

Reforming the European Semester System

Long-Term Investment in Pharmaceuticals and Healthcare

Edited by:
Dr. Antonios Nestoras



**FRIEDRICH NAUMANN
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Europe

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About EPIC

The European Policy Innovation Council (EPIC) is a Brussels-based think tank dedicated to revitalising European policymaking through bold ideas and strategic communication. As a knowledge partner to the European Liberal Forum (ELF) under a framework agreement, EPIC contributed targeted research capacity and analytical expertise to support the Innovation Policy Labs. EPIC collaborated closely with ELF and FNF Europe to develop high-impact content and contribute to the broader policy debate at the European level.

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Introduction

The European pharmaceutical sector is a cornerstone of the continent's economic and public health framework, driving medical innovation, ensuring drug availability, and contributing to global healthcare advancements. However, its ability to maintain leadership in life sciences is increasingly constrained by financial and structural barriers. At the heart of these challenges is the misalignment between short-term economic governance and the long-term nature of pharmaceutical investment.

The European Semester, the EU's primary tool for economic coordination, plays a crucial role in shaping Member States' budgetary and structural policies. While it has been instrumental in ensuring fiscal discipline and economic stability, its emphasis on short-term financial planning and budgetary consolidation often comes at the expense of long-term investment in strategic sectors like pharmaceuticals and healthcare. The sector requires sustained funding for research, development, and infrastructure, yet the current policy framework prioritizes annual economic performance and deficit reduction over multi-year investment strategies.

This structural gap limits Europe's ability to develop and produce new medicines, strengthen supply chains, and compete with global players who have embraced more forward-looking investment models. Without policy adjustments, Europe risks falling behind in pharmaceutical innovation, increasing its dependence on external suppliers, and facing prolonged healthcare vulnerabilities. Reforming the European Semester to incorporate long-term strategic investment in pharmaceuticals and healthcare infrastructure is essential for securing the sector's resilience, ensuring access to cutting-edge treatments, and reinforcing Europe's position as a global leader in life sciences.



Chapter 1

The Problem: Financial and Structural Barriers in European Pharmaceutical Innovation

Europe's pharmaceutical industry is at a pivotal crossroads, grappling with significant challenges that threaten its global competitiveness and capacity for innovation. Central to these challenges is the prevalent short-term financial planning and budgetary constraints within national healthcare systems. This approach often prioritizes immediate cost containment over strategic, long-term investments in research and development (R&D), drug availability, and healthcare infrastructure.


Short-Term Financial Planning and Budgetary Constraints

National healthcare budgets across Europe frequently adopt a reactive stance, focusing on immediate expenditures rather than proactive, sustainable investments. This short-termism limits funding for pharmaceutical R&D, impedes the timely introduction of new treatments, and undermines the resilience of supply chains. Such financial strategies can stifle innovation, as pharmaceutical companies may struggle to secure necessary investments for developing groundbreaking therapies. Moreover, the lack of sustained funding hampers the modernization of healthcare infrastructure, affecting the overall quality and accessibility of medical services. Addressing these issues requires a paradigm shift towards long-term financial planning, ensuring that investments in the pharmaceutical sector are both adequate and sustainable.

Supply Chain Vulnerabilities

The COVID-19 pandemic has exposed significant vulnerabilities in global pharmaceutical supply chains, particularly Europe's reliance on non-EU countries for critical drug components. Over 80% of active pharmaceutical ingredients (APIs) used in Europe are sourced from Asia, primarily China and India. This dependency poses risks to drug

availability, especially during global crises that disrupt manufacturing and distribution channels. To mitigate these risks, the European Commission has proposed the Act on Critical Medicines, aiming to bolster domestic production and reduce reliance on external suppliers. However, implementing such measures necessitates substantial, long-term investments in local manufacturing capabilities and infrastructure.



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Investment Barriers and Access to Finance

European pharmaceutical companies, particularly small and medium-sized enterprises (SMEs), face considerable challenges in securing financing for growth and innovation. Weaknesses in the venture capital market, limited access to private equity, and underdeveloped capital markets hinder the ability of these companies to invest in late-stage product development and commercialization. This financial environment can lead to a slowdown in bringing new therapies to market, affecting the industry's competitiveness on a global scale. Addressing these investment barriers is crucial for fostering a robust pharmaceutical sector capable of sustained innovation.

Global Competition and Strategic Autonomy

Europe's position in the global pharmaceutical market is increasingly challenged by countries that have made substantial investments in their life sciences sectors. The United States and China, for example, have implemented policies that encourage pharmaceutical innovation and attract significant investments. To maintain its competitiveness, Europe must adopt a strategic approach that includes investing in R&D, fostering public-private partnerships, and ensuring a supportive policy environment. Achieving strategic autonomy in the pharmaceutical sector requires a concerted effort to address existing challenges and capitalize on opportunities for growth.

