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EU Strategic Outlook for 2026

The second von der Leyen Commission: Navigating in the Age of Geoeconomics

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September 11th 2025

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Introduction

Since her re-election in 2024, Commission President Ursula von der Leyen has increasingly signalled **a strategic shift away from the Green Deal** as a broad, climate-centred transformation narrative toward a more pragmatic, industry-driven policy framework. This pivot was formally codified with the launch of the **Clean Industrial Deal** in early 2025 – and confirmed in the 2025 State of the European Union speech, in which she stressed the urgency of accelerating deployment, addressing regulatory bottlenecks, and securing critical infrastructure. While long-term sustainability remains an EU priority, the Union's strategic agenda now centres on resilience, competitiveness, and implementation realism. In her address, von der Leyen openly acknowledged the strategic vulnerability of the European Union. Against the backdrop of the July trade deal with the Trump administration and the deteriorating security situation in Ukraine, she characterised the EU as being in a **fight for its independence, values, and democratic model**. The speech struck a notably sober tone, admitting Europe's structural dependencies while defending the trade deal as a necessary compromise that safeguarded regulatory autonomy and relative competitiveness of European businesses.

Building on the Clean Industrial Deal launched earlier in the year, the Commission President emphasised **the need to move from strategy to implementation**, setting clear targets to unblock bottlenecks and de-risk industrial deployment as developed in the Draghi-Report. Yet, she stopped short of laying out concrete mechanisms to resolve key governance or budgetary challenges particularly in defence and energy. Also, beyond the general call for action, she shied away from engaging the Member States in further steps towards a deeper single market integration. Her commitment to Ukraine was unequivocal, not backed by genuinely new initiatives. On Trade, the Commission President drew a red line in terms of interference in the EU's autonomy to regulate its market, which may be understood as a message towards the US, but she did not add to previous statements on how to deal with Chinese overcapacity.

Europe in a Volatile Geopolitical Environment: A Diagnosis

Indeed, more than one year after the 2024 European elections, **the second Von der Leyen Commission is navigating an unprecedented geopolitical storm whilst** pursuing an ambitious regulatory and policy agenda in strategic areas such as defence, energy, digital and trade. The dynamics and outcomes of the 2025 trade negotiations with the Trump administration underscore the extent to which the EU remains in a position of strategic constraint – heavily dependent on American military protection and technological assets, yet increasingly vulnerable to asymmetrical bargaining. At the same time, the threat coming from the Russian Federation on the Eastern flank has increased even further, with hybrid threats challenging both hard security and critical infrastructure and societal resistance and no tangible perspective for the Trump-driven negotiations with Russia over Ukraine to succeed in establishing a sustainable peace- and security framework.

Internally, tensions among member states are particularly tangible. While national governments call on the EU to deliver coordinated responses in strategic domains, they remain highly protective of their sovereignty. Moreover, finding a common position to contrast the return of ‘Great Power Politics’ (with its main protagonists, the US, China, and Russia) is extremely difficult. Calls for “European sovereignty” are frequent, but definitions and interests diverge. This dissonance creates major uncertainty around the implementation of the EU’s legislative initiatives: **while the policy machinery is moving, political cohesion remains fragile.** This is also reflected in the current budget negotiations over the EU Commissions’ €2.2 proposal that meets fierce resistance over the ambition to implement a moderate shift from agricultural subsidies and cohesion funds to growth and modernisation.

In this volatile environment, **the EU finds itself in a structurally coerced position:** exposed to external pressure, internally fragmented, and with few guarantees that current alliances or frameworks will remain stable. Decision-making must now unfold under conditions of persistent uncertainty. One notable development in this context is the Commission’s increasing reliance on **omnibus regulations** – horizontal legislative packages that bundle sector-specific instruments under broader strategic umbrellas (e.g. the Clean Industrial Deal). These frameworks not only accelerate implementation timelines but also offer potential entry points for firms and sectoral actors to influence policy design, shape delegated acts or align with emerging funding priorities at an early stage.

Strategic Corrections Underway: From Green Deal to Clean Industrial Deal

Since the outset of its second mandate, **the von der Leyen II Commission has gradually shifted its policy focus from the Green Deal's climate-centred framework to a broader Clean Industrial Deal that explicitly prioritises competitiveness, resilience, and security.** While the Green Deal remains in place as the EU's long-term sustainability strategy, 2025 has seen a growing emphasis on implementation realism, industrial scale-up, and energy security. This pivot has prompted sector-specific corrections to regulatory design, investment incentives, and timelines – often framed as “adjustments” rather than reversals.

The following trends illustrate the key course corrections shaping the EU's policy outlook in 2025-26:

- **From decarbonisation targets to deployment bottlenecks:** the Commission has shifted its emphasis from abstract climate ambition to the practical challenges of grid capacity, permitting delays, and clean-tech industrial scale-up. Legislative focus is now on removing obstacles to project deployment rather than setting new emissions ceilings.
- **From horizontal sustainability to sector-specific resilience:** rather than mainstreaming sustainability across all policy areas, the Clean Industrial Deal selectively prioritises strategic sectors – notably clean-tech manufacturing, defence, and digital infrastructure, using new defence funding and procurement programmes, and legislation to scale clean-tech manufacturing and accelerate EIB-backed defence loans.
- **From fiscal caution to strategic public investment:** temporary derogations from EU fiscal rules have been codified to allow significant defence and clean industrial investment, reversing a long-standing reluctance to treat strategic sectors as public goods. Tools such as the national escape clause and the Decarbonisation Bank reflect this shift.
- **From open innovation to compliance-driven access:** in digital and industrial policy, the Commission has moved from encouraging innovation ecosystems to enforcing structured compliance regimes. Technical bodies, certification procedures, and

conformity assessments now shape who can enter and operate in regulated markets.

