

# RESEARCH PRIORITIES 2023-24

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Based on rigorous quantitative and qualitative analysis, CEPS aims to make an authoritative contribution to European decision-making processes by increasing awareness about new challenges and opportunities, and providing educated insights. Revealing global trends and guided by markers on Europe's political agenda, CEPS intends to concentrate its research activities for 2023-24 on three thematic clusters:

- ▶ Navigating the choppy waters of geopolitics
- ▶ A changing economic environment
- ▶ Overcoming the EU's internal governance issues

These research priorities follow on from those set for 2021-22 but have been accentuated by the momentous developments following Russia's second invasion of Ukraine – an energy crisis, the return of inflation, and a spike in defence spending, to name but a few. In implementing the overarching research priorities, CEPS assumes a strong multidisciplinary approach and aims to develop synergies between ongoing initiatives and new opportunities in each of its teams. Given the high levels of uncertainty, this broad set of priorities should allow a degree of flexibility to meet new challenges.

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# LOOKING AHEAD FOR EUROPE: GAME-CHANGING TRENDS

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## THE CONTINUED RAMIFICATIONS OF THE RUSSIAN WAR ON UKRAINE

As the war has become a war of attrition with unknown duration and no certain victor, geopolitical uncertainties will remain high for Europe. The war's persistence is rendering pre-existing tensions with Russia and between China and the US more acute, creating major threats to globalisation. The race for technological supremacy has opened the way for geopolitics to increasingly interfere with economic relations and power – rather than rules – will define the global order.

In security terms, US-EU coordination appeared much stronger in the lead up to the invasion – an event which has since seen NATO become reinvigorated. Yet amid the new congratulatory atmosphere about transformational shifts, difficult questions persist. Has the EU's room for manoeuvre to embody a 'third way' between the US and China been constrained? Do American and European interests *vis-à-vis* China continue to differ in important respects, even if Western countries have come together in opposition to Russian aggression? Will the Sino-Russian partnership remain intact and is it capable of re-shaping (part of) the international order?

The answers to these and other key geopolitical and governance questions will help determine the EU's role in a world which sees great power dynamics shifting more rapidly in the mega-regions of the Indo-Pacific and Eurasia. Given that there was a reasonable correlation between UN General Assembly voting positions on Russia's aggression and the status of countries as Chinese Belt and Road Initiative partners, a European (and transatlantic) approach that treats the Indo-Pacific (as well as African) states as equal partners, rather than as proxies in the Sino-Western struggle, stands to bear greater diplomatic fruit in the long term.

Crises can bring about sea change or accelerate existing trends. The former is visible in instances of vertical EU integration encouraged by the pandemic and Russia's war against Ukraine, such as in the realms of security and defence, industrial strategy, supply chains, and greening the economy.

But the reinforcement of existing geopolitical trends – dividing the world into blocs in some cases and reinforcing the non-alignment of states in others – leaves the EU and wider transatlantic alliance with less horizontal room for manoeuvre. In view of Western 'strategic shrinkage', a major challenge for the EU will be to defend its democratic model and modernise its governance system. Of course, this will also require – as a matter of urgency – putting an end to its own slow-burning rule of law crisis.



## **A CHALLENGING ECONOMIC PERIOD AHEAD**

Broad macroeconomic conditions, which had been in place for more than three decades, seem to be over for good. Until the pandemic, and despite the financial crisis, the dominant macroeconomic environment has been characterised by low inflation and low output volatility with a clear trend of increasing production capacity. Economic cycles have been essentially driven by changes in demand.

In this context, although central banks sometimes had to use different tools, (and even new) tools, they were able to effectively impact markets and the economy. During the course of 2022, it has become increasingly clear that this has come to an end. Since 2020, the economic cycle has been shaped by supply shocks (bottlenecks in supply chains during the pandemic, the energy crisis etc.) and exacerbated by the evolving geopolitical context and subsequent energy crunch.