To ensure Europe's pharmaceutical sector remains globally competitive and resilient, a shift from short-term financial planning to long-term strategic investment is essential. Strengthening supply chain resilience, improving access to finance, and fostering innovation require a more forward-looking approach to economic and healthcare policy. The



European Semester—the EU’s framework for economic governance—offers a powerful tool to drive this transition. By embedding healthcare investment priorities into the Semester’s recommendations, the EU can encourage Member States to adopt multi-year budgeting strategies that prioritize pharmaceutical R&D, infrastructure development, and

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Chapter 2

The Context: European Semester and Economic Governance

The European Semester is the EU's annual cycle of economic and fiscal policy coordination. Established in 2010 in response to the eurozone crisis, it serves as the primary mechanism through which the European Commission monitors Member States' economic policies, ensuring they align with the EU's broader economic priorities. The Semester provides a structured timeline for assessing national budgetary and structural reforms, issuing Country-Specific Recommendations (CSRs) that guide Member States on economic policies, fiscal discipline, and structural reforms.

The process unfolds in several key stages:

- **Annual Growth Survey & Policy Priorities:** The Commission outlines the EU's economic priorities for the coming year, which Member States are expected to consider in their national budgets.
- **National Reform Programmes (NRPs):** Member States submit reports detailing their planned economic reforms, which the Commission evaluates.
- **Country-Specific Recommendations (CSRs):** Based on the NRPs, the Commission issues policy recommendations that Member States are expected to implement.
- **Monitoring and Enforcement:** Throughout the year, Member States' adherence to the CSRs is monitored, with potential consequences for non-compliance, particularly for eurozone countries.

The European Semester has been instrumental in shaping fiscal policy across the EU, enforcing budgetary discipline, and ensuring macroeconomic stability. However, its emphasis on short-term budgetary constraints and fiscal consolidation often results in policies that prioritize immediate cost-cutting over long-term investment strategies.



The European Semester offers a powerful tool for this transition.

Chapter 3

The Policy Gap: Short-Term Focus vs. Long-Term Pharmaceutical Investment Needs

A fundamental misalignment exists between the European Semester's short-term focus and the long-term investment nature of the pharmaceutical sector. The Semester primarily assesses annual economic performance and fiscal stability, emphasizing deficit reduction and immediate financial sustainability. However, pharmaceutical innovation, supply chain resilience, and healthcare infrastructure require multi-year investment strategies due to:

- **Long R&D Cycles:** The development of new medicines, from discovery to market approval, takes 10-15 years on average, requiring consistent financial support across multiple budgetary cycles.
- **Regulatory Complexity:** The EU's stringent pharmaceutical regulations necessitate lengthy approval processes, delaying returns on investment and making short-term financial planning inadequate.
- **Infrastructure and Supply Chain Development:** Establishing local pharmaceutical production capacity and securing resilient supply chains require sustained investment beyond annual budget constraints.

By prioritizing fiscal discipline over strategic investments, the European Semester inadvertently discourages national governments from committing to long-term financial support for pharmaceutical innovation and infrastructure. Instead, governments often focus on cost-cutting in healthcare budgets, exacerbating underfunding

in critical areas such as drug development, clinical trials, and manufacturing capabilities.

Additionally, the Semester's structure provides limited mechanisms to incentivize cross-border collaboration in pharmaceutical policy. Despite the clear need for pan-European coordination in pharmaceutical R&D, production, and supply chain security, the Semester remains primarily focused on national economic policies, rather than fostering a collective EU approach to long-term healthcare investment.



Chapter 4

Bridging the Gap: Aligning Economic Governance with Long-Term Pharmaceutical Investments

To address this misalignment, the European Semester needs to expand its scope beyond immediate fiscal constraints and incorporate a stronger emphasis on long-term strategic investment in pharmaceuticals and healthcare infrastructure. This could be achieved by:

- 1. Incorporating Multi-Year Budgeting for Healthcare and Pharmaceutical R&D** – Encouraging Member States to integrate long-term investment commitments into their National Reform Programmes.
- 2. Creating a Dedicated Pharmaceutical Investment Framework** – Establishing a targeted policy within the Semester that prioritizes R&D, innovation, and supply chain resilience in the healthcare sector.
- 3. Enhancing Cross-Border Collaboration** – Encouraging joint investment strategies and pan-European initiatives to strengthen the EU's pharmaceutical sector as a whole.
- 4. Adjusting Country-Specific Recommendations** – Shifting CSRs from a short-term fiscal discipline model toward long-term economic resilience, particularly in critical sectors like healthcare and pharmaceuticals.

By aligning the European Semester's policy framework with the long-term needs of the pharmaceutical industry, the EU can ensure sustained investment, strengthen supply chains, and enhance its global competitiveness in life sciences and medical innovation.



