

## Introduction

On 20 June 2023, the European Commission and the High Representative published a Joint Communication on a [European Economic Security Strategy](#), setting out the foundations to minimise the risks to economic security in light of increased geopolitical tensions and accelerated technological shifts, while preserving maximum levels of economic openness and dynamism.

This strategy is part of a broader three-pillar approach to EU economic security by promoting the EU's competitiveness, protecting the EU's economic security, and partnering with the broadest possible range of partners to strengthen economic security.

The last few years have taught some hard lessons about the risks of excessive dependence. Therefore, the proposal provides a framework for assessing and addressing – in a proportionate, precise and targeted way – risks to EU economic security, while ensuring that the EU remains one of the most open and attractive destinations for business and investment.

The strategy proposes a thorough assessment of risks to economic security in four areas: (a) the resilience of supply chains, including energy security; (b) physical security and cybersecurity of critical infrastructure; (c) technology security and technology leakage; (d) weaponisation of economic dependencies or economic coercion.

## The EU's Economic Security Proposals

Building on these first pillar, the Commission put [forward](#), on 24 January 2024, five initiatives to strengthen the EU's economic security:

1. A legislative proposal for the [revision of the EU Foreign Direct Investment Screening Regulation](#) to improve its effectiveness and efficiency
2. A [white paper](#) launching a process to identify potential security risks linked to EU investment in third countries (outbound investment)
3. A [white paper](#) on how to make EU controls more effective for the export of goods with civilian and military use (dual-use goods), in the interest of upholding international security and safeguarding EU security interests in the context of growing geopolitical tensions (export control)
4. A [white paper](#) on enhancing support for research and development involving technologies with dual-use potential
5. A [proposal for a Council Recommendation](#) on enhancing research security

## 1. Enhanced Foreign Investment Screening

The EU greatly benefits from investments originating from third countries, with non-EU investors contributing over €7.7 trillion to support job creation and economic growth in Europe. To manage the potential security risks associated with these investments, the EU established a foreign direct investment screening system in October 2020 to screen foreign direct investments against potential risks to its security and public order.

The new legislative proposal aims to enhance this system based on three key objectives:

1. Ensuring that all Member States have a screening mechanism in place and harmonising national rules to make cooperation with other Member States and the commission more effective and efficient
2. Covering transactions within the EU where the direct investor is established in the EU but is ultimately controlled by people or entities from a non-EU country
3. Establishing a minimum sectoral scope where all Member States are required to screen transactions

## 2. Monitoring and Risk Assessment of Outbound Investments

When EU companies invest in advanced technologies in third countries, there is a risk that these technologies could get into the hands of certain countries that may use EU technology and know-how to enhance their military and intelligence capabilities. This technology leakage could undermine international peace and security.

In response to this, in summer 2023, the commission created an expert group on outbound investment with Member States. This group examines what security risks can result from outbound investments, analyses gaps in existing trade and security tools and examines possible measures to address any identified risks.

Presently, there is no systematic monitoring or control of EU investments flowing into third countries. To bridge this knowledge gap, the commission is initiating a data-gathering process to assess potential risks, via a series of steps that will ultimately decide if and how any further policy response should be formulated:

1. A 12-week public consultation to gather stakeholder input
2. A commission recommendation to Member States in the summer of 2024, recommending them to monitor outbound investments in critical technologies (such as artificial intelligence, semiconductors, quantum computing and biotechnology) for a 12-month period and then report to the commission and other Member States.