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For monetary policy, it is much more difficult to be effective in smoothing the cycle. Intervention will entail tougher trade-offs than in the past. While central banks are gradually freed by the zero lower bound constraint, the transition is proving painful. The cost of fighting inflation is much higher when the drivers are on the supply side. It has become clear that inflation is not transitory and bringing it down to target levels will be extremely costly in terms of output and unemployment figures. Indeed, going back to the target of 2 % may be politically and socially unacceptable.

Inflation is forecast to fall in 2023 but will remain above 2 % in the US and much higher (around 6 %) in the euro area. The ECB will continue to tighten its monetary policy stance, as inflation has not yet shown clear signs of slowing down. This will have two main effects. It will reduce the interest rate differential with the US, affecting the exchange rate, but it will also increase the likelihood of a recession, or at least a further slowdown. The risk of recession in several economies has increased remarkably in recent months and will hold back investments.

Inflation and higher policy rates will remain a key feature of the macroeconomic environment for the time being. This will affect the real economy as well as financial markets. Markets in advanced economies have faced losses since late 2021. While the depth of the losses does not appear exceptional compared to other crisis events, the breadth of the fall is nonetheless impressive. Losses materialised across the board, from equities to government bonds. In this new environment, investors will increasingly look for ways to protect themselves against inflation and to hedge against risks of losses.

In practice, this will result in a demand for higher returns to hold bonds over a longer period and, as liquidity becomes less abundant, a more selective and differentiated approach in capital allocation. Both factors translate to higher market interest rates, making it unrealistic that interest rates will go back to the very low levels seen over the last few decades.

# MAIN ITEMS ON THE EUROPEAN POLITICAL AGENDA IN 2023



Continued EU military and economic support to Ukraine and maintaining unity in the face of Russian aggression



The battle against inflation



Overcoming the energy crisis through effective policy responses (diversification of supply and speeding up the shift to green and renewable forms of energy)



Trade tensions and an EU response to an increasing number of protectionist actions



The continued implementation of NextGenerationEU



EU institutional reform following the Conference on the Future of Europe and the lead up to the 2024 European Parliament elections



Planned parliamentary elections in Poland and Spain



The European Year of Skills

# CEPS WORK PROGRAMME 2023-24



**Navigating the choppy  
waters of geopolitics**



**A changing economic  
environment**



**Overcoming the EU's  
internal governance issues**



# NAVIGATING THE CHOPPY WATERS OF GEOPOLITICS

## Foreign, defence and security policy

The most acute geopolitical challenge that the EU faces comes from Russia's aggression against Ukraine and the rest of the shared/contested neighbourhood. Other malign influencers, like China, Iran and Turkey are also testing the resilience of countries in the Western Balkans and the Eastern neighbourhood, as well as the EU's own enlargement and association policies.

In an effort to square the policy triangle of EU strategic autonomy, transatlantic cooperation and pan-European security, CEPS researchers will, *inter alia*, track the implementation of the EU Strategic Compass, specifically through the FES-funded '[Triangle](#)' project.

CEPS will also venture further into the sphere of European defence cooperation with the launch of a new **Task Force focussing on investment, innovation and partnerships**.

Following up on its seven-year long project on the implementation of the EU's agreements with Ukraine, Moldova and Georgia, CEPS and its partners will double down on work devoted to revamping the enlargement methodology (through an **OSF Belgrade-funded project**) and giving the Eastern Partnership a new sense of direction.

Ukraine-related questions about crisis management, conflict resolution, reconstruction and accountability will feature in the ongoing **Horizon 2020 [JOINT project](#)**. CEPS' research as part of this project is also examining the EU's role in dealing with other geopolitical hotspots, notably Iran and the South China Sea. The perceptions of countries in the so-called Global South are part and parcel of this research, being conducted in cooperation with institutes and interlocutors in Indonesia, the Philippines and Vietnam, to name just a few.

Following a pilot in 2022, the **Task Force on trade and investment relations with China** will explore the challenges for the EU to chart a 'third way' in the US-driven bipolar antagonism between democracies and autocracies. Working with like-minded countries and organisations will be key and are the focus of CEPS' projects developed under the heading of its new '**Global connectivity**' programme (that focuses on India, Japan and South Korea). The flagship initiative of the programme is the organisation of the **Global Gateway Forum** for the European Commission and the EEAS.



