

## THE FOURTH VISION SIENA CONFERENCE ON THE FUTURE OF EUROPE



### TIME TO LAND IN THE 21<sup>ST</sup> CENTURY

ONE YEAR TO THE NEXT EU ELECTIONS: HOW DID EUROPE CHANGE  
IN THE LAST FOUR HYPER FAST YEARS AND WHAT WILL IT LOOK  
LIKE IN 2029

**8th, 9th, 10th June 2023**  
Siena – Certosa Di Pontignano

**PONTIGNANO PAPER**

**(DRAFT VERSION)**

*This concept paper has been drafted by **Vision** and: **European Liberal Forum** (ELF – Plenary 2); **Foundation for European Progressive Studies** (FEPS – Plenary 3); **Green European Foundation** (GEF – Plenary 4); **New Direction** (ND – Plenary 5); **University of Siena** and **European University Institute** (Plenary 1) and **students (Master and Ph.D.)** from University of Siena/EUI (Problem Solving Groups).*

## INTRODUCTION. EU: TIME TO LAND IN THE 21<sup>st</sup> CENTURY

We are navigating into “*unchartered waters*.”

The twenties of the new century have seen an acceleration of multiple crises whose magnitude and frequency are unprecedented. We not only have urgent problems to solve but also the uncomfortable feeling that the brave, new world which is unfolding poses a challenge to the intellectual and institutional instruments we have used for decades. The complexity, however, is not a monster to admire hopelessly. It is time we start making sense, mapping, and navigating the “unchartered waters” we are travelling. It is time to advance and experiment with the fresh, pragmatic and, if necessary, radical ideas we need. This is the purpose of the Siena “Conference on the future of Europe” which is convening its fourth edition.

Indeed, 2023 began with more questions than answers.

After the COVID-19 pandemic – a two-year-long event that changed the lives of everybody in ways we could not conceive – we had: the brutal aggression of Ukraine bringing the world as never before to a nuclear event; the energy crisis, the disruption of global value chains and the return of inflation after few decades; new technological disruptions hinting at a future where robots may think (and work) in our place; a new banking crisis with the come-back of the ghost of the 2007 financial crisis; and further warming of the planet which is getting close to a dramatic tipping point.

All these multiple crises remind us that an entire machinery of global governance (from the Security Council to the WTO, from the WHO to the COP) were designed to govern a century that ended twenty-three years ago.

The unity of the European Union vis-à-vis the existential threat coming from Russia and the implementation of the strategy meant to detach from the dependence on Russian gas say that Europe is still the most advanced and adaptable “union” amongst sovereign states. And yet the speed of history and of technologies put forward radical challenges to Europe that is still too slow to tame instantaneous shocks. Either we change and become more visionary and pragmatic, or we may not survive to the next shock. This is the time for ideas more than never-ending analyses.

The aim of Vision’s Conference on the future of Europe is to create an environment where it is possible for new pragmatic, fresh ideas to emerge. The method, which has been tested in the last three editions, is about creating a “safe haven” where people coming from different political angles, academic domains, countries, ages, genders, professional backgrounds can enrich each other and contribute to finding a common ground.

The first two editions of Vision’s Conference on the future of Europe<sup>1</sup> took place in October 2020 and June 2021, while the continent was struggling with the COVID-19 pandemic. The third edition<sup>2</sup>, held in May 2022 in Siena, was organised while hundreds of thousands of families were besieged in Kiev and Odessa.

The fourth edition will take place in Siena, in a moment when it is more urgent than ever to go from analyses to possible solutions.

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<sup>1</sup> The conferences were co-organised by Vision (the Think Tank) and TAObUK (The Taormina Book Festival) in Messina (and Taormina).

<sup>2</sup> The Conference had the objective of positioning Siena and Florence at the forefront of European discourse; Siena therefore became the home of Vision’s idea of the future of Europe.

The 2023 edition is being organised by Vision together with the University of Siena and will take place at the Certosa di Pontignano in Siena. It is meant to be a scale-up of the previous editions and the consolidation of a project designed to create a permanent hub of ideas to reform the EU and to support the design and implementation of EU policies.

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## THE CONTEXT AND THE OBJECTIVES

The title of the fourth edition of the Vision Conference on the Future of Europe, **Time to Land in the 21<sup>st</sup> Century**, builds on three key starting points:

1. The last three years have witnessed a further acceleration of the crises (the COVID-19 pandemic and the ensuing disruptions of globalisation as we knew it; the Russian invasion of Ukraine and the energy crisis; the most recent turmoil in the banking system) that appear to be the defining feature of the 21st century.
2. Such frequent and violent shocks are pointing out the inadequacy of the institutions (from the climate COP to the World Bank) and participation mechanisms that we have been using since WW2 to govern complex global problems.
3. The EU is not alien to such a crisis and still suffers from ambiguities and sub-optimal half integrations; the most recent scandal revolving around the European Parliament further shows that even the institution that was meant to be the link between the EU and its citizens suffers from a partial fulfilment of its initial promise; and yet we can still turn a problem into an opportunity for leadership.

In June 2023, the think tank Vision and the University of Siena convened a three-day problem-solving event at Certosa di Pontignano, where fifty intellectuals, policy makers, journalists, historians, and visionaries, together with 16 students, gathered to generate and discuss bold ideas as a follow-up to the official *Conference on the Future of Europe* (COFE), and the *State of the Union*. It will provide a forum that will be more informal than the official COFE and a contribution to “crafting the future”.

One of the distinctive features of the conference is in the approach we used. We are convinced that complex questions like the “future of Europe” pose an intellectual challenge: we tried to find and develop viable solutions by assembling different skills and academic and professional backgrounds, sharing a problem-solving approach to find a common language. The conference followed a format that was successfully tested with Vision’s previous Conferences on the Future of Europe and with Vision’s Dolomite Conference on Climate Change.

## FINDING SOLUTIONS TO COMPLEX QUESTIONS: THE CONFERENCE AS A PROBLEM-SOLVING PLATFORM

When we consider the “complex problems” that are arguably the defining feature of the 21st Century, we almost inevitably end up in seemingly unsolvable trade-offs. Vision’s Pontignano Conference on the Future of Europe proposed a problem-solving exercise to tackle some of these challenges:

1. How can we make democracies more inclusive and efficient at the same time? Can the EU be the lab to experiment innovations like electronic voting?
2. Can climate change be the opportunity for Europe to take the lead in the governance of globalisation? Is there a way to steer private investments towards sustainability in a way which is more effective (to avoid “green washing”) and less costly for compliance (especially for SMEs)?
3. How might a common fiscal capacity respond to shocks and also minimise moral hazard? Is it time to rethink the mandate of the ECB?
4. What is the right level of regulations so that Europe can avoid digital markets being only dominated by foreign digital platforms and, at the same time, save the impact that disruptive innovations can provide on the competitiveness level? Should innovation/industrial policies break the taboo of “state aid,” and how?

These are some of the questions around which the fourth edition of the Conference on the Future of Europe asked five think tanks and fifty talented people from different backgrounds and countries to work together to develop concrete new ideas.

At the very basis of this endeavour there is the basic intellectual intuition that these trade-offs are not unbreakable. We are convinced that a major part of the problem we are solving is about cognitive biases that prevent us from thinking outside the box of prejudices, allowing people to feel part of competing tribes in an artificially polarised arena. The paradox is that these prejudices have been developing in a world which had just overcome the ideologies that broke the old world order into two parts. The bottom line is that newspapers, think tanks and universities are – with some remarkable exceptions – full of analysts and yet they lack problem solvers (and problem setters who are able to better explain the nature of a question before trying to propose solutions). We are still talking about implementing national or worldwide policies, where the 21st Century would require us to carry on local experimentations before scaling them up to larger plans.

The so-called “debate” is mostly about observing complexity, where very few are attempting what has defined the human species for a few millennia: reducing complexity by breaking it down into manageable issues.

We believe that the focus of Vision’s Pontignano Conference is about looking for ideas that can feed institutions, civil society, and academia with fresh ideas that contribute to a radical reform of how the EU operates.

Following the consolidated model of the previous conferences, the outputs of this conference are conveyed in a general **Pontignano manifesto**, proposing a different method of integration and an action plan for each of the problems/priorities analysed by the four working groups.

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There has been international broadcasting by the main Italian newspapers and one of the main Italian TV broadcasters, such as Rai Radio 1 and SkyTG24.

The Conference was opened by the local hosts (the Mayor of Siena and the President of Tuscany) and with an overview of the programme by the two organisers together with the chairs.

The programme then continued with two plenary sessions which framed the debate.

There were then four working groups, introduced by each group’s rapporteur before the participants gather into the four groups. Each group was moderated by one chair who developed the conclusions of the WG together with the presenter and one rapporteur.

The rapporteur, together with the UNISI students presented the outcomes of the working groups to the plenary on the last day. The other five public plenary sessions took place on days 2 and 3.

The debates of all plenaries and working groups have been conveyed into the general Conference manifesto.

## KEY PEOPLE

The organisers of the conference are the University of Siena (whose rector is Professor **Roberto Di Pietra**<sup>3</sup>), the European University Institute – Robert Schuman Centre (whose director is Professor **Erik Jones**) and Vision, The Think Tank (whose director is Professor **Francesco Grillo**<sup>4</sup>).

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<sup>3</sup> The team at UNISI includes Professor Luca Verzichelli, Professor Simone Borghesi, Professor Francesco Frati, and the UNIEVENTI team.

<sup>4</sup> The team at VISION includes researchers Clara Donati, Margherita Curti, and Giorgia Caianiello.