- **From regulatory outreach to calibrated restraint:** instruments like the Carbon Border Adjustment Mechanism, the AI Act, or the Foreign Subsidies Regulation were initially framed as expressions of EU normative leadership. But their actual implementation has become more cautious – shaped by fears of trade retaliation, WTO disputes, or friction with key allies and supply partners in an increasingly adversarial geopolitical environment.

This briefing outlines the corrections and strategic changes that undergo the shift from the Green Deal to the Clean Industrial Deal announced by the Second Von der Leyen Commission. In addition, it **highlights the EU-level developments in defence, energy, digital, and trade over the next 12 months (Sept. 2025 – Sept. 2026)**, focusing on the most relevant initiatives and strategic breakpoints that private actors should monitor closely to anticipate regulatory change and strategic risk.

Executive Summary

Our **key messages** are:

1. 2025 State of the European Union Takeaways

- The **Clean Industrial Deal** is clearly confirmed as the Commission's flagship agenda – with a focus shifted from vision-setting to implementation. The emphasis is now on scaling investment, removing deployment bottlenecks, and setting sector-specific targets to unlock private capital.
- **Climate neutrality** remains the long-term goal, but industrial deployment and regulatory streamlining now take precedence over systemic transformation.
- The Commission will not actively weaponise **trade tools**. Von der Leyen's defence of the EU-US deal made clear that Europe still seeks to operate within a rules-based order – not to disrupt it – even as strategic asymmetries grow.
- Against pressures coming from the US, **regulatory autonomy** was defined as a redline to be defended – although the question remains whether the Commission will be able to hold on to this promise in the case of a showdown with President Trump on this matter.

2. Cross-Cutting Risks

- **Fragmented implementation** and uneven enforcement across EU member states – particularly in cybersecurity, artificial intelligence, and defence procurement – could undermine regulatory consistency, delay project timelines, and create compliance asymmetries for firms operating across jurisdictions or engaging with both EU institutions and national regulators.
- **Geopolitical pressure** from the United States, persistent asymmetries in market access, and varying definitions of "European sovereignty" are reshaping the EU's strategic agenda – adding unpredictability to funding eligibility, procurement direction, and regulatory alignment across sectors.

3. Core Elements per Sector

3.1. Defence:

- The implementation of the EU's **ReArm Europe** agenda and finalisation of the European Defence Industry Programme (EDIP) Regulation are expected by the end

of 2025, enabling the launch of the Structure for European Armament Programme (SEAP) and joint procurement platforms.

- Tensions remain high among member states over eligibility rules and US involvement, especially in light of the EU–US defence-linked trade deal concluded in July 2025.

3.2. Energy:

- The **Clean Industrial Deal** (CID) is moving into implementation, with procurement mandates and permitting reforms scheduled for early 2026.
- Critical reforms like the **Electricity Market Design and Grid Package** may face delays due to internal resistance and external LNG dependency codified in the EU–US trade deal.

3.3. Digital:

- 2025–2026 marks the enforcement phase of the EU’s digital regulatory framework, with major compliance deadlines under the **AI Act**, the **Cyber Resilience Act** (CRA), and **Data Act**.
- Legal uncertainty and uneven national enforcement – especially under the **Digital Services Act** (DSA) and the **Digital Markets Act** (DMA) – pose risks for large platforms and AI providers.

3.4. Trade:

- The EU–US trade agreement should not be viewed as a stable long-term framework. The United States, under its current administration, has shown a clear preference for asymmetric and transactional deals, with ongoing **pressure on digital regulation** likely to remain a strategic fault line.
- The trade measures with the greatest potential impact in the year ahead include the ratification trajectory of the **EU–Mercosur** Agreement, the finalisation of the **EU–India** FTA, and the operational rollout of new sustainability enforcement mechanisms (TSD chapters) in bilateral deals – all of which could reshape access, compliance obligations, and supply chain alignment.

Outlook on the EU-policy Agenda 2025-26

I. Defence

The Second Trump presidency has renewed uncertainty around the United States' long-term commitment to ensuring the European continent's security and defence through NATO, particularly amid the ongoing and intensifying threat from Russia. As a result, calls for a form of European strategic autonomy are resurfacing. However, **divergent positions among member states** continue to make the path toward that objective unclear. Although no longer an EU member, the **UK remains a key actor** and should be monitored closely, particularly its close cooperation with France – and to a lesser extent Germany – in supporting Ukraine.

The EU defence sector is marked by chronic underinvestment, fragmentation, and industrial dependence. In 2023, EU member states collectively spent around €270 billion on defence, yet only 18% of that was invested jointly – far below the EU's own 35% target for coordinated spending. The industrial landscape remains highly fragmented, with 17 different battle tank models, 20 fighter jet types, and nearly 30 classes of naval frigates in service across the Union, severely limiting interoperability. Procurement cycles are notoriously slow, often taking 5 to 8 years from planning to delivery, and national-level procedures remain misaligned. At the same time, the EU continues to rely heavily on third-country suppliers, particularly the United States, which accounted for over 60% of military equipment imports in 2023. This structural vulnerability has been further exposed by critical shortfalls in ammunition stockpiles, especially 155mm artillery shells, where EU production is only expected to reach one million rounds per year by late 2025 – far below operational demand.