## Energy, resources and climate change (ERCC)

The energy crisis has shaken the European economy and put domestic energy-intensive industries under severe pressure. Heeding these concerns, EU policymakers have reasserted the objectives of the Green Deal and acknowledged the importance of an accelerated energy transition for decarbonisation, industrial competitiveness, and energy security. Additionally, access to raw materials is viewed as a steppingstone for the EU's strategic autonomy.

Against this background, CEPS in 2023 will focus on options for phasing out fossil imports from Russia and policy responses to elevated and volatile energy prices. There will be further assessment of natural gas infrastructure and supply patterns, followed by reflections on the future of natural gas in Europe.

Emphasis will also be placed on both electricity and gas markets regulation. Continuing work from 2022, the main focus will be on the unfolding electricity market design debate, the major long-term energy market reform for 2023. This will include a fresh look at nuclear energy. In terms of European Green Deal diplomacy, CEPS will continue to enhance its work on climate cooperation with key actors, including Japan and India.

CEPS' ERCC unit will also conduct much of its 2023 research through the following projects and initiatives:

- The uptake of renewables will be further explored within the **Horizon Europe [BLOW project](#)** on offshore wind.
- On the technology front, CEPS will conduct dedicated work on batteries and will assess regulatory and market challenges for implementing the EU Battery Passport as part of the new **Horizon Europe [BATRAW project](#)**.
- For the steel sector, CEPS will continue its work on specific technologies such as carbon capture and storage (CCS) through the **Horizon 2020 [C4U project](#)**, and on the demand for green steel through an **ECF-funded project** on automobile steel.
- In the area of circularity and critical raw materials (CRMs), CEPS research will dive deeper into the challenges for developing an EU supply chain for recovered CRMs. As part of an upcoming study on strategic autonomy, CEPS will review potential sources of CRMs and assess the conditions for developing critical infrastructure for raw materials supply.

- A dedicated analysis on the Fit for 55 package – especially the EU ETS and CBAM – through the [Mistra Carbon Exit programme](#). The legislative package is nearing completion, after which an analysis of the outcomes is desirable. Meanwhile, many related implementing acts that can affect industrial low-carbon investment are yet to be passed.
- The EU's industrial policies and competitiveness will also be affected by the European response to the US Inflation Reduction Act, which will also be examined as part of CEPS' **Carbon Exit activities**.



## Digital technologies and global governance

During 2023, the CEPS GRID (Global Governance, Regulation, Innovation and Digital Economy) unit will be supporting the EU-US Trade and Technology Council through the EU-funded [Trade and Technology Dialogue](#). This project will lead to several events and research outputs on topics such as Artificial Intelligence and risk, due diligence and the stress-testing of supply chains, piloting privacy-enhancing technologies and many more.

GRID will also undertake much of its work on digital technologies through the following initiatives and projects in 2023:

- Publish its report (for the European Commission, DG INTPA) on a **Masterplan for digital connectivity in the Global Gateway**, which outlines a new narrative for the EU and Member States to invest in digital technologies in low and middle-income countries around the world.

- Continue to lead, in collaboration with the Brookings Institution, the [Forum for Cooperation on Artificial Intelligence](#), which involves seven governments and several other stakeholders and international organisations.
- Continue its work on Artificial intelligence, focusing on specific sectors, such as agriculture (within the Horizon 2020 [FLEXIGROBOTS project](#)).

Outside digital technologies, GRID researchers will continue to analyse developments in the domain of global health, with new publications and events, particularly in the context of the **Horizon 2020 PERISCOPE project**. They will also continue to support the European Centre for Disease Prevention and Control (ECDC) with foresight workshops aimed at discussing possible alternative futures for infectious disease threats.

Finally, GRID's long-standing interest in digital democracy and new forms of citizen engagement with the democratic process will be nurtured by CEPS' participation in a new, very ambitious project called **ORBIS**, led by the Politecnico di Milano.