3. A shared risk assessment based on the findings of the monitoring, undertaken by the commission and the Member States, to determine if these transactions pose risks to EU security
4. If necessary, the commission and Member States will formulate appropriate policy responses to address identified risks

### 3. More Effective Controls of Exports of Dual-use Goods

The white paper on export controls emphasises the critical importance of preventing EU goods and technologies with dual civilian and military uses from falling into the wrong hands. It aims to launch a discussion on the current EU export control system and sets out actions to address some of the existing gaps. The proposed actions include:

1. Considering alternative approaches in the short term to introduce uniform EU controls for items agreed upon with partners at the multilateral level, even if formal adoption is hindered by certain countries
2. Creating a forum for political level coordination on export controls between the commission and Member States to foster common EU positions, as well as adopting a recommendation by summer 2024 to improve technical coordination between Member States and the commission on new national control lists of dual-use items before individual adoption, enhancing the EU's ability to identify security and supply chain risks.
3. Advance the planned evaluation of the Dual-Use Regulation to the first quarter of 2025

### 4. Enhancing Support for Research and Development Involving Technologies With Dual-use Potential

The white paper on enhancing support for research and development involving dual-use technologies highlights the critical role of these technologies for the EU's economic security and strategic autonomy. Dual-use technologies are applicable to both civilian and defence domains, with the potential to benefit European industry and the broader economy simultaneously.

The paper reviews and assesses the existing research and development support offered under current EU funding programmes and launched a public consultation, inviting input from public authorities, civil society, industry and academia until 30 April 2024. The consultation explores three options:

1. **Building on the current set-up** – Improving on the current approach characterised by an exclusive focus on either civil (through Horizon Europe) or defence applications (through the European Defense Programme). It would introduce improvements that can already be tested in the current EU funding programmes.

2. **Removing exclusive focus on civil applications in selected parts of Horizon Europe's successor programme** – Supporting strategic emerging technologies independently of the field of application (defence or civil) in selected parts of the programme – subject to specific conditions. All other parts of the programme would maintain an exclusive focus on civil applications.
3. **Creating a dedicated instrument for research and development with a dual-use potential** – Establishing an instrument devoted to research with dual-use potential, while maintaining their mutually exclusive focus on civil and defence research and development programmes.

### 5. Proposal for a Council Recommendation on Enhancing Research Security

Research security refers to the risks related to the international nature of scientific research. These risks arise from sharing sensitive knowledge and technology, which can jeopardise European and national security if channelled to military purposes by a foreign research partner. Another risk is the improper influence on EU academic education and research by or from other states. The third research security risk occurs when technologies are used to suppress or undermine fundamental values, both in the EU and elsewhere.

Awareness of these risks varies across the EU, with some member states and research stakeholders actively developing policies while others remain largely unaware, creating vulnerabilities that could be exploited and hinder the functioning of the European Research Area.

To address these challenges, the commission has proposed a council recommendation, aiming to provide Member States and the research and innovation sector with more clarity, guidance and support. The proposal outlines the principles for responsible internationalisation as the foundation for all research security policies. It further recommends practical safeguarding measures to member states, research funding organisations and research performing organisations. Lastly, the proposal outlines support actions at the EU level to enhance research security.

## How We Can Help

While the EU recognises the importance of open global markets, the broader geopolitical developments have forced them to introduce more assertive policies, particularly in relation to foreign investments. Advanced technologies have been put at the centre of such policies, as is once again evidenced by this new package. The EU attempts to bolster its competitiveness by further diversifying the supply and export markets, as well as encouraging investments on research in key technologies. Additionally, the updated legislation will now undergo negotiations between the council and the parliament at a crucial juncture before the upcoming EU elections, most likely falling in the next political mandate. It will be crucial to closely monitor the progress of the EU's Economic Security Strategy to better understand the level of impact this proposal will have on your business and to ensure the co-legislators strike the right balance for the future.

With us as your trusted advisors on your side, you will be able to spot, assess and understand the risk and opportunities for your organisation from the proposed Economic Security Strategy. We can support you with any legal or policy request you may have. Please do not hesitate to reach out to us for a discussion.

## About Us

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We combine sound legal counsel with a deep knowledge of our clients' businesses to resolve their legal, public policy and political challenges. We care about the quality of our services, the success of our clients and the relationships that are forged through those successes. Our client base spans every type of business, both private and public, worldwide. We advise a diverse mix of clients, from Fortune 100 and FTSE 100 corporations to emerging companies, and from individuals to local and national governments. Leveraging local connections, while exerting global influence, we are commercial, connected and committed.

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