

## Greenland and the EU: Options, impact and ramifications

The world is increasingly marked by geopolitical friction, geostrategic competition and the unravelling of the post-1945 world order. The US desires to take over Greenland, a territory of Denmark, a fellow NATO member state. This is a significant challenge to the EU. It is difficult to imagine the situation ending up in military conflict. Were that to happen, the event would be quick given US hard power capabilities. The costs could be large and long-lasting: effectively ending NATO would likely have a cost to the US too. With no evidence of solutions through diplomatic channels yet, a further escalation in tensions cannot be ruled out.

We do several things in this note. First, we explore the [immediate policy options available to the EU](#) to try to de-escalate the situation. This includes increasing the European contribution to Arctic – and by extension US – security. Steps are already being taken by NATO Europe members to increase the security presence in and around Greenland. The US may also be offered more military and exploration access to Greenland. Depending on the course of events, the EU could use targeted threats such as restricting the critical supply of icebreakers to the US and implementing the EU ‘trade bazooka’, the Anti-Coercion Instrument.

Second, Europe may not have military leverage over the US, but it does have pockets of potential [economic leverage](#). We look at the trade relationship between the EU and US. Chemicals (including pharma) is a sector in which the US is highly dependent on imports from the EU. However, the EU proved reluctant to use its economic leverage during last year’s tariff tensions, in part because the priority was ensuring US backing for Ukraine’s security – a constraint that continues to apply – and in part because the US has leverage over the EU through tech and energy.

Third, we look at [how escalating tensions could transmit](#) to the European economy in the short term. The key is the degree of correlation between (geo)political uncertainty and economic uncertainty. The relationship is stronger when shocks amplify through energy, financing and/or trade (including supply chains). Greenland does not have a nexus with any of these amplification paths – but all three paths could be relevant if direct relations between the EU and US deteriorate.

Finally, we consider what might be the ideal [EU policy agenda](#) for the increasingly frictional world in which it finds itself. This includes raising defence spending, accelerating strategic autonomy, rethinking Europe’s security strategy and solving the collective action challenge. However, barring a major crisis we anticipate only a gradual and piecemeal approach to policy.

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## Greenland is of strategic importance – including to the EU

Greenland is a semi-autonomous, [overseas country and territory](#) of the EU that is associated with the European Union through Denmark, but officially not part of the EU. In their [recent piece](#), our geopolitical research colleagues highlighted the strategic drivers underlying the US push for control of Greenland. Many of these are also of strategic interest to the EU:

- **Economically** because of its raw materials. Greenland holds large untapped reserves of oil, natural gas, rare earth minerals, uranium, zinc, and other valuable resources. While so far these have largely proved uneconomical to extract, the rare earth deposits will be of particular interest in the current geopolitical environment. 25 of the 34 critical minerals identified on the EU's critical raw materials list can be found in Greenland<sup>1</sup>.
- **Militarily** as a key area in the Arctic. For NATO and European security, Greenland acts as a vital outpost for monitoring the North Atlantic and Arctic. The Pituffik Space Base (formerly Thule Air Base), operated by the US, is a critical component of North American and NATO missile defense systems. President Trump has claimed that Greenland is vital for the planned US 'Golden Dome' missile defence system<sup>2</sup>.
- **Geopolitically** in the context of new sea routes opened up by a changing climate. As Arctic ice melts, the potential for new shipping routes like the Northern Sea Route (along Russia's coast) and the Northwest Passage (through the Canadian Arctic Archipelago) becomes more viable. The Northern Sea Route is arguably more important for Europe, as it's likely to become commercially navigable sooner and is the shortest shipping pathway between Europe and the Asia-Pacific region. Russia's President Putin has built up Russia's military capabilities in the Arctic in an effort to develop the Northern Sea Route.

Europe has strong strategic interests in the Arctic and Greenland specifically. While it's open for debate if Europe's interests are stronger than those of the US, we should of course note that the opposition to the White House push for the US to control Greenland is driven most of all by Europe's adherence to territorial sovereignty<sup>3</sup> and a rules-based international order that permeates the foundations of the EU and NATO.