To respond to such challenges, the European Commission and the High Representative published the **Joint White Paper on European Defence: Readiness 2030** in March 2025. Framed as an answer to heightened geopolitical instability, the White Paper is a structural shift toward a more integrated, resilient, and sovereign EU defence ecosystem. At the heart of this initiative is the **ReArm Europe Plan**, which serves as the financial and implementation pillar of the White Paper. It proposes mobilising up to **€800 billion** across public and private channels by 2030 through five financial levers: relaxed fiscal rules (via national escape clauses), EIB lending (through the SAFE instrument), repurposed cohesion

funds, private capital mobilisation, and targeted defence investment. Together, these mechanisms aim to operationalise the EU's strategic objectives by closing capability gaps, strengthening industrial readiness, and accelerating joint procurement.

Key Instruments and Initiatives

- **European Defence Industry Programme (EDIP):**
 - A €1.5 billion EU funding instrument (2025–2027) to incentivise joint procurement, cross-border industrial cooperation, and faster defence supply chains.
 - **Final adoption expected end of 2025**; implementation begins immediately thereafter, including launch of SEAP and VAT exemptions.
- **Security Action for Europe (SAFE)**
 - A financial tool designed to unlock up to €150 billion in EIB-backed loans for joint defence procurement among member states.
 - Legally adopted in May 2025; countries must submit loan requests by **30 November 2025**. EIB disbursement expected to begin **Q1 2026**, pending final board decision.
- **VAT/Regulatory Barriers (via SEAP/EDIP)**
 - Planned exemptions from VAT and simplified certification procedures for eligible joint defence procurement projects under SEAP and EDIP governance.
 - **Expected to roll out progressively from early 2026**, once EDIP enters into force and national implementation rules are aligned.

Tensions and strategic breakpoints

EDIP: Risk of Watering Down During Final Negotiations (Trialogue Format)

Final stage trialogue negotiations between the Council and the European Parliament are expected to result in adjustments to the EDIP text that may significantly affect its scope, especially regarding funding conditions and eligibility criteria. As of **July 2025**, products must contain **no more than 35 percent non-EU components** to qualify for EDIP funding. A group of countries, led by **France**, is pushing to ensure that EU financing goes primarily to

arms manufacturers and suppliers based in the EU or in **closely aligned countries such as Ukraine**. In contrast, a more transatlantic-leaning group – including the **Nordics, the Baltics, Italy, and the Netherlands** – supports an open model that does **not exclude the United States**.

This divergence is occurring amid **already strained relations with the Trump administration**. The **EU–US tariff deal of end of July 2025**, reportedly includes **large-scale purchases of American military equipment**. For now, the EU has not officially confirmed these details, stating only that such procurement decisions lie beyond its direct competence. Whether Europe can truly rearm **without relying on American technology and defence production capacity** – given the latter’s market dominance – remains an open and politically sensitive question.

➔ *Firms operating at the intersection of EU and U.S. defence markets may need to reassess supply chain dependencies and political exposure as EDIP rules evolve – particularly if transatlantic access becomes a contested issue.*

EIB Board Decision on SAFE Loans

Although the SAFE instrument has been legally adopted, **its operationalisation still hinges on a formal decision by the EIB Board**. According to recent reporting, **the EIB’s Board is currently reconsidering eligibility parameters**, with countries like Poland and the Baltic states supporting stronger defence lending, while others remaining cautious about extending EIB financing to projects perceived as purely military. **This introduces a significant degree of strategic uncertainty**.

➔ *If the EIB Board imposes restrictive eligibility filters on SAFE defence loans, cross-border consortia may face shortfalls or delays in liquidity – potentially jeopardising procurement timelines and industrial readiness targets by 2026.*

Supply Chain Friction and VAT/Regulatory Challenges

Though EDIP and SEAP foresee **VAT exemptions and streamlined joint procurement rules** for projects under their purview, recent stakeholder feedback suggests mounting concern over the administrative complexity and compliance burden – especially for SMEs. The EDIP proposal itself noted the need for dedicated support mechanisms such as the **FAST fund** to help smaller firms navigate new certification requirements and dual use transparency obligation.

Moreover, discrepancies between national tax administrations present practical risks. While some countries are exploring broad VAT exemption application, **others are wary of revenue loss or misuse**, raising the spectre of **patchwork implementation** across EU member states.

➔ *SMEs face disproportionate VAT compliance burdens globally, and these could escalate in the defence sector where enhanced tracing and certification rules apply.*

II. Energy

As a reminder, the energy policy of the EU focuses on energy security, sustainability, and the integration of the energy markets – without forgetting climate policy. The most recent piece of legislation, the **Clean Industrial Deal** (presented in February 2025 by the Commission), sets ambitious goals including 100 GW of renewables/year until 2030, the establishment of a Decarbonisation Bank, new state aid rules and the reduction of administrative burden via sectorial Omnibus regulations. Meanwhile, the **Next-Zero Industry Act (NZIA)**, intended to scale European clean-energy manufacturing capacities, entered into force in June 2024 and is starting its key implementation phase in early 2026. Additionally, regulatory actions are underway that address **permitting barriers, gas storage standards, and electricity market design reform**, all aimed at reinforcing energy independence and managing cost pressures.

The Ukraine war-induced volatility persists, as does friction between northern states pushing aggressive renewables and southern/northeastern states favouring a mix including hydrogen or transitional gas, and – in some cases – nuclear energy, which remains a politically sensitive yet strategically important component of the EU's decarbonisation path.