The chairs of the conference were **Sandro Gozi** (European MEP for Renew Europe, former Italian Secretary of State for European Affairs), **Maria Joao Rodrigues** (President of the Foundation for European Progressive Studies and former Portuguese Minister of Employment), **John Hooper** (Italy and Vatican correspondent, The Economist), **Kalypto Nicolaidis** (Professor at St Antony's College, University of Oxford and Professor at the School of Transnational Governance, EUI).

### The Conference participants included:

**Romano Prodi** (Former Prime Minister of Italy and Former President of the European Commission), **Roberto Di Pietra** (Magnifico Rettore University of Siena), **Alexandra Borchardt** (Reuters Institute and Vision), **Francesco Grillo** (Director at Vision Think Tank and Visiting Fellow at the EUI), **Clara Donati** (Vision Think Tank), **Maria Joao Rodrigues** (President of the Foundation for European Progressive Studies and former Portuguese Minister of Employment), **Barbara Kolm** (Vice President of the Austrian Central Bank), **Bill Emmott** (Trustee of the Institute of Strategic Studies and former editor of The Economist), **Luca Verzichelli** (Professor at University of Siena and President of the Italian Political Science Association), **Jamie Mackay** (Research Associate, European University Institute), **Ophélie Masson** (Programme Coordinator – European Alternatives), **Viktorya Muradyan** (Communication Officer, European Liberal Forum), **Thibault Muzergues** (International Republican Institute, Head of Rome Office), **Catherine E. de Vries** (Dean of Diversity & Inclusion and Professor of Political Science at Bocconi University), **Jan Kickert** (Austrian Ambassador in Italy), **Koert Debeuf** (Author and Senior Political Consultant - Adjunct Prof. at Brussels School and Fellow at CRIC Oxford), **Simone Borghesi** (Vice Rector University of Siena for International Relationships and President of European Association Environmental and Resource Economics), **Andrea Maffezzoni** (CFO Banca Monte Paschi di Siena), **Anastasios Xepapadeas** (Department of Economics University of Bologna and Athens University of Economics and Business), **Alessio D'Amato** (Department of Economics and Finance, Tor Vergata University of Rome, and SEEDS), **Phoebe Koundouri** (Athens University of Economics and Business & Technical University of Denmark, President European Association of Environmental Resource Economists, Chair UN SDSN Global Climate Hub), **Peter Vis** (Senior Advisor at Rud Pedersen Public Affairs and European University Institute), **Thomas Sterner** (Professor of Environmental Economics, University of Gothenburg), **Victor Mallet** (Financial Times), **Georgios Papakonstantinou** (Chair of International Political economy at the School of Transnational Governance), **David Rinaldi** (Director of Studies and Policy at FEPS), **Marco Buti** (Tommaso Padoa-Schioppa Chair in European Economic and Monetary Integration at the Robert Schuman Centre for Advanced Studies, EUI), **Luca Mezzomo** (Head of Macroeconomic Analysis, Intesa Sanpaolo), **Carlo Altomonte** (SDA Professor of Macroeconomics and International Business Environment at Bocconi), **Alessandro Tentori** (Chief Investment Officer Southern Europe, AXA Investment Manager Italia), **John Hooper** (Italy and Vatican correspondent, The Economist), **Paul Twomey** (Initiative Director, Digital Governance at the New Institute), **Chiara Carrozza** (Programme Coordinator CDS; EUI), **Danielle Borges** (Researcher CDS, EUI), **Marta Cantero** (Researcher STG, EUI), **Francesco Cappelletti** (Senior Policy and Research Officer, European Liberal Forum), **Francesco Lapenta** (Founding Director of the John Cabot University Institute of Future and Innovation Studies), **Francesco Bonfiglio** (CEO GAIA – X), **Clara Neppel** (Senior Director – European Business Operations IEEE Technology Centre GmbH), **Roberta Carlini** (Part-time Professor CDS, EUI and Journalist), **Annalisa Piras** (Filmmaker, Director and founder of the Wake Europe Project), **Valeria Costantini** (Professor of Economic Policy at the Department of Economics, Roma Tre University), **Enrico Giovannini** (Former Italy Minister of Sustainable Infrastructure and Mobility), **Dr. Gerlinde Niehus** (Deputy Director, Defence and Security Cooperation Directorate, NATO Operations Division), **Dragos Tudorache** (MEP, Renew Europe), **Hilde Vautmans** (MEP, Renew Europe Group), **Dr. Jelena Dzankic** (Director of GGP South-eastern Europe, Robert Schuman Center and Co-Director of the Global Citizenship Observatory), **Aurélie Pugnet** (Global Europe and Defence reporter, EURACTIV), **Jerome Creel** (Director of Studies OFCE Sciences Po), **Laurent Standaert** (Political Director at GEF), **Jesse Scott** (Visiting Research Fellow, German Institute for Economic Research), **Rosa Martinez** (Green European Journal – editorial board and former Spanish MEP), **Shahin Vallée** (German Council on Foreign Relations, France-Germany), **Stéphane Bourgeois** (Leader of the Collaborative Low Energy Vision for the European Region (CLEVER) research project and European relations and policy manager at NEGAWATT, France), **Fabrizia Lapecorella** (Deputy Secretary-General OECD), **Seden Anlar** (Communication Coordinator at

Climate Action Network Europe), **Dr. Maria Alesina** (Policy and Research Officer, European Liberal Forum), **Anne-Elisabeth Moutet** (Journalist - The Telegraph), **Robert Tyler** (Senior Policy Advisor at New Direction), **Kira Rudik** (Member of Ukrainian Parliament, Leader of Political party Golos, Vice President of ALDE), **Rob Roos** (MEP – Vice-Chair European Conservatives and Reformists Group), **Iain Martin** (Journalist - The Times), **Raffaele Fitto** (Italy's minister for Europe), **Kalypso Nicolaïdis** (Professor at St Antony's College, University of Oxford and Professor at the School of Transnational Governance – EUI), **Erik Jones** (Director of the Robert Schuman Centre for Advanced Studies at the European University Institute).

**... together with *University of Siena and EUI students*: Laila Abd El Gawed, Elena Di Mita, Eleonora Pizzeghella, Ilaria Dibattista, Mira Manini Tiwari, Lisa Michelutto, Rossella Citro, Matteo Mazzarano, Qinci Li, Alessia Ballacchino, Alessia Amore and Sandra Rossi.**

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This document, the “Pontignano Paper”, used as an input the ideas emerged from the plenary sessions and working groups. Below, the reports from the four working groups and plenary sessions.



## PLENARY SESSIONS

### PLENARY 0\_ WHAT ARE THE IDEAS TO FILL THE HALF-FULL GLASS OF EU INTEGRATION? - DAY 1 (Thursday, June 8<sup>th</sup>)

The Conference started by assessing the current state of the European Union. The panellists discussed the outcomes of the 2023 Conference on the Future of Europe and State of the Union Summit. There was also an overview of the Conference concept paper, setting the direction of the rest of the Conference.

### PLENARY 1\_COP15 VERSUS COP27: LESSONS FROM INTERNATIONAL NEGOTIATIONS AND THE ROLE OF THE EU DAY 2 (Friday, June 9<sup>th</sup>)

The year 2022 was a milestone for international negotiations on environmental protection. Firstly, in November 2022 at the UN Climate Change conference COP27 in Sharm-el-Sheikh an agreement was reached on *loss and damage*. The issue, which was raised over 30 years ago when the Republic of Vanuatu first proposed an international compensation system for the small island states at risk, gained increasing attention over the last years in the climate arena for the need to properly account for historical emissions but also to involve emerging economies in more ambitious climate action. Secondly, in December 2022 at the UN Biodiversity conference COP15 in Montreal 196 countries signed the Kunming-Montreal biodiversity agreement. It is regarded as a historic global deal to “protect nature, restore ecosystems and keep our planet liveable,” as argued by Frans Timmermans. Countries committed to restoring 30% of degraded ecosystems on land and sea by 2030, conserving 30% of the world’s marine and terrestrial areas, stopping the extinction of known species, reducing risks from pollution, targeting subsidies harmful to biodiversity, and mobilising at least USD 200 billion per year by 2030 for biodiversity protection.

Although the two agreements apparently deal with different issues, they are strictly related in several respects. First, nature helps to mitigate climate change, therefore the Montreal agreement on biodiversity and the Paris Agreement on climate can jointly pave the way towards a climate neutral and resilient world by 2050. Second, they both recognise the key role of developing countries in achieving climate and biodiversity targets, and the need to mobilise funds and bring businesses on board.

Despite the strong interdependence between the two conferences, the two agreements have been perceived very differently by public opinion. The conclusions of COP27 were received with disappointment by large sectors of public opinion and the media who asked for more ambitious and concrete progress to achieve the 1.5 C target. On the contrary, the agreement achieved at COP15 has been regarded as a historical step forward for the protection of biodiversity.

The session intended to discuss the implications of the two agreements and the way forward to achieve their targets. Particular attention will be devoted to the reasons underlying the different perceptions of the two agreements in the public opinion and to the most suitable policies that should be pursued for the future implementation of the Loss and Damage agreement on the one hand, and the Global Biodiversity Framework on the other hand.

A few questions will be addressed during the session to facilitate and promote the discussion: (i) what are the differences and similarities between the Montreal agreement and the Paris agreement? Can the UN Biodiversity conference learn from the experience of the Paris Agreement? (ii) How can we turn words on paper into real action in both contexts? (iii) Are there common (market- and non-market-based) instruments that can help us achieve both climate and biodiversity targets? (iv) Are

there synergies or trade-offs between the two targets? Can nature-based solutions and Voluntary Carbon Markets be a proper instrument to realise both targets? (v) How can we overcome the long-standing dichotomic division between developed and developing countries and ensure a proper and active involvement of developing countries in climate and biodiversity actions?

