KCS Group Europe

The EU: House of Cards?

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The gloss of the EU utopian ideal has well and truly tarnished. The EU-project has now come to mean very different things to different people. The Union now covers 27 countries, a combined population of around 447 million and a hugely diverse mix of cultures, nationalities, and social and economic circumstances. A white-collar worker in the professional services industry in Amsterdam may stake their all on the single market and their right to freedom of movement. For a tech start-up founder in Lisbon, the bloc may now feel like a cesspit of regulation – supposedly secure, but cumbersome, long-winded and ultimately costly. A Hungarian government worker may value the EU's funding but lament its demands for cultural conformity. Whatever one's status and location within the EU bloc, it is clear the EU dream is dying.

Over decades, tiny fractures within the EU model have emerged. Whether it is anti-EU populism, the energy crisis or climate change, there are plenty of serious challenges to the Union. Many of them could have been avoided were it not for bureaucratic over-reach and inflexibility.

One of the EU's key selling points for new members was its significant annual budget, but the days are numbered for this particular carrot. Consider the following eye-watering costs: the recently announced 750-billion-euro pandemic recovery fund; the energy and cost-of-living crisis (read sanctions on Russian oil and gas); and the continual demands on member states to fund the Ukrainian war and its rebuilding after the war.

The renewed demands for greater fiscal support from member states is clearly unsustainable – especially when the biggest contributors to the EU money pot are already facing huge economic challenges themselves. Some member states are so desperate to reduce their energy costs and associated inflationary pressure that they are trying to take a softer stance on Russian sanctions in relation to the war in Ukraine.

EU intransigence over Russia means that it is struggling to achieve consensus for a new round of sanctions – particularly following the admission that they are not really working. Many countries have little choice but to depend on Russia (regardless of sanctions). And, at the same time, they face strong threats from the EU if they fail to transition completely to renewable energy. That is an utterly unachievable goal technologically – not to mention the impact of inflationary pressures and the proposed OPEC+ cuts to oil production forcing up the cost of oil.

As late as March this year, France was still importing enriched uranium from Russia. Germany's President, Olaf Scholz, continues to adopt doublespeak, claiming that Germany is now entirely independent from Russian gas, yet still urging Ukraine to enter into negotiations with Putin to end the war. It is these types of fractures that present serious risk to the very fabric of the EU and only help Putin destabilise the West's war effort.

The EU is buckling under the weight of the ever-growing list of sanctions and its ubiquitous bureaucracy and heavy regulation. Although the regulations are intended to help minimise corruption across the bloc, the reality is that they choke innovation, especially in the start-up sector. EU member states from Spain and Portugal and from the Baltic States, among others, are trying to develop their own high-tech start-up hubs, but they continue to be overshadowed by the US and Asia, where many of the EU's brightest entrepreneurs are now migrating. Multi-year delays for approval, a judiciary which is keen to enforce robust antitrust measures, cumbersome GDPR laws and many other factors mean that the bloc still struggles to produce start-up unicorns. Its failure to encourage innovation also has consequences for its ambitious long-term plans to achieve a carbon neutral and digitalised economy.

Technology develops apace in other parts of the world, leaving the EU dependent on the expertise of others and vulnerable to the kind of weaknesses exposed during the latest energy crisis caused by the war in Ukraine.

The risks to the bloc are enormous. Discontent across member states' populations is growing and threatens the escalation of protests and civil disobedience. The EU bloc's weak economy and increasingly restrictive trade rules are now being exploited by BRICS through open competition and its so-called friend, the US, through opportunism. Many member states regard the current direction of travel within the EU as destructive and that is leading to fractured relationships. What's more, some of its largest contributors face the deepest level of recession in recent history. It is highly likely the EU will be forced into the kind of reforms it has fought tooth and nail against for decades.

But will those reforms happen soon enough to avoid a 'house of cards' moment? That will depend on whether intelligent, level-headed bureaucrats can intervene and stop the gambler living off other people's money.

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