Strategic Pillars and Key EU Initiatives

- Clean Industrial Deal (CID)

- The EU's flagship 2025 industrial framework, aiming to scale up decarbonised production across sectors like steel, hydrogen, renewables, and grids – through public procurement mandates, streamlined permitting, and adjusted state aid rules.
- Adopted in June 2025; **implementation starts Q4 2025 onward.**

- Decarbonisation Bank

- A financial mechanism coordinated with the EIB to mobilise up to €500 billion (public and private) in green infrastructure investment by 2030 – especially in clean tech manufacturing and permitting-heavy projects.
- Pilot phase begins late 2025 / early 2026; **full operation expected by mid-2026.**

- Electricity Market Reform (EMR)

- A core legislative package to modernise price signals, enhance cross-border balancing, and integrate flexibility assets. But political resistance (notably from CEE states) risks delaying agreement.
- Council negotiations ongoing; **adoption targeted Q1 2026.**

Tensions and Strategic Breakpoints

EU-US Trade Deal: LNG-Dependency

Reporting on the EU-US Trade Deal signed end of July 2025 suggests a **€750 billion energy/trade pact with the US**, locking-in American gas (LNG) until 2028. If that is indeed confirmed, this may delay domestic decarbonisation timelines. Nonetheless, experts are extremely doubtful concerning the implementation of such measures.

➔ *For firms in hydrogen, storage, or smart grid infrastructure, LNG lock-in clauses under the July 2025 EU–US trade deal risk diverting funding and delaying offtake contracts – especially in markets where national regulators deprioritise renewables over energy security.*

EMR Resistance from CEE countries

CEE states (notably Poland and Hungary) could stall the electricity market reform, with Council agreement on the revision expected in early 2026. This resistance could slow harmonisation on key elements such as capacity mechanisms, price corridors, and cross-border balancing.

➔ *Energy producers, traders, and industrial consumers should prepare for fragmented market conditions in 2026–2027, with uneven regulatory signals affecting investment in flexibility assets and cross-border PPA structuring.*

Funding Gaps Post-NextGenerationEU

The **NextGenerationEU** recovery instrument, which supported major portions of REPowerEU and national climate investments, will **sunset after 2026**, leaving a **projected €300 billion gap** in available public funding. Whether this will be employed for green transition infrastructure will become part of the MFF negotiations. Eastern and Southern member states remain particularly reliant on EU co-financing, and in the absence of well-sequenced follow-up tools (such as the Decarbonisation Bank), national implementation of transition targets may lose pace.

➔ *Infrastructure developers, technology providers, and capital investors should reassess deployment timelines and funding availability in cohesion-reliant markets from 2026 onward, particularly where access to the Decarbonisation Bank or CID instruments remains uncertain.*

Implementation Friction: Permitting, Procurement, State Aid

While the Clean Industrial Deal aims to accelerate deployment, **national-level bottlenecks remain a critical constraint**. **Public procurement rules** risk legal ambiguity, particularly where “green” preference clauses may conflict with WTO obligations. Meanwhile, **differing national interpretations of state aid exemptions** (under the Temporary Crisis and Transition Framework) could cause divergent subsidy environments across member states.

➔ *Project developers and clean-tech suppliers should anticipate regulatory delays and legal uncertainty in permitting and procurement processes and proactively map national interpretations of state aid rules to assess bidding feasibility and subsidy eligibility.*

CBAM Trade Blowback

The **Carbon Border Adjustment Mechanism (CBAM)** is entering its operational phase, and exporters (notably from Turkey, India, and North Africa) have signalled potential retaliatory measures. This the more as the WTO implications of the EU-US trade deal are not yet clear. At the same time, energy-intensive EU industries (e.g., chemicals, steel) face **increased cost exposure and input sourcing constraints**, particularly in countries without free allocation buffers.

➔ *Industrial firms with cross-border supply chains should prepare for potential trade friction and input price volatility in 2026–2027, and consider early adjustments in procurement, regional sourcing, or hedging strategies to mitigate exposure to CBAM-related cost shifts.*

III. Digital

The EU is entering the **enforcement phase** of its digital regulation agenda, following a prolific legislative cycle that saw the adoption of the **Artificial Intelligence Act (AI Act)**, the **Digital Services Act (DSA)**, the **Digital Markets Act (DMA)**, and the **Cyber Resilience Act (CRA)**. The focus now shifts to compliance, operational enforcement, and institutional coordination – with the European Commission, national Digital Services Coordinators, and the soon-to-be-operational AI Office playing central roles.

Strategic tensions are rising. The EU is positioning itself as the world's first comprehensive digital regulator – a continuation of the so-called “Brussels effect” – yet faces growing friction with U.S. tech giants and China over compliance costs, data flows, and standards sovereignty. Meanwhile, cybersecurity remains a critical priority, as Russian-linked cyberattacks on European infrastructure and public institutions continue to test resilience across sectors.

Key Instruments and Initiatives

- **AI ACT**

- The EU's flagship regulation for artificial intelligence, applying strict obligations on general-purpose AI (e.g. ChatGPT-like models) and high-risk applications.
- Entered into force August 2024; **key obligations apply from August 2025 and August 2026.**

- **GPAI Code of Practice**

- A voluntary framework for general-purpose AI developers on transparency, safety, and copyright. Though non-binding, it is fast becoming a benchmark for regulatory and procurement alignment.
- **Published July 2025;** early adoption underway.

- **Cyber Resilience Act (CRA)**

- A horizontal cybersecurity law for all connected products, requiring vulnerability reporting and secure-by-design features. Especially impactful for SMEs and IoT/hardware suppliers.
- First obligations start August 2025; **full application by December 2027.**

Tensions and Strategic Breakpoints

AI Act – Enforcement Gaps and Compliance Uncertainty

While the AI Act entered into force in August 2024, its most significant obligations begin applying from August 2025 (for general-purpose AI systems) and August 2026 (for high-risk applications). However, **several national authorities lack the technical capacity or legal frameworks** to assess compliance, certify high-risk systems, or issue penalties. This uneven implementation could cause **legal fragmentation**, regulatory delays, and **unfair advantages for firms operating in more lenient jurisdictions**.