**PLENARY 2\_ EUROPEAN WESTERN: THE GOOD (NATO SECURITY UMBRELLA), THE BAD (IRON CURTAIN) AND THE UGLY (EUROPEAN ARMY). (ORGANISED BY ELF WITH VISION SUPPORT) - DAY 2 (Friday, June 9<sup>th</sup>)**

As Europe faces an increasingly complex and volatile geopolitical landscape, the traditional security arrangements, including the NATO security umbrella, may no longer be enough to guarantee the safety of the continent. While some argue that a European army would strengthen strategic autonomy and crisis response, others worry about the impact on transatlantic relations and increased tensions with geopolitical rivals.

“The Good, The Bad, and The Ugly”, serves as a reminder of the complex and multifaceted nature of Europe's security architecture. The event will explore the various dimensions of European security, including the positive aspects of NATO's security umbrella, the negative consequences of the new Cold War-like scenario following the invasion of Ukraine, and the challenges and limits concerning the proposal for a European Army. The discussion also considered the potential role of the EU in shaping the future of European security and defence given the delicate balance between national and supranational interests.

Against the backdrop of ongoing tensions with Russia and the changing geopolitical landscape, the event will examine the current state of European security, the challenges that the EU faces in building its own defence capabilities, and the potential implications for transatlantic relations.

**PROPOSAL TIME: EMPOWERING DIGITAL CITIZENS - MAKING HUMANE MARKETS WORK IN THE DIGITAL AGE by Paul Twomey (Initiative Director, Digital Governance at the New Institute), chaired by Jan Piotrowski (Business Editor, The Economist).**

It is difficult to imagine modern life without digital markets. It is no easier to argue that they work as well as they could. Consumers mostly agree to share their data with digital platforms in exchange for assorted digital goodies, from email to entertainment, suggesting that they value convenience above privacy. Yet when asked directly---or prompted to "accept all" or "reject all" digital-footstep-tracking cookies---they express at least a secondary preference for less data intrusiveness on the part of online service providers. There is a growing sense that in their current form, this online quid pro quo can lead to perverse outcomes, from the spread of misinformation to the promotion of unhealthy lifestyles.

The main reason for these externalities is a misalignment of the interests of the participants in those digital exchanges. To understand this misalignment, consider the part of the digital economy that works well: e-commerce. Consumers transact with merchants via a digital showroom such as Amazon or Shopify. Shoppers get unprecedented choice and, thanks to competition between merchants, reliably low prices. Merchants get unparalleled reach and, because the digital platform in the middle takes care of a lot of the tedious transaction details, lower costs. The middleman gets a cut of any transaction. Consumers, merchants and the intermediaries are all familiar with the nature of these exchanges, because they have been conducting them for generations in the offline world. Network effects (where every merchant wants to be where all the shoppers are, and every shopper

wants to be where all the merchants sell) make this system, it is true, vulnerable to winner-takes-all economics. But it nevertheless functions well, because the interests of everyone involved are, more or less, in lockstep.

Contrast this with the ad-supported part of the online experience. Here, too, there are three parties: the consumers, the people who want to reach them, and the platforms in the middle. However, a real market---and interest alignment---exists only between the platforms and their true paying customers: advertisers and other attention-seekers who want to sway consumers to buy their product or swallow their spiel. And the consumers? As the old adage has it, if you aren't paying, you are the product. And products are objects, not subjects, in the market exchange.

Some of the ills of the digital economy could, then, be tackled if consumers were more empowered. That requires giving them greater choice over what happens to their data and the ability to opt into and opt out of transactions involving their personal information. But to work in practice, the new system must retain much of the seamless convenience of the old one. Having grown used to a barrier-free digital experience, few people are prepared to haggle with digital-service providers every time they click on a website link. But they could be persuaded to have someone do the haggling on their behalf. Such intermediaries---sometimes called "data trusts", "data co-operatives" or "data unions"---would have a fiduciary duty to protect their members' interests and be tasked with verifying that their members' data was real, and thus more valuable to the attention-seekers. The digital platforms and the data fiduciaries would, in effect, represent the attention-seekers and those whose attention is sought, respectively. Something more like a real market of balanced interests should emerge.

The concept is simple. Can it work? "Middleware", inserted in between the consumer and the digital platform, is not a new idea. So far such initiatives have failed to gain widespread acceptance, in part, no doubt, because they introduce friction into a frictionless online life to which internet users have grown accustomed. There are, however, reasons for cautious optimism that things may be changing. The required technology and protocols are getting cleverer and more efficient. More important, public concerns about data privacy are gaining renewed prominence amid the revolution wrought by ChatGPT and other "generative" artificial intelligence, possibly making internet users more receptive to a degree of state compulsion that would disrupt current patterns of online behaviour. This opens up a window of opportunity to set true those elements of the attention economy which have gone out of whack.

### **PLENARY 3\_RECOVERY AND RESILIENCE FACILITY GOVERNANCE: CAN MILESTONE-BASED INVESTMENT WORK FOR A STRONGER EUROPE? (ORGANISED BY FEPS WITH VISION SUPPORT) DAY 2 (Friday, June 9<sup>th</sup>)**

The establishment of the NextGenerationEU recovery plan and the accompanying Resilience and Recovery Facility (RRF) in response to the COVID-19 crisis marked a breakthrough in European policy making. It was for the first time that the Commission had borrowed such large amounts on behalf of the Union; such debt mutualisation had been unthinkable before. A distinguishing feature that made NGEU politically possible was its temporary nature: it was a response to the COVID-19 emergency and was not planned to be extended into a more permanent mechanism. Yet, the need for public investments and demand for public goods in the EU are much greater than the current fiscal capacity and framework allow. This begs a question: can we have some version of NGEU as

a permanent solution? What other options does the EU have for its economic governance framework that would support the digital, the green and the just transition?

The governance approach to the national recovery plans (RRPs) is also innovative, applying performance-based management, tying financial disbursements to the achievement of agreed reforms and targets. This contrasts with the usual cost-based approach to the disbursement of other European funds. Given the limited success of the previous EU instruments in promoting reforms in member states, the success of the RRF would mean a major policy breakthrough.

Now, more than two years into the operation of these instruments, some preliminary conclusions about the working of NextGenerationEU can already be drawn. The expert exchange at the Pontignano Future of Europe conference aimed to answer the following questions:

- What options does the EU have for enhancing its fiscal capacity in order to make necessary investments and to finance public goods?
- How can the EU move towards a genuinely European fiscal policy, going beyond supranational coordination? Can NGEU be made permanent?
- Does performance-based financing work in national recovery plans? What is the record on reform implementation?

#### **PLENARY 4\_ TOMORROW'S EUROPE – REPLACING ENERGY AT THE CENTRE OF THE EUROPEAN POLITICAL, SECURITY AND DEMOCRATIC PROJECT (ORGANISED BY THE GREEN EUROPEAN FOUNDATION WITH VISION SUPPORT)- DAY 2 (Friday, June 9<sup>th</sup>)**

The panel discussion organized by the Green European Foundation focused on the need to rethink the European Energy project. Energy was the cornerstone of the European economic and political project after the second World War. The way we envisage our energy systems impacts the very fabric of our societies and therefore our common future as Europeans. The war of aggression in Ukraine and the numerous turbulences in the global economic and geopolitical landscape have stressed more than ever that the way the European Union designs and implements its energy policy has far reaching consequences on security, democracy, environmental sustainability, and social justice.

Based on a framing paper initially authored by Benedek Javor for the Green European Foundation, the keynote speaker and the panellists presented their take and political ideas on how the European energy architecture and system could be more fair, democratic, resilient and secure.

#### **PLENARY 5\_A EUROPE THAT DOES LESS BUT BETTER. BUILDING A MORE DEMOCRATIC AND TRANSPARENT EU (ORGANISED BY NEW DIRECTION WITH VISION SUPPORT). DAY 3 (Saturday, June 10<sup>th</sup>)**

In the mid-1800s, as the administrative role of the state grew, the British government commissioned a report of inquiry into the Civil Service. The outcome of the inquiry was the Northcote-Trevelyan Report, named after the two Ministers responsible for its composition. Their report concluded that the Civil Service should have: *“sufficient independence, character, ability and experience to be able to advise, assist, and, to some extent, influence, those who are from time to time set over them”*.

Such a model has become the standard around the world for building reliable, resilient, and trustworthy public institutions. If people and politicians can trust that their institutions are neutral, transparent, and accountable – then public confidence in their work is high.

The European Commission, however, has drifted from this notion, gradually moving away from the function of a civil service to that of an executive. This reached a head during the Juncker Commission of 2014-19, when the Commission President, who for the first time had been indirectly elected through the '*spitzenkandidaten*' system, declared he would establish the so-called 'Political Commission'.

This proposal came with a mandate for greater centralised decision making in Brussels, and to empower the European Commission to take a more active role in the creation of legislation, rather than remaining limited to the implementation. In effect, the bureaucrats would be given more sway in the governance of the bureaucracy, or to put it another way, the Commission would be marking its own homework.

This greater centralisation saw more powers shifted away from national competency to the European Commission, without treaty change, and abusing the principle of the 'Supremacy of European Law' that had been established through jurisprudence in the legal system.

The position of a centralised European Commission runs counter to the very notion of 'European Federalism' as proposed by the 'founding fathers' of Europe. Rather than focusing on fair internal competition between EU member states within the Union, a new push towards ever closer union and harmonisation undermines the federal nature of the EU. Furthermore, it marginalises the role of the European Council, the voice of the Member States.

With trust in the European Union still low amongst the public, and the shadow of the Qatar gate scandal hanging over the EU institutions, it is paramount that public confidence be boosted through a return to first principles. The EU should find a new direction of travel and resist the temptation to centralise but instead focus on the dispersal of power back to the Member States. The EU should instead focus on doing less, but better. That is to say that the European Union should focus on a smaller group of core competencies, and deliver high value in those areas, rather than aimlessly asking for more Europe for the sake of more Europe.

