

## European Sovereignty: A Renewed Priority

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Europe's strategic autonomy is no longer a theoretical ambition; it is an urgent necessity. Against a backdrop of geopolitical upheaval, energy insecurity, and technological dependency, the European Union is being forced to rethink its role in the global order.

The concept of European sovereignty has evolved considerably in recent years. Initially seen as a primarily political aspiration, it now permeates industrial strategy, foreign policy, and capital allocation. The COVID-19 pandemic, Russia's invasion of Ukraine, and increasingly unpredictable transatlantic relations have laid bare the risks of dependence on external actors in critical sectors. In response, Europe has begun to articulate a new vision—one focused on resilience, independence, and long-term security.

### A Fragmenting Global Order

One of the most pressing challenges Europe faces today is the evolving nature of its global alliances. The transatlantic bond, once a cornerstone of European stability, has become less reliable. Uncertainty surrounding the future of NATO (North Atlantic Treaty Organization) and the prospect of an isolationist turn in the United States have triggered widespread concern in European capitals. These concerns are not just military—they touch on trade, data, energy, and investment flows.

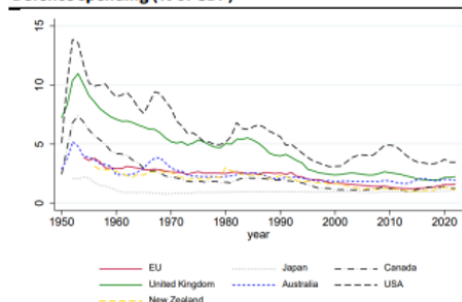
At the same time, the increasing assertiveness of China—and the growing tension between Washington and Beijing—has created new strategic dilemmas for Europe. The EU finds itself caught in the middle of a global technology race, with limited control over key supply chains and critical infrastructure. In this new geopolitical context, European leaders are re-evaluating how to safeguard the continent's sovereignty across multiple dimensions.

### Building a defence

In 2024, EU member states collectively spent €326 billion on defence, representing 1.9% of GDP—slightly below NATO's recommended 2%. In contrast, the US allocates over 3% of its GDP to defence, underscoring the need for increased European investment in this area. The war in Ukraine has acted as a catalyst, prompting European governments to ramp up military spending. Countries like France and Germany are expanding their defence industries, with domestic firms reporting record-breaking orders.

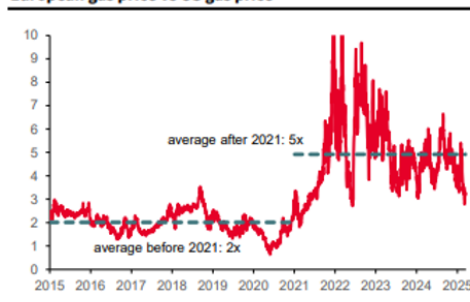
To strengthen the EU's defence capabilities, European Commission President Ursula von der Leyen has proposed the 'ReArm Europe' initiative, which aims to mobilize up to €800 billion. The plan includes measures such as suspending budgetary constraints to facilitate defence spending, providing €150 billion in defence loans, and reallocating existing EU funds toward military investments.

**Defence spending (% of GDP)**



Source: European Commission, Stockholm International Peace Research Institute (SIPRI).

**European gas price vs US gas price**



Source: Bloomberg, SG Cross Asset Research/Equity Strategy

## Reducing energy dependence

Nowhere is this vulnerability more visible than in energy. The war in Ukraine exposed the structural fragility of Europe's energy architecture. Before the conflict, over 40% of EU gas imports came from Russia. In 2022, that dependency was sharply reduced—but not without significant economic costs. As Europe turned to alternative sources like LNG (Liquefied natural gas) from the US and Qatar, new dependencies emerged.

Moreover, the continent's ambitious climate goals have increased its reliance on imported critical raw materials. The transition to renewable energy and electrified transport has created increasing demand for lithium, cobalt, and rare earth elements—resources often sourced from geopolitically unstable regions or under monopolistic control.

To address this, the EU has launched several initiatives, including the REPowerEU and the Critical Raw Materials Act, to diversify supply chains and accelerate domestic extraction, refining, and recycling. Yet the road to energy sovereignty remains long. Enhancing energy storage, upgrading grid infrastructure, and fostering cross-border cooperation will be essential steps in the years ahead.

## Catching up on technological gap

From semiconductors to cloud computing, Europe remains significantly behind the US and Asia in several key areas. The COVID-19 crisis and supply chain disruptions highlighted Europe's limited capacity in chip production, a challenge that has gained new urgency amid growing tensions around Taiwan, home to the world's leading chipmakers.

The European Chips Act, unveiled in 2023, aims to mobilise over €43 billion to build a robust semiconductor ecosystem and double Europe's share of global chip production by 2030. Still, developing cutting-edge fabrication facilities takes years, and Europe must also address challenges in attracting talent, ensuring interoperability, and competing with state-backed giants.

Beyond hardware, Europe is also playing catch-up in software infrastructure. The continent remains heavily dependent on US cloud providers for digital storage and computing power. Meanwhile, in artificial intelligence and quantum computing, European initiatives often lack the scale and cohesion of their American or Chinese counterparts. Without greater coordination and investment, the risk of digital dependency could undermine Europe's broader strategic goals.

## Conclusion

The coming decade will be decisive for European sovereignty as the EU strives to achieve strategic autonomy. Without securing its sovereignty, Europe risks becoming a marginal actor in global geopolitics, vulnerable to supply chain disruptions, energy instability, and the competing influences of the US and China. Success in key initiatives such as ReArm Europe, the European Chips Act, and REPowerEU is essential for Europe to assert its independence on the world stage. Achieving this will require more than just financial investment—it demands strategic alignment, rapid implementation, and collective resolve. Recent geopolitical shifts have underscored the urgency of this mission. While progress has been made, significant challenges remain in reducing vulnerabilities and ensuring Europe's strategic independence.

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