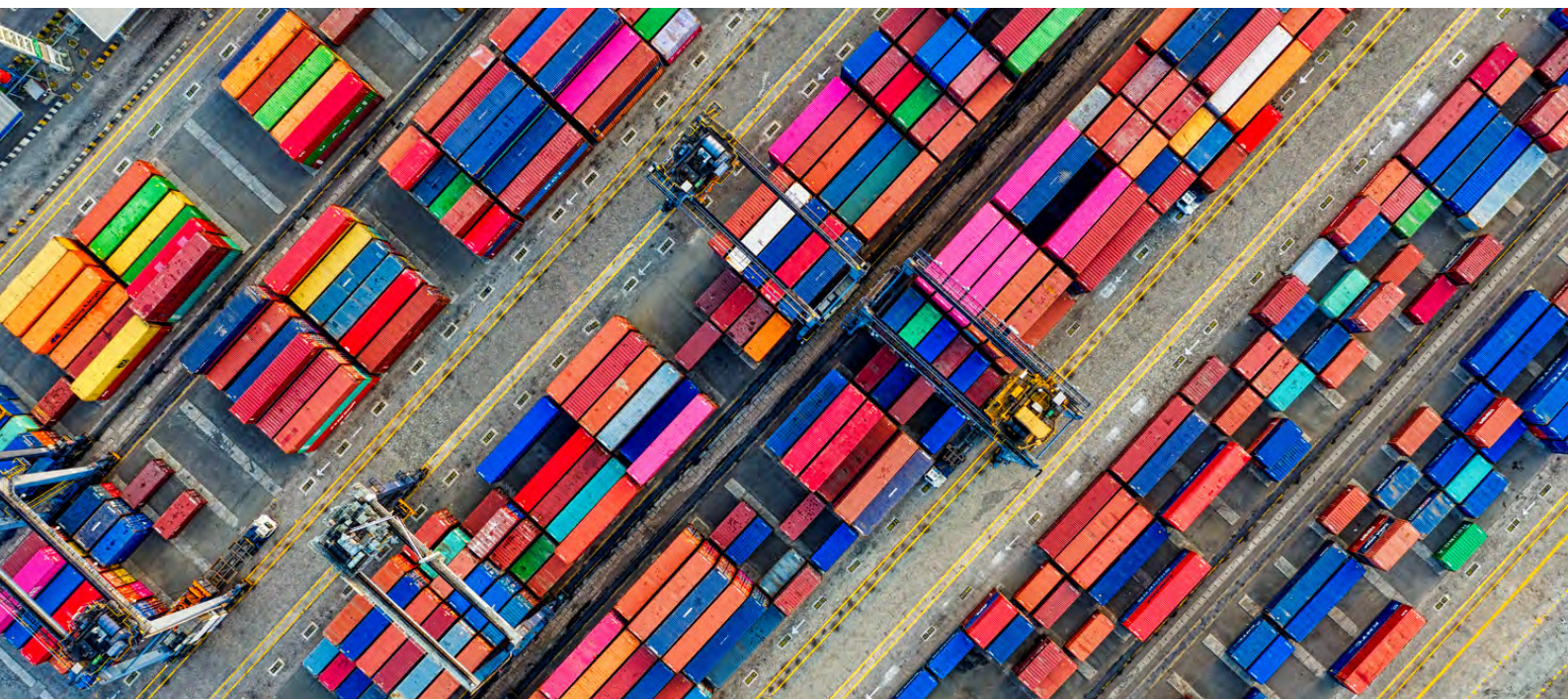
## International trade and industrial policy

The disruptions to supply chains in the aftermath of the pandemic and the war in Ukraine have switched the perspective in international trade from one of opportunity to one of dependence and threat.

CEPS' trade research will now go deeper into an analysis of what has caused the disturbances in imports and exports. It will discern the different sources of risk, from the exhaustion of natural resources to the 'weaponisation' of trade policy instruments. CEPS will research whether evolving trade relations have made it more difficult to effectively change trading partners. It will critically review and comment on the many and changing policy proposals responding to ongoing trade disruptions, from reshoring and 'friendshoring' to subsidy policies.