## **PROBLEM SOLVING GROUP SESSIONS – DAY 1 (Thursday, June 8<sup>th</sup>)**

*Each working group met on the first day of the Conference after previous web meetings, organised by Vision, to prepare the discussion.*

*During the second day the PSGs met again to finalise their reports and on Saturday the chair and rapporteurs, together with the students, presented the group results (20 minutes for each presentation) to the plenary.*

### **PSG1. THE EU AS THE LAB FOR EXPERIMENTING INNOVATIONS TO SAVE LIBERAL DEMOCRACIES FROM DECLINE. CITIZENS' ASSEMBLIES, TOOLS TO ENCOURAGE EU-WIDE POLITICAL DEBATE AND ELECTRONIC VOTING.**

The current development of the EU's political status, and the risks that our liberal democracies are facing in this era, certainly require further investigation into the role the EU might play as a promoter of innovative participatory tools. The reflection called by the Vision Think Tank in the context of a fourth Conference on the Future of the EU emerged from the awareness about the need for Europe to directly interact with European public opinions and

thus, to have a Europe-wide debate to re-connect citizens to the European institution. Referendums, citizens' assemblies, and electronic voting are examples of the historical evolution of the instruments introduced so far, instruments that the panelists attending the Siena Vision Conference on the Future of the EU have been analyzing in the prospective to save liberal democracies through the introduction of such tools. In this paper, we will shortly analyze some of the more recent proposals (i.e., electronic voting and citizens' assemblies) to explore related limits and challenges at first. Secondly, possible implementations and further initiatives will be discussed accordingly.

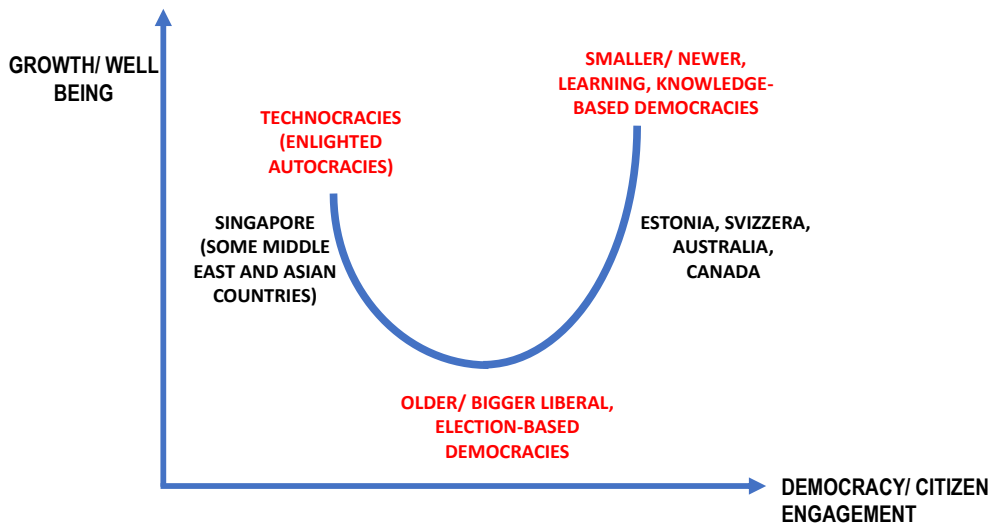
## **PROBLEM SETTING**

Electronic voting and citizens' assemblies: limits to implementation at the EU level

One of the paths recently explored toward the modernization and implementation of democratic participatory practices consists in the adoption of electronic voting which rests on several strong and positive features. Electronic voting indeed, offers several potential advantages over traditional paper-based voting, such as simplified and more accurate electoral counting procedures, cost reduction, faster tabulation of results, reduced chances of human error, and the potential for accessibility improvements for individuals with disabilities. Inevitably, some preconditions are necessary to undertake a transition to an e-voting system, first of all, the development of an appropriate technology that can ensure compliance with high-security requirements and avoidance of violations which is still in the experimental phase. At the same time, to achieve real efficiency on a large scale, some further potential limitations need to be addressed, such as accessibility to the new electoral infrastructure and, particularly relevant for this paper, the low level of public trust in the system.

The latter statement might have been partially reversed in a few positive cases where a full connection between trust in the system and implementation of the e-voting originated in a successful outcome, as the Estonian case demonstrates. Since 2005 internet voting has been introduced as an additional channel in Estonia. In the 2007 parliamentary elections, the first in which e-voting was made available, 5% of voters opted to vote through the new system; in the last elections of March 2023, the voters who chose to participate via electronic vote were more than 50%. In addition to the remarkable growth in public confidence, the analyses showed a clear reduction in costs and time compared to traditional paper voting, thus opening the gaze to further investigation about how to replicate this positive experience in other EU countries. Estonia has become in the last 20 years a case of e-state, in which also taxes are used to be paid via the country's e-Tax Board and annual financial reports are likely to be submitted online. This prepared a fertile ground for the promotion of e-voting and helped the shift to be more natural. Key factors for Estonian success were the government database connection, introduced in 2001, named "X-road", and the ID card. The goal to reach in 2005, was to simplify the electoral process and to incentive participation, from any device and in every part of the country. This happened without losing the possibility of the physical vote, but Estonians made clear since the first trial that they already had a preference, because comparing data from 2005, such as 1.9% of e-voters in the local elections, to the ones from 2009, 14.7% in European Parliament elections, it is easy to grasp the popularity that this method has gained. Moreover, Internet access in the country's

households has grown from 31% in 2004 to 53% in 2007, and the electoral turnout data of 2007 shows a positive change compared to the previous elections of 2003 with a 3% increase in participation. The trend has been confirmed by the next elections too with another growth of 2,5%. The success among citizens is undeniable and so are its strengths, to the extent that the Estonian democratic performance has been much more successful than the old great liberal democracies (see the graph below).



**Source: Pontignano Concept Paper (Vision, 2023)**

Studies on the Estonian case have clearly shown that Internet voting simplifies and speeds up the process and significantly lowers the cost of political participation, especially for citizens living further from ballot stations. At the same time, some pre-existing conditions have contributed to the great success of the Estonian case, namely the wide coverage of Internet access, the effective large-scale digitization of government services in general, and the small size of the electorate. It is fundamental to take those variables into account when approaching the idea of wider implementation. Unfortunately, at the EU level, we cannot observe a unified approach to electronic voting since the limits to the implementation of this tool are several. Apart from the security concerns, and the issues connected to the lack of transparency, verification, and infrastructure, we consider public trust and acceptance as a priority to be addressed in the framework of the general implantation of e-voting. Trust in the electoral process indeed, is fundamental for a functioning democracy. Introducing electronic voting requires building trust in technology and addressing concerns about potential vulnerabilities and risks. Engaging citizens in decision-making, providing transparency, and addressing security concerns is thus vital for gaining public acceptance. Nevertheless, in our opinion, the weak point comes earlier, in the lack of knowledge on the functioning of the EU institution, of their work, and of the decision-making processes at the EU level. This weakness strictly connects to the second tool we analyze in this paper, namely the citizens' assemblies.

Research and development in the field have been kept constant in time, following the evolution of democracy itself, information channels, and divergent tendencies as concerns citizens' engagement. Citizens' assemblies specifically, figure out as one of the main

processes of deliberative democracy which involves randomly selected citizens coming together to discuss and eventually make recommendations about public issues and policies. Despite the ideal potential of this instrument, its implementation at the EU level is still relatively limited and challenged on many fronts. The first challenge concerns legal and institutional changes that should affect supranational regulations (as the EU treaties are) to directly involve citizens' assemblies in the decision-making process. Diversity and representativeness are a second challenge, mainly based on the "random" character of the citizens' selection mechanism, which provides a draw of citizens who will be directly involved in the assembly and that may not guarantee a full representation of the population diversity. Third, the scale and scope of this tool represent a challenge too as the EU consists of a diverse and large population spread across multiple member states, each involved in a different phase of the experimental process. Resource constraints to organize and facilitate the discussions cannot be ignored either, since discussions can be considered the core phase affirming the essential role of citizens' assemblies. Finally, the low public awareness and engagement (affecting youth especially) represent a concrete challenge that needs to be addressed since it limits not only the effectiveness and impact of citizens' assemblies but even the access to and participation in such a powerful reality.

While these limits exist, the EU has taken steps toward engaging citizens in decision-making processes through mechanisms such as public consultations and stakeholder engagement. The Conference on the Future of Europe, launched in 2021, aims to involve citizens in shaping the future of the EU through a series of deliberative events and discussions. Although not strictly citizens' assemblies, these initiatives reflect a growing recognition of the importance of citizen participation in the EU's decision-making processes. In the next section, we will move from these steps and from a grown consciousness of the need to increase trust, engagement, and participation of citizens in the EU's policy-making process to develop possible solutions.

### ***PROBLEM-SOLVING***

Our road from positive examples to a definite approach

As demonstrated in the previous section, the positive effects of introducing a successful electronic voting system are found both from the point of view of cost savings and participation. What remains to be analyzed are the concrete possibilities and limits of applying e-voting to the EU level. The first observation regards the lack of uniformity in the digitization process of public administration and services among the member states, which determines the necessity of embarking on differentiated paths towards the same goal. The challenge of developing the means necessary for achieving a common ground of technological advancement can represent a real push for countries that are further behind in this path. The creation of such needed conditions will be a long process, but a cooperative approach could be the key to a more evident acceleration.