Note: In this article we refer to "Europe" and the "EU". In the realm of defence and NATO, the two labels are not synonymous or interchangeable. The "EU" refers to the 27 member states of the Union, which at many levels have a common policy platform – with one exception being defence, where four EU member states are officially neutral and not members of NATO. By "Europe" we mean the broader continent, including relevant non-EU countries like the UK and Norway, which through NATO membership and geographic position have a heightened interest in the Arctic region.

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1 "Greenland: Caught in the Arctic geopolitical contest", European Parliamentary Research Service, October 2025.

2 Trump says US control of Greenland 'vital' for Golden Dome, France 24, 14 January 2026.

3 Article 1 of United Nation Charter explicitly mentions the principle of equal right among nations and self-determination of peoples. For more see UN Charter [here](#)



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## # 1. Immediate policy options for the EU

### A mostly de-escalatory US Greenland playbook with some deterrence

Recent weeks have seen US President Trump signalling a more assertive posture towards establishing control over Greenland.

The EU response will depend on whether the US chooses to go down the non-escalatory or the escalatory path over the the next few weeks. For the time being, we expect the immediate policy response by Denmark and the EU to be geared towards a non-escalatory path, potentially looking to agree a deal with the US that combines a mix of:

1. **Contributing to Arctic (and therefore also American) security:** It will be key whether the EU and other European NATO members can credibly portray Greenland's security as a matter for the alliance to handle in cooperation with the US. The EU/Europe can focus on the contribution it can make collectively to Arctic security, and by extension US security. This includes sending ships, aircraft and troops to the region. The military mission "Operation Arctic Endurance" is taking place these days (with Denmark, Sweden, Norway, Finland, the Netherlands, France, the UK and Germany sending a few dozen military personnel to Greenland) to show that Europe is committed to Arctic security. Moreover, the idea of an "Arctic Sentry" NATO mission as a long-term commitment has gained traction in recent days. This would echo NATO's "Baltic Sentry," which launched a year ago with frigates and maritime patrol aircraft to monitor critical infrastructure<sup>4</sup>.
2. **Long-term strategic lease for new US military bases.** The US already has the Pituffik base and about 200 troops there, much reduced from around 10,000 troops at the peak during the height of the cold war. So far, the White House [has shown little interest](#) in an offer last year from Denmark's prime minister to increase its military presence in Greenland.
3. **New exploration licences and/or a deal on profit sharing from future resource extraction.** US companies can and do seek exploration licenses in Greenland. These would be granted by the Greenlandic government (see [Mineral Licence and Safety Authority](#)). There have been US companies involved in discussions or early-stage exploration for rare earths. Currently, there is one US mining company active in Greenland,<sup>5</sup> while another US firm has secured a 2% net smelter return royalty over future production from a nickel-copper-cobalt project<sup>6</sup>. A deal that guarantees the US a share of profits from extraction of critical raw materials is one possibility.

**What if Greenland is about US hemispheric dominance?** As the window of opportunity for Trump before the mid-term elections in November closes, there is arguably a risk of the escalatory scenario materializing (including the possibility of moving towards a Compact of Free Association with exclusive military access to Greenland for the US, see [here](#)). For the US, Greenland could be the latest extension of the so-called 'Donroe Doctrine' that envisions US control over its backyard. Thus, if Greenland is not only about US national security, but also about hemispheric dominance, it could be much more difficult for the EU to settle for the de-escalatory path.

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4 Politico, UK and Norway back 'Arctic Sentry' NATO mission – including in Greenland, January 15, 2026

5 [CRITICAL METALS CORP NASDAQ-CRML](#) Officially Approves & Commences Construction Start-Up in Greenland for Tanbreez Pilot Plant & Multi-Use Facilities, press release, 7 January 2026

6 [Investing.com \(2025\)](#), 80 Mile regains full control of Disko project in Greenland. May 19



This week's meeting between Danish, Greenlandic and US officials in Washington did not give any clear answer on whether an escalatory path can be avoided. While the sides agreed to convene high-level working groups in search of a diplomatic solution, Danish officials [underlined](#) that "fundamental disagreement" remains. While Europeans' leverage over the US is limited, there are several actions they could take to try to deter US escalation:

- **Military deterrence.** While Europe's limited military capabilities mean it is unlikely to be able to prevent the US from taking kinetic action, it may be able to use an increased (if still small-scale) military presence in Greenland as a deterrent, increasing the political costs faced by the US administration in the event of potential escalation. Indeed, we appear to be seeing action in this direction, with Denmark and European allies deploying (a small number of) additional forces in and around Greenland for exercise activities from Thursday to Saturday. Indeed, there may be overlap between improving Greenland's security (and countering the US argument of a Russia/China threat to the region) and dissuading the US from escalating.
- **Strengthening Greenland's ties to Denmark and the EU.** Back in September, the European Commission [proposed](#) to more than double its financial support to Greenland in the next long-term budget, allocating about EUR 530 million between 2028 and 2034.<sup>7</sup> More EU investment in Greenland could be used to prevent the US from seeking to co-opt Greenland over time via sweeteners and increased commercial/military presence.
- **The use of targeted threats,** like potentially restricting the supply of critical Finnish-made icebreakers to the US. In addition, the EU could issue warnings about the possible downsides for the US – including what the end of NATO could mean for US defence companies and how an end of the transatlantic alliance could hurt other US foreign policy interests (e.g. vis-à-vis China).
- **Economic escalation – potential use of the EU's Anti-Coercion Instrument.** These options exist but would be politically difficult to use, and the EU has not shown willingness to do so thus far (e.g. targeting US asymmetric dependence on EU strategic chemicals – more in the next section). The EU's most powerful tool, the Anti-Coercion-Instrument (see [here](#)), was not designed with a military scenario in mind, but in response to economic pressures and with the EU committing itself to proportionate countermeasures. Economic pressures may be difficult to quantify in case of an unlawful acquisition of territory. But theoretically an unlawful takeover of Greenland could be regarded as a borderline case interfering with the EU's economic decision-making authority. **Justification for using the ACI might be stronger** in a scenario where the US tries to use economic and financial leverage to pressure Denmark and/or the EU over Greenland – for example, **if President Trump follows through on the threat to impose tariffs on countries that oppose his Greenland plans**<sup>8</sup>.
- If there were strong political willingness and unity to activate the **ACI** by key EU member states, the **multi-stage activation process** of the so-far-never-used ACI could be initiated. The scope of potential action from the EU side is wide-ranging, from implementing tariffs to import and/or export restrictions to revoking the protection of intellectual property rights or their commercial exploitation (for example, software downloads and streaming

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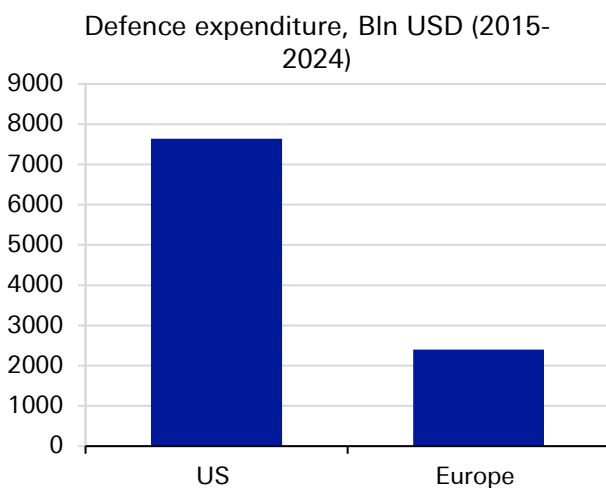
8 "Trump floats levies over Greenland as Denmark lobbies Congress", Bloomberg News, 16 January 2026.



services). Actions could even include blocking foreign direct investment or restricting market access for banking, insurance and other financial services groups. In terms of procedural steps, the EU would first have to negotiate with the concerned "aggressor" and then launch a process that could take at least two months before a proportionate response is undertaken. The tool would need to be approved by a qualified majority by the EU Council (i.e. 15 of 27 member EU heads of state).