➔ *Firms developing or deploying AI across EU jurisdictions should anticipate asymmetries in certification timelines and enforcement intensity — and may gain strategic advantage by aligning early with stricter regimes to avoid retroactive penalties or procurement disqualification.*

Voluntary GPAI Code of Practice – Pressure on Non-Adopters

The EU's voluntary Code of Practice for general-purpose AI, launched in July 2025, has been adopted by some major players (e.g., OpenAI, Google), while others (e.g., Meta) have refused. While technically non-binding, **the Code is fast becoming a soft compliance benchmark**, particularly for procurement and reputational risk management.

➔ *Companies not aligned with the Code may face reputational damage, increased scrutiny from regulators, or even risk exclusion from public tenders or national AI registries.*

Cyber Resilience Act – Certification Bottlenecks & SME Impact

The CRA imposes cybersecurity and vulnerability reporting requirements on all connected hardware and software products, with obligations starting in August 2025 and full application by December 2027. However, **national conformity assessment bodies are not yet fully operational**, and **procedural clarity is still lacking** – particularly for SMEs and startups in high-impact sectors such as IoT, medtech, and smart devices.

➔ *Without clear and harmonised certification channels, smaller manufacturers risk delayed market access, compliance uncertainty, or exclusion from key public and private procurement streams in 2026–2027.*

Digital Markets Act – Heightened Enforcement and Political Scrutiny

While the DMA is already in force, **2025 has seen intensified enforcement by the European Commission**, with multiple investigations into the conduct of designated “gatekeepers.” The Commission's focus has drawn political scrutiny, particularly due to the predominantly U.S.-based profile of the affected firms – **raising the risk of retaliatory measures or broader trade tensions.**

➔ *Third-party service providers and app developers relying on gatekeeper platforms should monitor upcoming DMA rulings closely, as enforcement decisions may reshape data access terms, platform interoperability, or ranking algorithms with direct commercial impact.*

Digital Services Act – Legal Uncertainty Around VLOP Enforcement

The DSA imposes stricter obligations on very large online platforms (VLOPs), including systemic risk assessments, strengthened content moderation, and algorithmic transparency. While enforcement has begun, the regulation is already facing **legal challenges across multiple jurisdictions** – particularly around politically sensitive **content removal, disinformation, and freedom of expression.**

➔ *Content-heavy platforms, advertisers, and digital service providers should prepare for diverging enforcement decisions and potential court-mandated reinterpretations that could affect moderation policies, liability exposure, and user engagement strategy.*

IV. Trade

Since the beginning of its second mandate, the von der Leyen Commission has framed trade as a strategic tool – but 2025 has revealed how **unstable and unpredictable** this agenda has become. The most notable illustration of the EU's trading environment are the July 2025 EU-US trade negotiations: during this occasion, **President Trump has demonstrated that he is pushing for asymmetrical deals**, reflecting Washington's transactional approach rather than rules-based reciprocity.

The EU, meanwhile, **has refrained from engaging in symmetrical retaliation** – not because it lacks the tools (such as the Anti-Coercion Instrument), but because it remains committed to a multilateral, WTO-compatible system; it lacks internal support to use hard trade power consistently; and is unwilling to risk a power struggle with the United States – a confrontation it might lose.

Key Instruments and Initiatives

- **EU-US Trade Framework (2025)**

- A bilateral trade agreement introducing a 15% baseline tariff on EU exports, in exchange for expanded access to U.S. energy and industrial cooperation channels.
- Entered into force August 2025; **sectoral exemptions and clarifications expected by Q1 2026.**

- **Mercosur Agreement**

- A comprehensive trade agreement between the EU and Mercosur, finalised in 2024 but ratification in several member states due to political and environmental concerns remains uncertain.
- Parliamentary ratifications expected to begin in **2026.**

- **Trade and Sustainable Development (TSD) Provisions**

- Binding sustainability chapters included in new FTAs (e.g., Chile, future ASEAN deals), covering labour standards, deforestation, and emissions, with enforceable mechanisms including sanctions and dispute resolution.
- Provisions entering into force progressively from late 2025 onward.

Tensions and Strategic Breakpoints

Mercosur Ratification Risks

Despite political agreement, national-level ratification remains deeply contested. France, Poland, and Austria continue to raise concerns over agricultural competition and deforestation safeguards, while Brazil resists additional sustainability guarantees.

➔ *Companies with exposure to Latin American markets or agri-industrial supply chains should prepare for uncertainty in access conditions and timeline volatility.*

Mixed Agreements and the CETA Precedent

Mixed trade agreements (requiring national ratification) continue to face political volatility. While the CETA rejection by the French Senate in 2024 may not set a binding precedent, it has fuelled increased scrutiny – especially in high-sensitivity sectors.

➔ *Stakeholders should factor in reputational and timing risks associated with mixed-agreement frameworks, especially in sensitive sectors like food, pharma, and digital.*

Trade Policy and Digital Regulation Clash

U.S. criticism of the EU's digital rulebook (DSA, DMA, AI Act) is intensifying under Trump, with warnings of retaliatory tariffs targeting tech and services. Transatlantic divergence over digital sovereignty may further complicate negotiations or become entangled with unrelated trade disputes.

➔ *Firms in digital, telecoms, or cloud infrastructure should monitor this fault line closely, as trade policy may be used as leverage in regulatory disputes.*

Aluminium Input Volatility

Proposed EU export controls on aluminium scrap – while designed to secure domestic supply – could contribute to global price distortions or WTO scrutiny over time. Affected industries include batteries, solar, aerospace, and transport.