Chapter 5

Conclusion

While the European pharmaceutical sector faces numerous challenges—ranging from regulatory fragmentation to supply chain vulnerabilities and investment barriers—there are also many viable solutions to address these issues. However, long-term investment is the foundation upon which all other reforms must be built. Without sustained financial commitment, even the most well-intended policy solutions will struggle to deliver meaningful impact.

A reform of European economic governance and coordination, particularly through the European Semester, has the potential to shift national budget priorities toward long-term strategic investments in pharmaceuticals and healthcare. By integrating multi-year financial planning, incentivizing sustained R&D investment, and enhancing supply chain resilience, a reformed Semester can create the right framework conditions for innovation, competitiveness, and long-term sustainability in the sector. Strengthening economic coordination in this way would not only improve Europe's ability to develop and manufacture life-saving medicines but also reinforce its global leadership in life sciences, ensuring a more secure and resilient healthcare system for the future.

What this publication is about

This book is about policy innovation, influencing change in a way that guarantees our fundamental liberal values while also delivering tangible results for people. It is about convincing the public that the EU is not only relevant in their everyday lives, but also capable of implementing policies that will significantly improve their quality of life. By presenting forward-thinking solutions and actionable strategies, this guide aims to demonstrate how liberal policies can address the pressing issues Europe faces today. Through effective governance, we can showcase the EU's potential to drive positive change, ensuring that our vision for a progressive and inclusive Europe becomes a reality. In answering the question of what kind of Europe we want, the answer is clear: we want a renewed Europe – a Europe with institutional reforms that make it fit for the current geopolitical circumstances, capable of responding swiftly and effectively to external pressures. We envision a renewed Europe that leads in technological progress and sustainability, setting global standards and driving innovation in a way that benefits all its citizens. Furthermore, we seek a Europe that can guarantee the safety of its citizens and uphold the European way of life, ensuring security and stability in an increasingly uncertain world. This vision of a renewed Europe is one that not only meets the challenges of today but is also prepared to seize the opportunities of tomorrow.

Outcome of the Innovation Policy Lab 2.0

This publication is the outcome of a joint undertaking between the European Liberal Forum (ELF) and the Friedrich Naumann Foundation for Freedom Europe (FNF Europe). Most of the ideas and proposals contained in this book were discussed and developed during a two-day conference of the ELF–FNF Innovation Policy Labs held in Brussels on 3–4 March 2025. The editor extends heartfelt thanks to Gréta Kiss from FNF Europe and Bálint Gyévai from ELF for organising the conference, and to the participants for their invaluable contributions. Special gratitude goes to Benno Schulz, Dr Nele Fabian, Dr Antonios Nestoras

and Ailbhe Finn, who served as moderators during the conference and captured the participants' discussions and policy recommendations that form the backbone of this publication. Without the dedication and expertise of all these persons, this work would not have been possible.

Methodology

This publication is the outcome of a joint undertaking between the European Liberal Forum (ELF) and the Friedrich Naumann Foundation for Freedom Europe (FNF Europe). It represents a culmination of collaborative efforts, discussions, and expert insights aimed at addressing the multifaceted challenges confronting Europe. The ELF–FNF Policy Labs brought together a diverse group of policymakers, academics, practitioners, and civil society representatives from across Europe. This dynamic gathering fostered an environment conducive to in-depth analysis, debate, and creative thinking. The participants, each bringing their unique perspectives and expertise, played a crucial role in shaping the discussions and formulating the policy recommendations presented in this book. The process was highly participatory, with structured sessions designed to maximise interaction and the exchange of ideas. Through a series of workshops, panel discussions, and breakout groups, participants delved into key topics, identified pressing issues, and proposed actionable solutions. These insights were rigorously analysed and synthesised by the editorial team, ensuring that the chapters reflect the collective wisdom and innovative thinking of the Policy Labs. It is important to note that not all chapters in this publication were developed solely through this conference. While the majority of the content is derived from the Policy Labs, some chapters were influenced by additional research, expert consultations, and policy discussions. These contributions were integrated to provide a comprehensive and well-rounded set of policy proposals.

About ELF

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About Friedrich Naumann Foundation for Freedom Europe (FNF Europe)

The Friedrich Naumann Foundation for Freedom Europe (FNF Europe) is one of the regional offices of the Friedrich Naumann Foundation for Freedom (FNF), a German political foundation dedicated to promoting liberal values and policies. Headquartered in Potsdam, FNF operates offices across Germany and in numerous countries worldwide. FNF Europe maintains offices in Brussels, Prague, Vilnius, and Geneva, serving as a platform for connecting EU experts, civil society actors, and policymakers. Its mission is to foster open dialogue and advance liberal policy solutions to address Europe's key challenges. In close cooperation with liberal partners, FNF Europe organises innovative formats and campaigns to promote fundamental rights, the rule of law, geopolitics, and geoeconomics. It also coordinates EU co-funded projects focusing on areas such as the internal market, digitalisation, and innovation.

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