Hand in hand with the strategy to achieve an adequate level of digital integration, it is crucial in our opinion that steps are undertaken towards the realization of an aware European citizenship. A more complete, deeper understanding of the EU's functioning is something fundamental to the practicability of introducing new tools for democratic participation as one of the major risks is that of endangering the already weak trust in institutions. Enhancing the



democratic framework's credibility is again a process that requires a certain level of customization on the base of the different electorates, however, a common starting point can be the one represented by the idea of citizens' assemblies.

There is a growing interest in exploring the use of citizens' assemblies within the EU as a means to enhance democratic participation and decision-making processes. Indeed, it is important to note that the limitations do not necessarily render citizens' assemblies ineffective or irrelevant. Rather, they highlight some of the challenges and considerations that need to be addressed when implementing citizens' assemblies in the EU context. With careful design, adequate resources, and institutional support, citizens' assemblies can still contribute to fostering democratic participation and improving decision-making processes within the EU. This consciousness might have led the STG democratic forum of the European University Institute to develop a prototype for an EU-wide European Citizens' Assembly to experiment with how participation can be undertaken in all stages of the decision-making process for EU's policies (<https://www.eui.eu/news-hub?id=stg-develops-prototype-for-an-eu-wide-citizens-assembly>). The transnational networking approach adopted by this project not only shows engagement in guaranteeing a more comprehensive participation to citizens' assemblies but also aims at exploring the employment of new fora for discussion as schools might be (EUI, 2023).

This last aspect directly connects with the change in perspective that we slightly suggest in our paper. Leaving aside the structural limitations to the implementation of the instruments discussed so far, it is our conviction that the experimentation of the tools themselves must be accompanied by a parallel evolution of ways and fora already set for debates both in pre-electoral and pre-assembly contexts.

### ***FURTHER ROOM FOR ACTION***

A key weakness discussed in last year's forum dedicated to this topic, during the Siena-Vision Pontignano Conference, was identified in the need for different pre-conditions for debate, which in turn would possibly impact citizens' engagement in EU affairs and thus, the electoral turnout. Grassroots and informal spread of information on what happens at the EU institutional level is needed. Specifically, a "monitoring" approach to further initiatives to be developed in the context (e.g., real-time updates, live sessions on social media, etc.) would keep citizens updated on the evolution of the EU decision-making process and policies, working at the same time on principles of transparency and accountability. This might mean that the advocacy campaigns, already existing, certainly are a fundamental and very positive tool providing that the message conveyed authentically reaches all EU citizens. In this sense, advocacy campaigns might be sided with and supported by associations and CSOs active in the field and municipal, regional, and national public administrations. What we experience as young students interested in the development of EU affairs is a lack of fora for discussion in our local dimensions and, going to the origins of this lack, of a spread knowledge on the nature and functioning of the European Union. In times of EP elections, we are called to cast our vote, despite the wide indifference and knowledge of matters, candidates, and what they stand for. Therefore, we propose to insist on the implementation of municipal, provincial, and regional informational meetings with delegates/direct

representatives of the major EP political groups to raise awareness and advocacy, and to boost democratic participation since the very beginning of our electoral engagement. For this purpose, and to comply with our deep conviction of the fundamental need to use educational institutions as vehicles for information dissemination, we strongly support the development of such an approach starting from the high schools, involving teaching staff and students as major actors for change.

The **problem-solving group on democracy** discussed these topics during the Siena Conference on the Future of Europe in Pontignano (8-10 June 2023). The PSG on democracy started the discussion by considering that “*democracy means giving people choice, chances, and change*”. This message was translated into 4 main categories of change during the PSG discussion in Siena, and into 8 concrete proposals:

#### **A. ELECTORAL CHANGE & REPRESENTATIVE MECHANISMS**

- 1. Lowering the voting age to 16 years:** engaging young voters from an earlier age fosters the feeling of belonging, and building participatory habits;
- 2. Direct election of the President of the Commission or President of the Council** (two-round elections);
- 3. Transnational lists for one part of the European Parliament** (about 5%): transnational elections are a necessary means for transnational politics; in this way, voters can take electoral decisions based on the values and political propositions formulated at the EU level and corresponding to transnational realities, going beyond the solely national issues;
- 4. Citizens’ councils** (meaning citizens assemblies) as a way of repairing the trust crisis between the EU population and its EU democracy: a focus on the implementation of communication and transparency, to connect EU political participation practices with the agency on building a narrative of engaging democracy;

#### **B. PROCEDURAL CHANGE**

- 5. Qualified Majority Voting:** shifting from unanimity vote to QMV vote in as many areas as possible, i.e. in a case of non-consensus in the European Council, it is a way to proceed to quick and effective decision-making without blocking or draw out on taking a final decision;

#### **C. INSTITUTIONAL DEMOCRATIC PROCESSES**

- 6. Reinforcing the European Parliament:** investing more into our current institutions to reinforce the already existing mechanisms, i.e.: ensuring MEPs are fairly paid;
- 7. Direct democracy on EU level with a double majority:** setting the threshold requiring both a majority of the EU population + a majority of the EU countries for legislation to pass;

#### **D. SOCIAL/EDUCATIONAL CHANGE**

- 8. Education on Citizenship + Democracy** (mandatory or not): school curriculums should include EU literacy based on: EU institutional architecture, democracy values, EU identity.

## **PSG2. THE ADVANTAGES AND DISADVANTAGES OF BEING THE FORERUNNERS IN SUSTAINABLE FINANCE: HOW CAN ESG AND CARBON MITIGATION BE MORE EFFICIENT AND EFFECTIVE?**

### ***PROBLEM SETTING***

This problem-solving group discussed the regulation and execution of climate change mitigation measures that are being applied and will be applied in the EU and beyond for governments, financial institutions, businesses large and small, and for citizens and individual consumers.

The PSG developed **five broad proposals that respond to the title question about improved effectiveness and address each of these audiences.**

The EU is the first supranational organisation to develop a full mandatory regulation aimed at measuring the extent to which firms' balance sheets are dedicated to so-called Environmental, Social, and Governance (ESG) purposes. The regulation will enter into force in January 2024, and the authority that will supervise its implementation will be the European Banking Authority (EBA). Banks will therefore play a key role in enforcing firms' compliance. Enabling regulation of this scale to be effective requires targeted investment in decarbonisation mechanisms, both at the EU level and globally. The European Banking Authority's Green Asset Ratio (GAR) requires banks and other credit authorities to declare the percentage of their portfolios allocated to activities deemed environmentally sustainable under the EU's taxonomy of sustainable activities.

Both in the problem-solving group and the plenary on biodiversity and climate, discussions repeatedly returned to the tension between dealing with complex, systemic issues such as climate change on the one hand, and the need to have simple, practical, and enforceable mechanisms to respond to them on the other. The PSG started from the belief that robust pricing of carbon, preferably at a global level, is essential. The group was not persuaded about the value of voluntary carbon mitigation plans, such as offsets, because they are hard to monitor and price and open to abuse for 'greenwashing' purposes. The PSG also agreed that effective mechanisms must complement the economic forces already pushing the world towards renewable energies and reduced greenhouse gas emissions, rather than deploying rules that are merely punitive or bureaucratic, which could be resisted by businesses and unpopular with the general public.

### ***PROBLEM SOLVING***

The PSG's **first proposal – on the international reach of European climate policy** – is to align the narratives between Environmental, Social, and Governance (ESG) reporting regulations with the global Sustainable Development Goals (SDGs), without necessarily linking them directly through regulations. Linking the two systems at the regulatory level risks conflating and diluting the practical implications of ESG compliance, and potentially worsening stakeholders' understanding and engagement. But explaining that European ESG rules are part of a broader international movement emphasizes their importance in the crucial battle to control the global warming that affects all of us. It also increases the likelihood of the European regulations – for example the forthcoming carbon border adjustment mechanism – being accepted by Europe's trading partners, and shows Europeans that they are not "going it alone" in applying such measures in a way that would give other countries a competitive advantage.

The **second proposal – on the regulatory burden** – is to simplify the practical execution of ESG reporting, especially for small and medium enterprises (SMEs). ESG regulations should be implemented progressively as companies and regulators learn what works and what does not; in other words, the measures can be built out in future years after starting at the ground floor with rules that are easy to understand and implement. (It took many years for the EU’s carbon trading market to take off, but it is now regarded as highly effective.) The PSG notes that some large companies are already complaining that EU measures due to come into force next year are unworkable, and even allowing for the predictable unwillingness of companies to spend time and money on a new round of compliance, those complaints merit attention.

When it comes to the reach of regulations, while the PSG recognizes the danger of conflating desirable but not strictly climate-related issues such as gender equality with environmental causes, it does not advocate decomposing the current ESG regulations. There are political and practical advantages, in terms of neutrality and acceptability, of having a single department at the European level that controls ESG reporting and makes no value distinction between the three components. Should new mechanisms be developed, the PSG would endorse the possibility of them being dedicated to climate change mitigation, and specifically with greater attention to scope 3 emission estimates, which concern emissions resulting from assets not directly owned or controlled by the reporting company and are therefore more easily left unaccounted for.

As the reporting rules come into force for different sizes of companies, the PSG supports the idea that even SMEs must be both a) obliged to provide audited ESG declarations, and b) supported in doing so. The group proposes simple, standardized templates and standard, limited criteria, such as emissions and electricity usage. For financial years from 2026 onwards listed SMEs will be obliged to make ESG declarations; by the time the obligation reaches non-listed SMEs, the mechanism must have been designed to be navigable and executable.

The obligation for financial institutions to provide declarations on their portfolios comes into force earlier, given their central role as intermediaries. The PSG noted the increase in banks’ commitment to, and pride in, ‘green’ portfolios. Banks can play an important part in driving environmentally sustainable practices due to their close access to firms’ environmental reporting data. By increasing their focus on sustainable investments, banks provide incentives for firms to change their practices in order to obtain loans. However, while banks are key facilitators, they are not scientific evaluators.