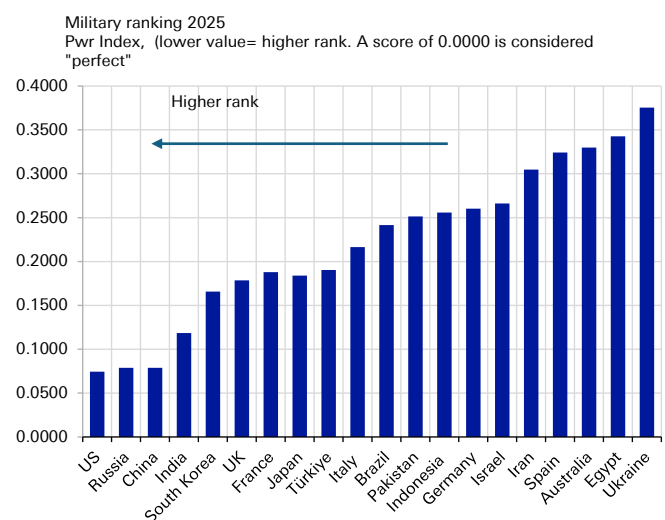
- The chair of the **European Parliament's** trade committee, Bernd Lange, vaguely suggested that the **ACI remains among possible policy options**, saying "We have exports to the United States a bit above EUR 600 billion, and for around one-third of those goods we have a market share of more than 50 percent and it's totally clear that this is also the power in our hands".<sup>9</sup>
- However, as we discuss in the next section, there are reasons to believe that the **EU will be cautious about using the ACI** given the potential for US retaliation (and US escalation dominance).

Figure 1: The US spends significantly more than NATO Europe on defence...



Source : Deutsche Bank, NATO

Figure 2: ... and has the more effective military



Source : Deutsche Bank. See [here](#)

## # 2: Assessing economic leverage

In our earlier tariff analysis<sup>10</sup>, we detailed the trade relationship between the EU and the US. In this section, we focus on the aspects of the relationship that could give the EU economic leverage over the US.

### Europe may have some leverage via its chemical exports...

Figure 1 illustrates US imports by country and product type. This configuration allows us to roughly assess US import dependence for each product category. For instance, Europe accounts for almost 50% of total chemical (including pharma)

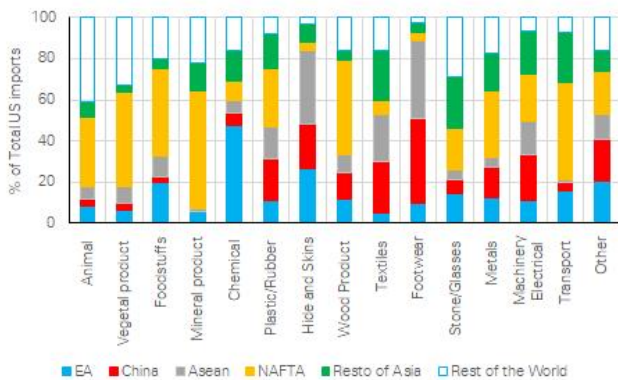
9 [Politico \(2026\)](#). How Europe will try to save Greenland from Trump. January 8

10 "What if? The Impact of Proposed US Tariffs on European Growth & Inflation" DB [Focus Europe](#) on 3 September 2024



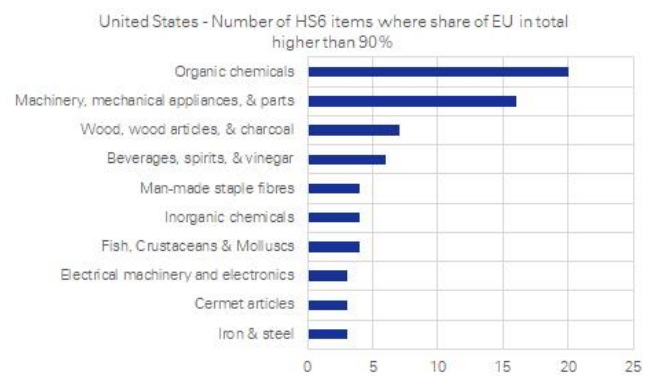
imports into the US. There is a high number of single chemical import lines where Europe is the only supplier to the US (Figure 4). With the exception of food products and hides and skins, other European imports constitute less than 20% of total US imports across each category. Transport, and Machinery & Electrical products each account for 15% or less of total US imports. In other words, Europe may possess some leverage through its exports to the US, but only narrowly through chemical products.