A related theme of research will be increasing demands on industrial policy to ensure the EU's technological leadership. Work in this field will disentangle the relationship between research intensity, skill demands and technological leadership, and it will identify the market failures in industries' efforts to move technological frontiers and avoid the pitfalls of initiating subsidy races.

Finally, 2023 will see the launch of the third edition of the [CEPS Forum on the Future of European Industry](#).





# A CHANGING ECONOMIC ENVIRONMENT

## Economic policy

Building on CEPS' long track record on macroeconomic research, inflation and the mechanisms through which monetary policy impacts the economy will be the focus of research in 2023.

CEPS will look at the consequences of higher policy rates on the real economy, on financial stability and on debt sustainability. Linked to the latter point, following the proposal made by the European Commission on the reform of the Stability and Growth Pact (SGP), the debate on the review of the EU fiscal framework will advance in 2023 and CEPS will contribute to it directly (as well as indirectly) through the support it provides to the [IFIs Network](#). CEPS will continue to release new editions of the **European Fiscal Monitor**, an integral element of its work with the IFIs Network, as well as focus on broader fiscal issues, in particular the European Governance Review.

The long-standing issue of EU convergence will be addressed through new evidence. The finalisation of a **report on the state of EU convergence**, expected in early 2023, will feed into the policy debate on the impact of Covid-19 on convergence and the emerging challenges for EU policies (cohesion policies and beyond) that should foster EU economic and social convergence.

Finally, a **new project on EU strategic autonomy in the economic field** will shed light on the EU's critical dependencies for some economic sectors, as well as on ways to reduce such dependence and foster autonomy, within the principles of the single market and the constraints imposed by an uncertain geopolitical landscape.



## Jobs and skills



Following the trend of the past two years, CEPS will continue to reinforce its research capacity on labour economics and social policies. Two main areas of research linked to two Horizon 2020 projects will be prioritised, namely inequalities (the [GI-NI project](#)) and skills (the [I-SKILL project](#)). With 2023 designated as the European Year of Skills, meetings and a dedicated conference will accompany several research publications.

The future of social rights and – more broadly – the challenges to the welfare state raised by the twin transition will be respectively addressed in two ongoing Horizon projects, [EUsocialcit](#) and [TransEuroWorkS](#).

Finally, CEPS research will address the challenges of increasing regional inequality. Specifically, it will analyse whether and how agglomeration forces have changed because of pandemic-era teleworking in metropolitan areas. It will investigate the impact on labour productivity and workplace quality, and whether labour market changes only affect metropolitan areas or provide opportunities for more balanced economic development between urban and rural areas.

## The EU budget and the RRF

Discussions on the future of the EU budget will be affected by the lessons learned from implementing the EU's Covid-19 recovery package. The budget will be under pressure for several reasons:

- Reform of the Financial Regulation, which is strongly impacted by NextGenerationEU borrowing and additional needs due to the war in Ukraine.
- Member States will have had to request RRF loans by the end of 2023.
- Scrutiny over how the RRF grant funds will be monitored and a planned review of how the RRF has impacted cohesion policy.
- The pressure to create a system to accommodate unexpected situations and events, such as the war in Ukraine.

Given the above developments, CEPS' research will focus on reinventing the **RRF monitor programme**, focusing not only on monitoring the RRF's progress and its impact on the wider budget but also on future reforms of all core EU budget expenditures and the EU's overall financial model.





## Financial markets

Building on CEPS' expertise on SMEs' access to finance and payment performances, **it will lead the EU's flagship project to set up a Late Payment Observatory**. The Observatory will become a key reference for economic operators, public authorities, business organisations and other relevant stakeholders to monitor payment performance and behaviour in commercial transactions in the EU.

CEPS will also continue its empirical research on the EU's financial sustainability, building on studies it conducted on the first set of draft European Sustainability Reporting Standards (ESRS) and its novel data on the companies subject to EU financial sustainability requirements. While evaluating the EU's anti-money laundering and tax-evasion policy, CEPS will assess the feasibility of establishing a European asset registry. Evaluating the effects of the EU's sanctions in response to Russia's invasion of Ukraine will also remain among CEPS' key focus areas.