The **third proposal – on the handling of the relevant data required by the rules** – thus maintains that data on risk profiles and environmental performance must be made increasingly available on a centralized platform, in line with the recommendations of the EU’s Corporate Sustainable Reporting Directive and the 2020 Capital Markets Union Action Plan. These propose a digital taxonomy for sustainability reporting standards and a European Single Access Point to provide accessible and comparable public corporate data. The aim is to enable more efficient and accurate work on the part of financial institutions, and should lower costs for both firms and banks by avoiding repeated and fragmented data collection.

The **fourth proposal – on incentivizing citizens to endorse climate action** – addresses how to render the costs of carbon mitigation socially acceptable, and therefore how to make the transition economically and politically feasible. The PSG endorses a deepening and

expansion of the Social Climate Fund, which uses revenues from the new Emissions Trading System (ETS 2) to support low-income households facing high transport and household heating costs.

In line with the discourse of being 'shareholders' of the commons, the group was interested in a form of 'environmental dividend' that renders costs and benefits shared and tangible.

The PSG discussed the possibility of flat rebates for all citizens, as is the case in Canada, but does not fully endorse this solution, on two grounds:

1. Tax revenues are costly to obtain, and revenues from other taxes are not typically paid back to citizens directly.
2. Studies from diverse national contexts, including from Europe, indicate citizens' preference for using carbon revenues for climate mitigation purposes, followed by concern for poorer households.

Therefore, the group proposes integrating the redistributive and climate functions of carbon revenues, for example, by prioritizing improving the insulation of poorer homes.

The **fifth proposal concerns communication**, tying together the other four proposals, and Europe's climate policies more broadly, to make them more known, accepted, and implemented.

First, research suggests that few actors outside the institutional European sphere are discussing mechanisms such as the Social Climate Fund, while discussions on fuel costs are decidedly more prominent.

Second, a key difference between environmental taxes and other taxes is that the benefit derived from many public taxes is often more immediately visible, such as through road maintenance or free education. Therefore, the PSG proposed strategies that make the output of environmental payments explicit, especially for those households who do not receive the aforementioned direct low-income environmental support. The group notes and endorses examples such as California funding its bus system through carbon revenues, and declaring this on the buses, and are also open to alternatives that communicate directly with households.

Third, firms' sustainable practices and disclosures rely not only on compliance requirements, but also on informed and committed consumer bases. While regulations such as the EU's Green Claims directive aim to prevent spurious claims of carbon neutrality or environmental sustainability by firms, the incentive to abide by stricter measurements and more transparent declarations will remain slim as long as consumers continue to support firms irrespective of the presence, or robustness, of their claims. Regulation on ESG disclosure focuses extensively on firms, i.e., the supply side, without significant attention to the role of consumers. The group maintains that disclosure-related policymaking must address consumers' awareness and understanding of the relevance of disclosed climate and sustainability data. This can be addressed through a two-pronged approach: strengthening citizens' data literacy, and strengthening communication on the meaning and implications of sustainable practices.

In the financial sector, consumers are often institutional investors looking to meet ESG compliance requirements. There are conflicting conclusions from research into the economic benefits for companies and investment funds of green policies and ESG compliance – 'green

bonds', for example, do not appear to deliver a significantly lower cost of capital for issuers but they are easier to market to buyers, particularly if accompanied by stronger communication about their benefits, as proposed above. In the same way, ESG compliant companies are more likely to secure bank loans than their non-compliant rivals. The fourth point therefore concerns communication with firms, closing the loop by emphasizing the benefits of wider market and loan access resulting from sustainable practices, accurate and timely declarations, and appropriate associated funding.

**PSG3. A NEW FINANCIAL CRISIS? A BETTER PORTFOLIO OF POLICIES TO MAXIMISE BOTH FINANCIAL STABILITY AND LONG-TERM GROWTH: REDESIGNING THE TRIANGLE BETWEEN SG PACT, THE ECB'S MANDATE AND COMMON FISCAL CAPACITY – *The conclusions of this PSG still need to be put together as the group is still reaching consensus on their proposals.***

#### **PROBLEM SETTING**

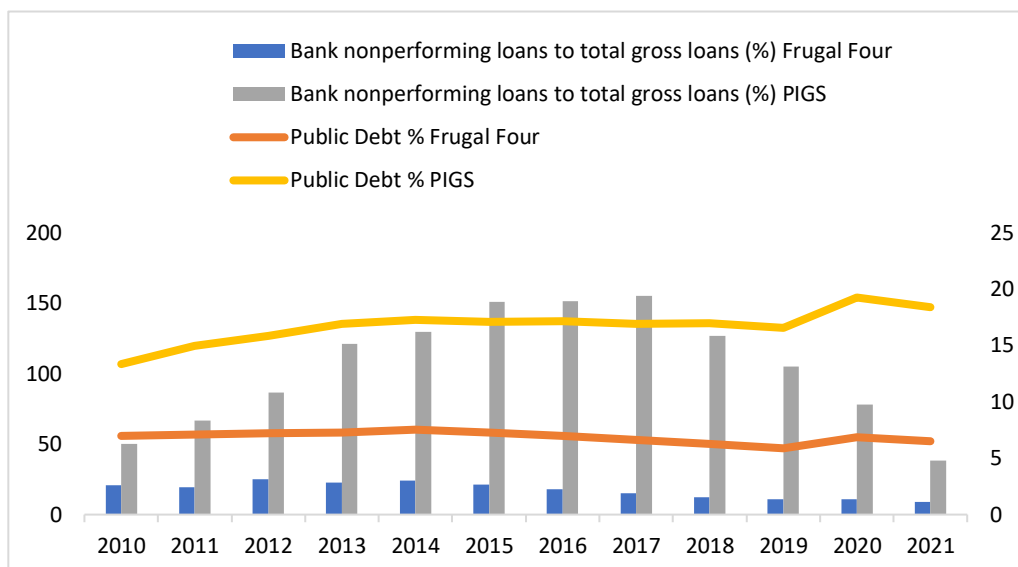
"History cannot be allowed to repeat itself." These words were pronounced by Barack Obama during his first presidential term on 14<sup>th</sup> Sep 2009 introducing the proposal for a regulatory framework for financial stability. After 15 years, history seemed to contradict him. The first three months of 2023 have already seen Silicon Valley Bank's and the Signature Bank's failures, two of the three largest collapses of banks in US history<sup>5</sup>. They would have, however, been dwarfed if Credit Suisse – one of the thirty world banks that the Financial Stability Board considers the "globally systematic important banks" capable of rattling the entire system – had not been rescued by the acquisition of their country mates from UBS.

Paradoxically, the new crisis hit both the bank of the Internet companies which are "crafting the future" in Silicon Valley and one of the oldest (and somebody would have once said "most venerable") financial institutions, one that was at the heart of a country known to be the world's financial "safe haven". The European Union seemed to have escaped the new tsunami (notwithstanding rumours on Deutsche Bank and the widespread fall of EU banks' shares), and this is most likely due to even more stringent regulations that the European Banking Union has promoted. And yet the question is: is this enough? Are our regulations good enough to guarantee enough "stability" to both banks and indebted governments and "growth" to an economy still suffering from a long-standing innovation deficit?

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<sup>5</sup> Considering inflation adjusted assets under management.

**GRAPH 4 Public debt as percentage of the GDP (on the left axis) and the percentage of non-performing loans (on the right axis) according to relevant policy areas. PIGS (Portugal, Italy, Greece, Spain) and Frugal Four (Sweden, Denmark, Austria, Netherlands) – (2010 – 2021)**  
**SOURCE: Eurostat & Worldbank**



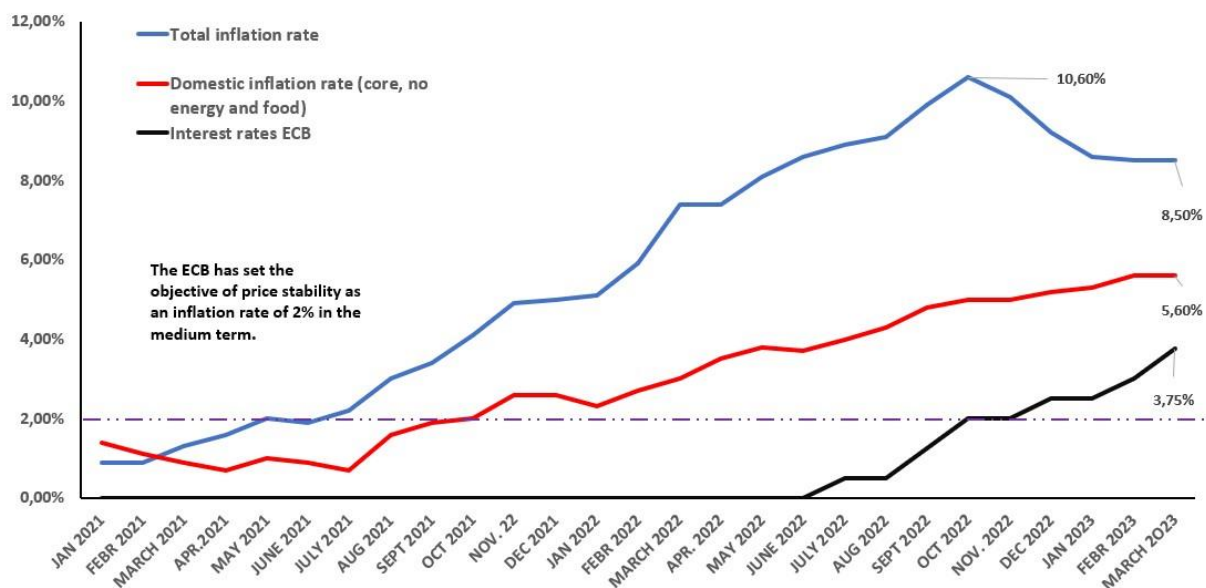
In the last twenty years, the most significant financial crisis for the European Union has come from sovereign debt and less from banks. And yet the previous months have clearly shown how **the destiny of governments and banks are deeply intertwined**. Banks have often been vital to buy government bonds to ease tensions in their borrowing conditions; likewise, it was thanks to States taking over collapsing financial institutions' balance sheets that the infection was stopped from further circulation<sup>6</sup>. However, the stability of banks in frugal states is yet again under scrutiny while one of the prodigal states is handling the blow. The role of debt and private bank stability does not appear straightforward, especially in the context of demographic decline.

