions in a quite disparate way. Even though Russia and Belarus are relatively small export markets for goods for most EU countries, for eight Central and Eastern European OECD countries, the exports of goods to Russia and Belarus represents more than 2% of their GDP. However, for some specific regions in the EU, Russia and Belarus represented a significant share of exports, like the Bremen region in Germany, where 47% of exports went to Russia and Belarus (mostly Mercedes SUVs), or Belgium's Flemish region where "products of the chemical or allied industries" sold to Russia and Belarus represented 42% of total exports, Emilia-Romagna in Italy where "machinery and equipment" exported to Russia represented 1/3 of total exports (OECD, 2022e).

The effects of the sanctions packages on the tourism industry were not as clear. Of course, the regions bordering Ukraine saw a decrease in demand, but it wasn't all that clear that Russian tourists stopped

being an important source of revenue for some European regions. In fact, this led to some EU countries imposing extra restrictions on the entrance and circulation of Russian tourists, but it's not clear the impact on Russian tourism in EU regions.

- Supply chain disruptions

Russia was, before the war, a key supplier of gas and oil for some European regions (90% in most of Germany), while for others (Portugal, Spain, Luxembourg, Ireland,...) it was little more than residual (OECD, 2022e).

The impact of this supply being cut-off, both by sanctions and by terrorist acts, was therefore quite asymmetric across the regions.

Other economic linkages between EU and Russian were less important and have been reduced after 2014 (Guenette, Kenworthy, & Wheeler, 2022). In the very specific case of palladium commodity, some regions in Italy and Germany seem to be very dependent on imports for Russia and the local industries using it are faced with the need to suddenly rebuild supply chains (OECD, 2022e, 2022c).

The global supply chain affected the most is food. Both Russia and Ukraine are very important producers and exporters of cereals, seed oils and fertilizers, creating a high level of insecurity in this very critical supply chain (OECD, 2022d). It's not clear that this very

important disruption will affect different EU regions asymmetrically, as this seems to have become a very unified market in Europe.

- Higher spending on defense

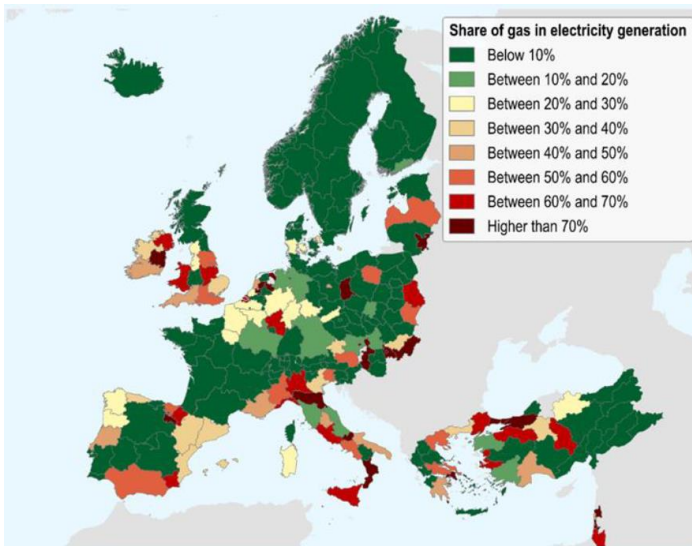
One consequence that could be seen very early on this war was the major change in defense spending that the whole EU chose to undertake. Many EU countries announced significant increases in defense spending and this will have larger impacts on regions with large defense industries and on border regions.

Both factors will contribute to increase economic activities in those regions, while imposing a stronger tax effort all over the EU.

- Inflation

Regions where natural gas was used for electricity generation and regions with higher share of energy intensive industries faced significantly higher difficulties in adjusting to the widespread increase in energy prices (OECD, 2022e) and there are major differences between EU regions on that level.

Figure 3. Share of electricity production from natural gas in large regions, 2019



Source: (OECD, 2022e)

Russia's aggression against Ukraine has also affected the prices of precious metals. While Russia is an important producer for such commodities, EU countries in general seem to be well diversified with respect to the countries that are supplying them, so the problem they face is more a price problem than a supply chain disruption problem (OECD, 2022e).

Food prices seem to be the most affected by the war. Destruction of production equipment and infrastructure, disruption of trade routes, including the blockade of ports and disruption of fertilizer exports from Russia and Ukraine have produced large increases in prices,

among a growing insecurity in these critical markets. This seems, however, to affect EU regions in a very homogeneous way.

Overall, the Russian war in Ukraine has provoked the largest cost-of-living increase in this century (so far) and this inflation wave affects every EU region, but the impact seems to be quite asymmetrical between countries and regions in the EU, showing very different inflation figures (United Nations, 2022). The price increase triggered by Russia's war in Ukraine is expected to reduce real private consumption by 1.1% in the EU, even though the impact will be felt very differently across regions (European Investment Bank, 2022).