Progress on the harmonisation of corporate taxation, with the adoption of the OECD's Pillar II, will be followed up with a report from the Task Force on Global Corporate Taxation that will look at the sectoral impact. The interpretation of strategic autonomy in financial markets and the banking sector will be the subject of another such report.

In the framework of CEPS' research activities with the [European Credit Research Institute \(ECRI\)](#), it will continue mainstreaming debates and policy studies on:

- Payment services
- Digital and open finance
- Consumer credit
- The indebtedness of households

CEPS, in cooperation with the [European Capital Markets Institute \(ECMI\)](#) will also keep leading empirical research on:

- EU capital markets integration and competitive regulation
- Financial market infrastructures and their functioning
- The implementation of sustainability and ESG standards in asset management
- Other elements of the recent capital markets union package

## OVERCOMING THE EU'S INTERNAL GOVERNANCE ISSUES

### Institutions and EU governance

A major challenge for the EU in the years to come will be to defend its democratic model and modernise its governance system in a world where its role is likely to decrease.

### Justice and Home Affairs

Linked to the above, attention will be paid to the rule of law. The latter has turned into an acute crisis by the 'vetocracy' by Member States flirting with autocracy. In this respect, continuous assessment of the functionalities of RRF conditionality will be at the centre of CEPS' activities.

CEPS will continue its previous work on monitoring the scope and impacts of the protracted rule of law crisis in some EU Member States, and the suitability of existing tools at the EU's disposal for upholding and enforcing EU values across EU Member States and EU institutions and agencies.

The EU's Criminal Justice Area is also experiencing challenges relating to Member States' inconsistent implementation of existing legal acts and CJEU rulings, as well as the increasing use and exchange of electronic data for law enforcement purposes while still needing to fully safeguard the rule of law and fundamental rights.

Following on from its long-standing research focus on institutional reform and picking up on the suggestions made by the Conference on the Future of Europe, CEPS will convene a **High-Level Group** to suggest ways and means to improve the EU's *modus operandi*.

CEPS research in these areas will take place within the scope of two key projects:

- Through the [STREAM project](#), CEPS will provide a comparative study of Member States' implementation of the European Arrest Warrant (EAW) and the identification of key policy issues calling for EU enforcement or potential legislative reform. This will include an exploration of unresolved questions characterising EU-third country agreements on data sharing and their compliance with EU law and fundamental rights.
- Through the **Horizon 2020** [CHACHIPEN project](#), CEPS research will comparatively examine and identify promising practices on transitional justice initiatives for addressing 'antigypsyism' and institutional discrimination affecting Roma communities across the EU.

Coming full circle with the research priorities for 2023, the ongoing war makes the issue of refugee protection in the EU a non-temporary policy challenge. In the context of the **Horizon 2020 ASILE project**, CEPS will deepen its research on the practical implementation and longer-term policy dilemmas of the EU Temporary Protection Regime for Ukrainian refugees. This will be compared with the EU's approach towards non-European asylum seekers in the EU Pact on Migration and Asylum. Here, research will examine questions related to attributed responsibility in the scope of search and rescue at sea, relocation arrangements and expulsions, and lessons learned for the EU based on the policy responses by non-EU countries hosting large-scale refugee communities around the world.

CEPS will also inform the European Parliament's work on the ongoing reform of the EU Schengen system, including an assessment of the newly proposed changes related to the reintroduction of internal border controls and the 'instrumentalisation of migration' by third states.

Finally, CEPS research as part of two new Horizon Europe projects will contribute towards a better understanding of the role of policies in co-producing irregular migration in Europe's labour markets (the **I-CLAIM project**) and will also analyse EU readmission policies and Member States' regularisation approaches for non-expellable migrants (the **MORE project**).

*The above-mentioned topics are just a handful of the many on which CEPS continues to work. The Research Committee has committed itself to reviewing CEPS' research priorities on an annual basis.*



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