We are facing multiple crises/ tensions, and interacting amongst them creates a complexity that seems to go beyond the instruments that economists used for much time. We are navigating "unchartered waters" (as Mario Draghi once said). One evidence of this is that central banks may have a loss, as the graph below seems to say, part of their capability to tame inflation (which is their principal mandate) by changing the quantity of money and/ or the interest rates (the argument here is that globalization and technologies may have eroded that)<sup>7</sup>.

**GRAPH 5 – INFLATION RATE (TOTAL AND CORE) AND INTEREST RATES ON MAIN FINANCING OPERATION (EURO AREA, 2021 – 2023)**

<sup>6</sup> More recently it was losses on treasury bonds due to rising interest rates that brought Silicon Valley Banks to its knees; and the US treasury State itself to provide a guarantee to all depositors.

<sup>7</sup> On this see also "Inflation and Central Banks: the paradox of "La Casa de Papel", Vision, March 2023



SOURCE: VISION ON ECB DATA

### PROBLEM SOLVING

For the EURO area and EU, it is time to redesign the triangle between the three main instruments with which economic policies are realized<sup>8</sup>: the stability and growth pact, which was suspended with the COVID19 and will be reformed before being reactivated; the European Central Bank which has "saved" the EURO system at least twice (when Draghi's QE in 2015 and with the Pandemic emergency purchase program in 2020); and some common fiscal capacity (possibly with own resources) that the EU needs to respond to possible new emergencies or to invest into European Public Goods<sup>9</sup>. As ECB President Draghi notes that monetary policy has profound limitations in maintaining price stability, cooperation between the monetary and fiscal side becomes necessary for providing effective macroeconomic support. With different standpoints, how should the ECB coordinate with national governments?

The recent flood in the region of Emilia-Romagna highlights the impacts of climate change on ECB's primary objective of price stability. To ensure the safety of the banking sector, ECB has the duty to urge the industry to make adequate preparations to manage climate risk and facilitate the EU's transition to a greener economy. Is ECB's current approach towards green finance sufficient? Given the US has put forward the US Inflation Act (USD 500 billion in spending and tax) to subsidize low-carbon technology, does the EU also need a central fiscal capacity for green finance? What lessons can we learn from the Next Generation EU as a temporary experiment of a central fiscal capacity, especially in terms of financing green transition and social equality? Vision conference on the future of EUROPE cannot be expected to solve the entire equation, and yet we would like participants to contribute their problem-solving to understand better the interactions, especially amongst the various components of the EU economic governance; and to produce some partial and yet reasonable solutions which are likely to be win-win.

<sup>8</sup> Somebody may argue that we should also add at least the European Banking Authority and the European Stability Mechanism to the equation.

<sup>9</sup> Buti, M and M Messori (2022), "A Central Fiscal Capacity in the EU Policy Mix", CEPR Discussion Paper.



How should the stability and growth pact be redesigned, and what are the limits and merits of the recent European Commission's proposal<sup>10</sup>? Is this the right time to complete the "Banking Union" and are current safeguards capable of preventing disasters and encouraging innovations? Can we guarantee stability and minimize the moral hazard (of keeping inefficiencies alive)? Is the idea of "European Public Goods" detailed enough to draft a "common fiscal capacity"? What lessons should we anticipate from the Next Generation EU?

#### **PSG4. WELCOME TO THE WORLD OF CHAT-GPT - WHAT IS THE RIGHT LEVEL OF REGULATIONS/INVESTMENTS SO THAT EUROPE CAN BOTH BE SUFFICIENTLY "SOVEREIGN" AND YET HAVE A ROLE IN THE BATTLE FOR GLOBAL DIGITAL LEADERSHIP BETWEEN USA, CHINA AND INDIA?**

##### ***PROBLEM SETTING***

The five-decades-long history of the Internet has recently witnessed an acceleration which has the potential to completely change the nature of the relationship between us and digital technology. On 30<sup>th</sup> November, 2022 OpenAI<sup>11</sup> released ChatGPT-3.5, an artificial intelligence chatbot capable of generating real-time answers in human-like text to all sorts of research questions and in all languages. It took three and a half months for OpenAI to release a new version of the application (ChatGPT-4.0, while Alphabet and Baidoo also presented their own) and just less than four months for the first European public agency (Italy's authority for data protection) to ban the use of it.

In the meantime, ChatGPT has already smashed a number of records including the one which accounts for how quickly different technologies are adopted. From its commercial introduction<sup>12</sup>, it took 75 years for the telephone to reach 100 million users; 16 for mobile phones; 7 for the World Wide Web; 2.5 years for Instagram; 9 months for TikTok; and only two months for Chat GPT. This is already evidence of the speed of the phenomena we need to first understand, and then try to govern. And it is urgent to do so because it will also imply a transformation which we would better call biological mutation rather than industrial revolution. It is a biological mutation because Artificial Intelligence makes clear that we are not only going to lose and gain jobs and economic systems; we will also modify the way we think. Meanwhile, the Internet is already reallocating power and changing how public decisions are taken, as the invention of the printing machine massively did at the end of the Middle Ages<sup>13</sup>.

How is Europe faring? In 2020, at the time of the first Vision conference on the future of Europe, a Vision paper considered the trends<sup>14</sup> defining the quest for global digital leadership, and found that

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<sup>10</sup> On this see also "Merits, limits and alternatives to the EC's proposal", Vision, March 2023 Link at : <https://www.thinktank.vision/en/media-en/publications/the-future-of-the-stability-and-growth-pact-2>

<sup>11</sup> OpenAI started as a non-profit organisation meant to release open-source software. It has, in time, lost both its non-profit status (the non-profit organisation is the sole owner of a profit subsidiary which runs almost the entire business) and the "openness" of its applications (which are run by Microsoft).

<sup>12</sup> The World of statistics, 10<sup>th</sup> March 2023

<sup>13</sup> This is also connected to the problem-solving group on democracy.

<sup>14</sup> In a recent paper VISION measured leaderships in ten crucial industries/ innovation trends: suit for PCs, tablets and mobiles (dominated by Microsoft and Kingsoft), search engine (here Google is challenged only by Baidu and Yandex), mobile makers and designers (Apple, Samsung, Huawei, Xiaomi), online payment platform (WeChat and Alipay), e-commerce (Amazon and Alibaba), Social media (Facebook, We hat, Weibo, V Kontakte), chipset makers and designers (Intel, NVidia, IBM, Qualcomm, Huawei, ARM, TSMC), self-driving automakers (Tesla Autopilot, Google and Baidu Apollo, Yandex OS), turbo jet engine maker (Boeing), electric cars and lithium batteries (Tesla, BYD). Practically in none of these industries EU is competing for market leadership (amongst very few exceptions we can name the Dutch ASML and the French Saffran). "DIGITAL INFRASTRUCTURES": DEFINITIONS, EFFECTS ON CONSUMERS AND INDUSTRIES, STRATEGIC OPTIONS TO MAXIMISE THEIR VALUE. (2022) ( <https://visionandvalue.com/portfolio/the-impact-of-global-digital-companies-on-consumers-firms-and-governments/> )

Europe seemed to have been left out of the “battle” for global digital leadership. There was no global digital platform amongst the ones with more than 500 million users, Spotify being the only exception (and yet very far from other global digital infrastructures in terms of market valuation). With the departure of the UK, the EU lost even the economy with the highest number of unicorns (technology start-ups whose value is higher than one billion USD) and the most globalised technology cluster (in Cambridge). More recently, however, the picture is changing. If we look to where venture capital is flowing, countries like France, Germany, Sweden, Estonia, are becoming more attractive and the volume of venture capital invested in European technology has more than doubled in the last two years<sup>15</sup>.

And yet, whereas single countries have been very active in **investments** (and tax expenditures and clustering) in their attempt to create their own “champions” (as in Macron’s plan announced at La Sorbonne<sup>16</sup>), the European Union has focused mostly on **regulation**. As highlighted in the 2022 Pontignano Conference paper<sup>17</sup>, since 2016, the European Union has issued 10 different pieces of legislation, totaling more than 700 pages and 550 articles<sup>18</sup>.