➔ *Clean-tech firms and manufacturers using recycled inputs should monitor trade restrictions and revise procurement strategies accordingly.*

FTA Fragmentation Across ASEAN

While ASEAN negotiations are accelerating, diverging legal systems and regulatory capacity gaps (notably in Malaysia and the Philippines) may lead to asymmetrical timelines and patchy implementation. Sustainability enforcement remains a sticking point.

➔ *Exporters and investors should plan for legal fragmentation across Southeast Asia and adjust compliance frameworks for each national context.*

Enforcement of Sustainability Provisions (TSD Chapters)

The Commission's stronger stance on TSD enforcement (e.g., via trade sanctions or dispute settlement) introduces new risks for firms operating in deforestation-linked sectors, energy-intensive manufacturing, or labour-sensitive supply chains. Nonetheless, while the Commission has pledged stronger enforcement, the extent to which sanctions or disputes will be used remains to be seen – particularly where major tradeoffs with partners are involved.

➔ *Companies must strengthen ESG due diligence as non-compliance could now translate into loss of preferential access or regulatory penalties.*

WTO Compatibility and Third-Country Blowback

The EU–US tariff deal has triggered legal uncertainty over its compatibility with WTO rules, particularly around most-favoured-nation (MFN) treatment. If challenged by other WTO members (e.g. Turkey, India, Brazil), this could result in formal disputes – or, more likely, retaliatory trade behaviour outside the WTO system.

➔ *Firms exposed to global supply chains should anticipate regulatory fragmentation and increased scrutiny in third markets, particularly for dual-use goods and carbon-intensive exports.*

Trade Diversion Effects from US–EU Framework

The altered U.S. access terms may prompt some third countries to redirect excess capacity toward the EU — particularly in high-volume sectors like steel, aluminium, and chemicals — though the scale of such diversion remains uncertain.

➔ *EU-based firms may face downward price pressure or margin erosion due to diverted global exports; strategic pricing and origin-tracking measures may become critical.*

Annex

This annex is dedicated to a detailed description of the **initiatives, instruments of the EU agenda in four key policy areas (defence, energy, digital, and trade) over the next 12 months (Sept. 2025 – Sept. 2026)**, including their respective timelines.

I. Defence

Key Instruments and Initiatives

- Strategic and Legal Frameworks

- **European Defence Industrial Strategy (EDIS)**: a strategic framework guiding EU defence industrial policy until 2035, aimed at strengthening competitiveness and reducing market fragmentation through certification harmonisation and standardised requirements.
- **Structure for European Armament Programme (SEAP)**: a legal and institutional framework under EDIP designed to enable long-term, EU-funded joint procurement and collaborative defence capability development among member states.
- **Joint Procurement Platform** (forthcoming under SEAP): a shared EU platform being developed for aggregating demand and coordinating multi-country tenders.
- **Security of Supply Board**: a central coordination body tasked with monitoring defence industrial capacity, anticipating bottlenecks, and ensuring the timely and resilient delivery of critical military equipment across the EU.
- **EU-NATO capability mapping**: An ongoing mapping exercise aligning EU and NATO industrial shortfalls and standards (essential for long-term interoperability).

- Financial Tools and Initiatives

- **European Defence Fund (EDF)**: the EU's main funding instrument for defence R&D, supporting collaborative projects to develop innovative and interoperable technologies, and backing innovators through the EU Defence Innovation Scheme (EUDIC); budgeted at €7.3 billion for 2021–2027.
- **European Defence Industry Programme (EDIP)**: an EU funding instrument budgeted at €1.5 billion for 2025–2027, designed to incentivise intra-EU

defence procurement, joint industrial projects, and accelerated supply chains, while also supporting the reconstruction and modernisation of Ukraine's defence industry.

- **Security Action for Europe (SAFE):** an EU financial instrument aimed at unlocking up to €150 billion in EIB-backed loans to support defence-related joint procurement, reduce market fragmentation, and accelerate cross-border industrial cooperation and large-scale capability development.
- **Act in Support of Ammunition Production (ASAP):** an EU initiative focused on rapidly increasing ammunition production capacity across Europe to address critical supply shortfalls.
- **National co-financing windows:** temporary fiscal mechanisms enabled by exemptions from EU budget rules, allowing member states to increase defence spending without breaching Stability and Growth Pact limits.

- **Operational and Procurement Instruments**

- **Joint Procurement Mechanisms** (via SEAP): frameworks for collective acquisition (initial focus: ammunition, drones, air/missile defence).
- **Defence Joint Procurement Task Force:** a governance body under EDIP, to be established by mid-2026, tasked with coordinating and accelerating joint defence procurement efforts among EU member states.
- **Reconstruction of Ukraine's Defence Industry:** a component of EDIP focused on co-development opportunities, infrastructure rebuilding, and capacity-sharing to support Ukraine's long-term defence resilience.