- Refugees

The flow of refugees from the Ukraine to the EU affected regions differently (OECD, 2022e) and is affecting central European regions the most (Guenette et al., 2022). This wave of millions of refugees' impact on the housing markets is quite different from region to region, resulting from each one's existing capacity and the number of incoming refugees (OECD, 2022a). The very same conclusion can be drawn about the asymmetric impact on education structures, as most refugees are women with children in schooling age (OECD, 2022g).

On the other hand, this inflow of refugees led to the entrance of up to 1.1 million women 20-64 in the labour market in the regions that welcomed them (OECD, 2022f, 2022b).

5. The Quadruple Transition

As one long term effect of the covid-19 pandemic, European firms and regions accelerated their digital transitions (Delanote, Rückert, & Wruuck, 2022). The EU elected this, before the war, as one of its two main flags: the digital transition plus the green transition made the twin transitions the EU economy was going to make.

The pandemic and then the war provoked disruptions in most supply chains, causing shortages of parts for production and spikes in prices. This caused a major change in strategic planning for companies and governments: instead of the super-efficient (and long) supply chains that resulted from 20th century's globalization, shorter (and less cost-efficient) supply chains are now preferred, for a greater safety in supplies but also for environmental reasons (lower emissions from transports. This will require a new major change for European regions: the transition to a different globalization, the regionalization.

Russia's war in Ukraine forced the EU to make another major change: the transition to a war economy. Even if the war in Ukraine ends tomorrow, it seems to be engrained in EU's media and decision

makers that the next years will be one's of great rivalry with Russia, including military rivalry. Nothing short of a civilizational confrontation, a fight to defend the values and the way of life of western societies. This is very close to a war economy and the EU regions will be faced with this extra transition.

Adding to this transition to a war economy, the EU will also be building a response to this direct border threat. One option could be to build a strong defense pillar, complementary to NATO (Pornschnegel & Toygür, 2022), affirming a more ambitious EU. One of the consequences of this transition will be greater investment on EU's defense technological and industrial agenda (Csernaton, 2021), necessary to support EU's needs for both defense and affirmation in the world.

Some regions are already feeling the impact of climate change (Delanote et al., 2022), others are feeling a greater impact from the war, while others (mostly the so called "cohesion" regions) are lagging behind in the digital transition (Delanote et al., 2022). The impacts of these four transitions and the speed at which they are taking place seems to be quite asymmetric across the EU regions.

We suggest naming this a new era for Europe: The Quadruple Transition.

6. Europe's challenges and alternatives for the Cohesion Policy

Once again EU's cohesion policy is called for dealing with major challenges. On top of the challenges regions were facing to make the digital transition at paces not too different and the challenges they were facing in the green transition, EU regions now must make these two additional transitions to a war economy and to a post globalisation economy.

The digital transition is already revealing significant differences between different regions' firms' capacity to keep up.

The green transition was significantly challenged by the need to rebuild supply chains that were dependent on Russian imports and by the sudden increases in price. It's fair to say this new external shock added to the need for this transition to speed up, but it also impacted different regions in very different degrees.

The war economy we're now transitioning to will include much larger defense spending and huge efforts to integrate growing numbers of refugees, with major challenges faced in the housing, the education and labour markets of the welcoming regions. Since the distribution of war refugees was quite regionally asymmetric, so will the

challenges be, and different regions will have significantly different difficulties.

Finally, the rebuilding of supply chains, facing the changes in globalisation and the now clear need for being based on reliable sourcing will also have to face the short-term challenges from inflation, in all sectors but most importantly in food and energy supply changes. Some sort of support to energy users are being built by EU member states. Support to energy users' measures can be divided between income support – i.e., transfers to households and businesses – and price support measures, which seek to reduce energy prices paid by consumers.

Supporting vulnerable populations through targeted income support, while developing alternative energy sources and transportation modes is a recommended strategy (OECD, 2022h). Price support measures can take the form of, for instance, price controls, reduced electricity excise taxes and network fees, value added tax (VAT) and fuel excise tax reductions or exemptions, and rebates at the pump. Both income support and price control measures can be targeted at specific sectors.

Maybe it's time to abandon certain "neo-liberal" extremism that has characterised EU's economic policies in the past decades and at least debate the use of price controls to face these inflationary challenges.

Overall, EU's cohesion policy face additional challenges and must adapt with measures to smooth the differences in pace among regions in all these four transitions-

This research was obviously limited by time constraints, as it tries to analyze challenges to the cohesion policy that started only 8 months ago. It is very much in debt to some impressive research efforts that led an extensive literature published since the beginning of the war

It's usual to say the EU is built one crisis at a time. The response to the covid-19 pandemic impressed many and surpassed some of the more optimistic expectations.

A lot more surprising was the massive response to the war. Unity and "putting your money where your mouth is" were kind of the moto for this response.

The same can be said about the research community reaction. This allowed us to work with an impressive wealth of recently published data.

Future research should deepen the analysis of each of the four transitions mentioned before.

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