**TABLE 1 - MAIN EU LEGISLATIVE ACTS (SINCE 2016)**

Name	Type *	Date	Pages	Articles
<b>DATA ACT</b>	PR	23-feb-22	<b>63</b>	<b>42</b>
<b>Artificial Intelligence ACT</b>	PR	21-apr-21	<b>88</b>	<b>85</b>
<b>GOVERNMENT DATA ACT</b>	PR	25-nov-20	<b>42</b>	<b>35</b>
<b>DIGITAL SERVICES ACT</b>	R	18-jul-22	<b>113</b>	<b>74</b>
<b>DIGITAL MARKETS ACT</b>	R	25-jul-22	<b>81</b>	<b>39</b>
<b>PLATFORM TO BUSINESS PRACTICES</b>	R	20-jun-19	<b>23</b>	<b>19</b>
<b>GEO-BLOCKING</b>	R	28-feb-18	<b>15</b>	<b>11</b>
<b>General Data Protection Rights</b>	R	27-feb-16	<b>88</b>	<b>99</b>
<b>DIGITAL COPYRIGHT</b>	D	17-apr-19	<b>34</b>	<b>32</b>
<b>EUROPEAN ELECTRONIC COMMUNICATION CODE</b>	D	11-dec-18	<b>179</b>	<b>127</b>
<b>TOTAL</b>			<b>726</b>	<b>563</b>

\* Type: Here we distinguish between Directives which need to be transposed by national laws; regulations issued by the European Parliament and the Council which are immediately applicable;

\*\*Author: EC = The European Commission; EP + EC = The European Parliament and the Council

**SOURCE: VISION ON EUROPEAN COMMISSION AND EUROPEAN PARLIAMENT DATA**

This gigantic effort has put the European Union at the forefront of the attempt to regulate digital transformation, with many countries considering Europe a benchmark. And yet regulation still encounters a number of problems which are as new as the phenomena we want get ahold of, and it is again artificial intelligence which can provide an example:

<sup>15</sup> The Economist “How sturdy are Europe’s tech unicorns?”, July 2022 <https://www.economist.com/business/2022/07/04/how-sturdy-are-europes-tech-unicorns>

<sup>16</sup> Macron, E. (2017, September 26). *Sorbonne Speech of Emmanuel Macron. Full Text / English Version*. <http://international.blogs.ouest-france.fr/archive/2017/09/29/macron-sorbonne-verbatim-europe-18583.html>

<sup>17</sup> [https://www.thinktank.vision/images/Pontignano\\_Papers\\_-\\_Siena\\_Conference\\_Follow\\_Up.pdf](https://www.thinktank.vision/images/Pontignano_Papers_-_Siena_Conference_Follow_Up.pdf)

<sup>18</sup> The Data Governance Act (Regulation (EU) 2018/1724 amended by Regulation (EU) 2022/868), and the proposal for a Data Act (put forward 23.02.2022); the proposal for an Artificial Intelligence Act (put forward 23.02.2022); the Directive 2019/790 on Copyright and related rights; the Digital Markets Act (EU 2022/1925); the Digital Services Act (EU 2022/2065); the General Data Protection Regulation (GDPR); the Directive on European Electronic Communication Code; the regulation on business on-line intermediaries (2019); the regulation on Geo-blocking. (*here it could be added: the proposal for an European Media Freedom Act, put forward on 16.09.2022, dealing with media regulation in the digital environment*)

1. **A problem of definitions:** any normative act needs to start from defining what it is trying to regulate, and to do such a thing for something like Artificial Intelligence raises great intellectual problems (Alan Turing tried to solve the puzzle) with very practical consequences. So far, the definition that the European Council amending the European Commission's first attempt is such<sup>19</sup> that even NETFLIX or Google search engines are part of it.<sup>20</sup>

2. **A “shooting into our own foot” effect.** The concerns leading to the ban of “social scoring” or “biometric identification in public spaces” are very understandable and yet a) this would not prevent other countries from taking a lead, while the EU would lose the possibility to do research (and to better understand what is at stake) and b) this may lead to us not having access to innovations that may instead be good. This may, for instance, come from milder versions of “social scoring” (making people pay more if they produce more garbage without differentiation) or “biometric identification” (to reduce queues at passport control, at the entry of the underground, or in hospital admissions).

3. **An implementation problem.** A regulation as massive as the one the EU is producing will imply a number of practical questions: a) technical feasibility: in some instances, banning applications like ChatGPT in one country (or in Europe) does not prevent users from accessing it via other means (like VOIP); b) managerial and supervisory capacity: the British CMA (Competition and Markets Authority) ran into problems of staff shortages; c) there may be redundancies between EU and national decisions.

Regulation (or deregulation) can indeed prompt innovation. This would be the case for all rules that would create an incentive for individuals and companies to waste less resources (for instance occupy less public space with private cars)<sup>21</sup>. And yet too much regulation can even stifle innovation without achieving higher levels of protection.

Vision's conference expects participants to join a problem-solving exercise with several objectives: a) to update what the EU is doing; b) to better understand the nature of the problems and the main trade-offs; c) to assess the pros and cons of different solutions; c) to produce some ideas for improvements of current digital policies that are likely to be win-win. It may be helpful to articulate the debate (at the conference and at the pre-conference seminars/work) along the following questions:

Is it possible to regulate better and less? Should European institutions make a choice between open and proprietary systems? Are the EU programmes meant to foster innovation (Horizon Europe, the Digital Europe Program) effective enough? Can we imagine a collaboration between governments and foreign tech firms? Can we think about European 'eco tech' systems conceived on the very idea

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<sup>19</sup> An AI system is one which is “designed to operate with elements of autonomy and that, based on machine and/or human-provided data and inputs, infers how to achieve a given set of objectives using machine learning and/or logic- and knowledge based approaches, and produces system-generated outputs such as content (generative AI systems), predictions, recommendations or decisions, influencing the environments with which the AI system interacts”

<sup>20</sup> The same applies also to the very beginning of the regulations referring to “digital markets”. What do we really mean by digital markets? Can retail (Amazon), advertising (Alphabet), hospitality (AirBnb), video (Netflix) or music streaming (Spotify) be all considered “digital markets”? Wouldn't it be more effective to talk about “digital” as a lever which is transforming all industries and “digital platforms” as a technology/ organisation model that all companies (including not native Internet ones) are adopting?

<sup>21</sup> This point is connected to the PSG 2 on “HOW TO STEER PRIVATE FIRMS TOWARDS MORE SUSTAINABLE BEHAVIOUR”

of an Internet which is capable of providing common goods (and thus capable of addressing what seems to be a Silicon Valley's "market failure")?

### **PROBLEM SOLVING**

The **problem solving group on digital** started its discussion from these questions during the Siena Conference on the Future of Europe in Pontignano (8-10 June 2023). Is regulation the right mean to control technology? A big issue, albeit not a new one, is the time lag between regulation and the technological evolution. This is particularly important for AI because of the autonomous nature of this technology - as it does not need human intervention to operate and even to self-adapt or correct or change: the evolution known as Auto-GPT – autonomous AI that is able to autonomously assign to itself and complete tasks – is an example. This introduces the big problem of a technology that has the potential to escape human control – safety of humankind emerges an actual sinister problem.

So, a common point among the panelists involved in the discussion was that regulation is necessary to govern innovation. Then the issue became: ***can we regulate "better", or more precisely, in a different way, our digital society?***

A distinction was made between "**regulation to protect a right**" (such as GDPR, created to protect the right to privacy) vs "**regulation of a technology**" itself. Problematic in the case of general purpose technologies such as AI. Another problem raised is that of efficacy of regulation: "cui prodest" a regulation that is complicated or even impossible to implement or to monitor? GDPR again provides an example in this respect. The problem solving group's discussion in Siena focused on the following elements:

#### **1. The crucial role of standards: *standard design and tech diplomacy***

- A proposal was made to shift from 'ex-post' analysis and definition of existing technologies to elaborate a standard, into an ex-ante definition of 'behavioural' standards, ruling how technology should behave. Standards providing mainly certification should be complemented by 'verification mechanisms' to enable the verification of compliance to existing regulations;
- Taking in consideration the politics of standardisation and that standards are in the end a social activity not a merely technical/neutral one: promote the involvement of a more variegated community to participate to standard setting activities;
- Tech diplomacy: establish a minimal set of rules that is agreed globally. This kind of approach should not think just to public/international institutions as the natural forum for this discussion but should include a wider set of actors;

#### **2. Artificial intelligence, but more in general, digital tech regulation is mostly, even if not only, a matter of data regulation or data policy.**

A concrete problem that was discussed is the still limited use of digital technology. In the case of the cloud, the level of adoption is low: only 22% of companies use them. What emerges is a problem of trust and a paradox: people is more likely to share their data with social media than for achieving public goals. Untapping the potential of data for public purposes is crucial and for that is needed a sort of "new social contract" for data based on transparency and on clear "reward" for users/citizens. Europe should build up a mechanism related to "sharing data for common good purposes" (let's think to the potential for sectors such as healthcare and education). Foster the use of data for public purposes includes both regulation but also positive incentives and education (digital literacy).

There is a parallel with the approach used in the media sector to contrast disinformation: we can act with regulation and self-regulation of platform to remove harmful contents, but if we do not invest in fostering media literacy to empower users we will not achieve results.

### **3. Beyond regulation: the need to finance a public infrastructure for AI in Europe:**

According to Stanford Report 2023, until 2014 most ML systems were released by academia; since then industry took over. According to JRC, the private investments are the triple of public investments and the gap is increasing. Research finds a growing net flow of researchers from academia to industry, particularly from elite institutions into technology companies such as Google, Microsoft and Facebook.

A concrete action should be taken to publicly fund the creation of “large foundational models” in Europe: we need these models to implement a design that embeds the value that we believe are worth preserving. More in general, EU should fund, in cooperation with the industry/third-parties, AI-focused public research centers and engage into a promotion of university courses/professional training (but also in some sort of reskilling for those already in the labour market) in the field of AI. This approach could eventually led to the model adopted by Korea fostering the cooperation between the private sector – leading in the technological field – and the public sector, providing research and infrastructural instruments.

The PSG also suggested that, in the next Conference on the Future of Europe, green and digital transitions should be taken into account as a comprehensive cluster/issue: the impact of the deployment of digital technologies on environmental resources and on climate is definitively concerning and they deserve a joint analysis.

The keywords emerging from the panel discussion were, from the perspective of citizens: transparency, digital literacy, trust. From the perspective of institutions (public and private): standards, public infrastructures, human rights.

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*Vision will follow up the Conference with further initiatives with its fellow scientific, corporate partners. The Pontignano Paper will be the starting point of the next Siena Conference.*