What's next? Legislative and implementation timeline (chronological order)

- Implementation of **SAFE instrument** (adopted in May 2025): 19 member states (Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Spain, Finland, Hungary and Lithuania, Slovakia, Latvia, Croatia, Poland, Greece, Portugal, Romania, France and Italy) submitted intent to participate in the loans-for-weapons scheme. The Commission published the tentative distribution among the participating member states in September.
 - **Activation of the National Escape Clause**: 15 member states (Belgium, Bulgaria, Croatia, Czechia, Denmark, Estonia, Finland, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia and Slovenia) authorised by the Council to use fiscal derogations, enabling defence spending increases up to **1.5% of GDP over four years** (July 2025).
 - **SAFE Loan Applications Deadline**: participating states must submit formal project proposals and loan requests for EIB assessment (30 November 2025 deadline).
 - **Final adoption of the EDIP Regulation**: expected by the end of 2025, triggering the launch of key implementation mechanisms.
 - **Monitoring Phase for SEAP and Security of Supply Board**: Early calls, working group announcements, and pre-tender coordination expected, pending EDIP's final adoption (monitor Q4 2025).
 - **SAFE Loans Operational**: EIB loans expected to become disbursable in Q1 2026.
 - **SEAP and Security of Supply Board Become Active**: Operational coordination and legal frameworks to be rolled out under EDIP governance.
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II. Energy

Strategic Pillars and Key EU Initiatives

- **Energy Security and Resilience**
 - **Gas Storage Regulation & AggregateEU Platform:** new regulation to mandate national gas reserves and joint EU purchasing platforms, including short-term LNG diversification programmes.
 - **Critical Raw Materials Act (CRMA):** an EU regulation setting targets for domestic sourcing and supply chain resilience of materials essential to energy technologies and clean industrial production.
 - **Russian Gas Phase-Out Directive**
- **Sustainability and Industrial Decarbonisation**
 - **Clean Industrial Deal (CID):** framework combining public procurement mandates for renewables, hydrogen, batteries, and green steel – backed by revised state-aid rules.
 - **Industrial Decarbonisation Accelerator Act:** legislative text to streamline permitting and launch EU-level clean energy tenders.
 - **Decarbonisation Bank:** financial platform designed to mobilise ~€100 billion public and up to €400 billion private capital by 2026 via EIB-supported instruments.
 - **Net-Zero Industry Act (NZIA):** EU's legislative backbone to scale up the domestic manufacturing of clean technologies needed to reach climate neutrality by 2050. Set target: at least 40% of the EU's annual deployment needs in net-zero technologies be produced domestically by 2030.
 - **Strategic Energy Technology Plan (SET Plan) Revision:** an update of the EU's 2007 energy R&I strategy, aimed at aligning research and innovation spending with new industrial, climate, and geopolitical goals, while expanding support to technology scaling and deployment in line with the Clean Industrial Deal and Net-Zero Industry Act.
- **Energy Market Integration and Grid Modernisation**
 - **Electricity Market Reform (EMR)**
 - **Grid Modernisation Package**

- **Permitting Reforms:** faster licensing for grid, hydrogen, renewables under CID framework and Accelerator Act.
- **Climate Compliance and Carbon Pricing**
 - **ETS 2 & Social Climate Fund:** a new emissions trading system covering buildings and road transport (ETS 2), accompanied by the Social Climate Fund to mitigate its impact on vulnerable households and SMEs.
 - **Energy Performance of Buildings Directive (EPBD):** EU legislation requiring the progressive renovation and decarbonisation of buildings, with binding energy efficiency and emissions standards to be implemented by 2030.
 - **Carbon Border Adjustment Mechanism (CBAM):** an EU climate policy instrument that applies carbon pricing to energy-intensive imports, aiming to prevent carbon leakage while influencing sourcing strategies and industrial competitiveness.

What's next? Legislative and implementation timeline (chronological order)

- **Clean Industrial Deal (CID):** European Parliament adopted it in June 2025.
- **Gas Storage Regulation:** Amended by the European Parliament in July 2025 (plenary); formal Council approval pending.
- **Critical Raw Materials Act (CRMA):** National transpositions due by end of 2025; will start affecting licensing and supply from 2026.
- **Permitting Reforms:** Scheduled for Q4 2025, as part of the Clean Industrial Deal implementation.
- **Industrial Decarbonisation Accelerator Act:** Legislative proposal tied to CID; public guidance expected Q4 2025; implementation not before 2026.
- **CBAM (Carbon Border Adjustment Mechanism):** Review expected in H2 2025; full enforcement aligned with ETS2 in 2027.
- **SET-Plan Review (linked to NZIA):** Scheduled for H2 2025; clean-tech auctions and industrial scaling in 2026.
- **Decarbonisation Bank (EIB tools):** Pilot schemes to launch late 2025 / early 2026; full operational phase by 2026.
- **Russian Gas Phase-Out:** Legislative ban begins early 2026, targeting full termination by end-2027.

- **Electricity Market Reform (EMR):** Council agreement expected Q1 2026; market rule changes to be implemented during 2026.
- **Energy Performance of Buildings Directive (EPBD):** Transposition deadline expected May 2026.
- **Grid Modernisation Package:** Commission draft to be proposed in 2026; upgraded grid regulation by end-2026.
- **ETS2 (Emissions Trading System 2):** Entry into force scheduled for 2027.

III. Digital

Key Instruments and Initiatives

- **AI Governance and High-Risk Systems**
 - **AI Act:** comprehensive EU regulation that classifies and governs AI systems based on risk levels, with strict obligations for high-risk and general-purpose AI models.
 - **GPAI Code of Practice:** a voluntary EU-wide framework published in July 2025 to guide general-purpose AI developers on transparency, copyright, and safety standards.
- **Digital Markets and Platform Fairness**
 - **Digital Markets Act (DMA):** regulation targeting “gatekeeper” platforms (e.g., Google, Meta) to prevent anti-competitive practices and ensure fair digital markets.
 - **Digital Services Act (DSA):** regulation establishing due diligence, transparency, and risk mitigation obligations for online platforms, especially very large platforms (VLOPs).
 - **Digital Fairness Act:** proposal to tackle dark-pattern marketing, personalization, and influencer issues.
- **Security and Cyber Resilience**
 - **Cyber Resilience Act (CRA):** regulation imposing cybersecurity and vulnerability disclosure requirements for hardware and software products marketed in the EU.

- **Data and Operational Resilience**
 - **Data Act:** framework granting users more control over data generated by connected products and services, while promoting fair access and reuse by third parties.
 - **Digital Operationalisation Resilience Act (DORA):** regulation ensuring that financial institutions and ICT providers can withstand and recover from digital disruptions and cyber threats.

What's next? Legislative and implementation timeline (chronological order)

- **AI Act:** entered into force on 1 August 2024.
 - Bans on unacceptable-risk systems and AI literacy obligations began 2 February 2025.
 - Governance rules and general-purpose AI (GPAI) model obligations apply 2 August 2025.
 - Full high-risk compliance required by August 2026.
 - **Cyber Resilience Act (CRA):** adopted December 2024.
 - Conformity assessment rules apply from August 2025.
 - Vulnerability reporting begins September 2026.
 - Full requirements apply 11 by December 2027.
 - **GPAI Code of Practice:** published July 2025 – voluntary adoption began (Google, OpenAI signed on; Meta did not).
 - **DORA (Digital Operational Resilience Act):** compliance expected through 2025–2026 supervisory cycle.
 - **Data Act:** entered into force 11 January 2024.
 - User data access obligations apply from 12 September 2026.
 - Product design compliance required from 12 September 2027.
 - **Digital Fairness Act:**
 - Public consultation closed July 2025.
 - Legislative proposal expected in Q3 2026.
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IV. Trade

Key Instruments and Initiatives

- **Bilateral and Regional Trade Agreements**

- **EU-US Trade Framework (2025):** establishes baseline tariffs (15%) on EU exports in exchange for U.S. energy deals and industrial cooperation.
- **Mercosur Agreement:** finalised in 2024, but ratification process started early September. Resistance remains by key member states (notably France and Poland) over agriculture, deforestation, and enforcement of sustainability clauses.
- **EU-India FTA:** negotiations aim for conclusion by end-2025, covering goods, services, investment protection, and digital trade.
- **Indonesia, Malaysia, Thailand, and Philippines FTAs:** talks with Indonesia are advanced (target: 2026); negotiations with Malaysia were relaunched in early 2025; exploratory talks with Thailand and the Philippines are ongoing.
- **EU-UK Trade and Cooperation Agreement (TCA):** scheduled for formal review in 2026, with discussions on extending cooperation to mobility, emissions trading, and regulatory convergence.
- **Chile Advanced Framework Agreement:** Provisionally applied since February 2025, replacing the 2003 FTA and deepening trade in critical raw materials and sustainable investment.

- **Trade Defence and Regulatory Instruments**

- **Carbon Border Adjustment Mechanism (CBAM)**
- **Foreign Subsidies Regulation (FSR):** enables the Commission to investigate and potentially block foreign-subsidised firms from bidding in EU tenders or acquiring EU assets.
- **Anti-Coercion Instrument (ACI):** although in force since 2024, the ACI could see its first major use in 2025-26 – especially in response to US or Chinese pressure. It allows the EU to impose countermeasures against third countries engaging in economic coercion, and its use would be a key signal of the EU's geopolitical assertiveness.

- **Export Restrictions on Aluminium Scrap (proposed):** in response to U.S. tariffs, the EU is preparing export control measures to protect domestic green-tech supply chains.
- **Trade and Sustainable Development (TSD) Provisions:** New FTAs include binding sustainability chapters with enforcement mechanisms (including sanctions) and mandatory stakeholder consultations — increasingly relevant for firms operating in sectors linked to labour rights, deforestation, or emissions.
- **Plurilateral and Strategic Frameworks**
 - **CPTPP Outreach:** the EU is exploring closer ties to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership as part of its diversification and rule-making agenda.
 - **Economic Partnership Agreements (EPAs):** these asymmetrical agreements with ACP countries support development while maintaining preferential access to EU markets.

What's next? Legislative and implementation timeline (chronological order)

- **Chile Advanced Framework Agreement**
 - Provisionally applied since **February 2025**.
 - Full ratification process continues in national parliaments; no major delays expected as of mid-2025.
 - Implementation of new sustainability and investment provisions underway.
- **EU–US Trade Framework**
 - Enters into force in **August 2025**, applying a baseline 15% tariff on EU exports.
 - Further Commission clarifications expected regarding tariff exemptions and sectoral application by **Q1 2026**.
- **Export Restrictions on Aluminium Scrap**
 - Proposal expected for **public consultation in September–October 2025**.
 - Legislative process could run into **mid-2026**.
- **EU–India FT**: Final phase of negotiations underway; conclusion targeted by **Q4 2025**.
- **EU–Indonesia FTA**

- Regulatory and investment chapters under final review.
 - **Political finalisation anticipated by late 2025**, with signing possibly in early 2026.
- **Trade and Sustainable Development (TSD) Enforcement**
 - New sustainability clauses with enforcement and sanctions mechanisms entering force in FTAs from **late 2025 onward** (e.g., Chile, possibly Mercosur, and future ASEAN deals).
 - Stakeholder advisory groups and compliance tracking instruments to be formalised in parallel.
 - **EU–UK Trade and Cooperation Agreement (TCA)** : formal review scheduled for **Q1–Q2 2026**.
 - **Mercosur Agreement**
 - Awaiting national-level ratification in several member states.
 - Parliamentary ratifications expected to **begin in 2026, though outcome is politically uncertain**.
 - **ASEAN Trade Track (Malaysia, Thailand, Philippines)**
 - Malaysia FTA negotiations **relaunched in early 2025**.
 - Exploratory dialogues with Thailand and the Philippines ongoing; potential formal launch of negotiations by **late 2026**.

Contact Us



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