Figure 3: US imports by country and products...the EU may have some leverage on Chemical products



Source : Deutsche Bank, US Census Bureau Macrobond

Figure 4: Chemical products dominate the list of items where Europe is the US' only supplier



Source : Deutsche Bank, US Census Bureau

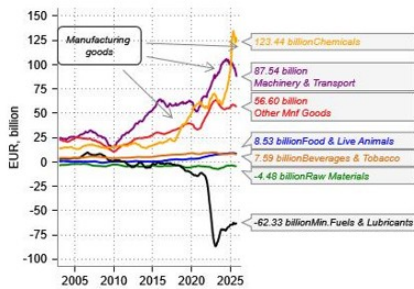
...but is highly exposed to US energy imports...

It is crucial, however, to examine the other side of the trade coin: Europe's dependence on the US. Figure 5 displays the net trade balance between the EU and the US by product type. Europe has an overall trade surplus with the US worth approximately 1% of GDP. Europe holds a trade surplus in nearly all major sectors except energy. This could be a source of retaliatory vulnerability if the EU uses its economic leverage against the US.

Figure 6 and Figure 7 further show Europe's energy trade balance by country. While the share of energy imports from OPEC countries is larger than that from the US, as a single country, the US represents Europe's largest position. Before the Russian invasion of Ukraine, Europe was heavily dependent on Russia, which alone accounted for over 40% of imports of mineral fuel lubricants and related materials. This position has entirely shifted, with Russia's net trade imports now accounting for only 6%, while the net trade position with the US has moved from a near-neutral stance in 2015 to more than 20% at the end of 2025. Broadly, dependence on Russia has been replaced by OPEC and the US. In terms of individual countries, Europe is now most dependent on the US.

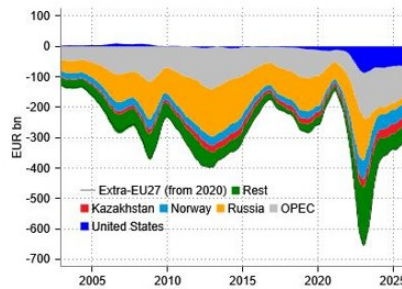


Figure 5: EU/US net trade position



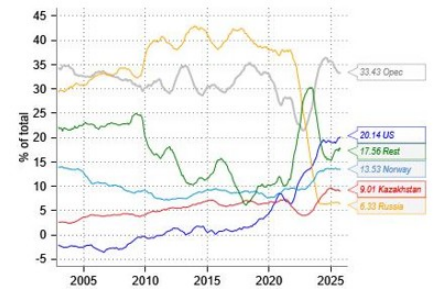
Source : Deutsche Bank, Eurostat, Macrobnd

Figure 6: Europe net energy position by country in EUR bn



Source : Deutsche Bank, Eurostat, Macrobnd

Figure 7: ...and as % of total

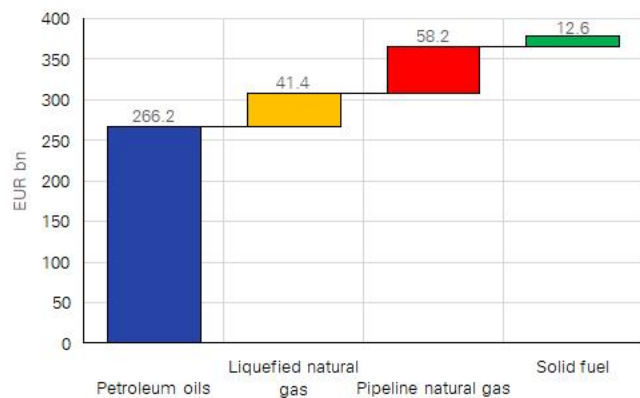


Source : Deutsche Bank, Eurostat, Macrobnd

### ...and EU exposure to US energy may increase further

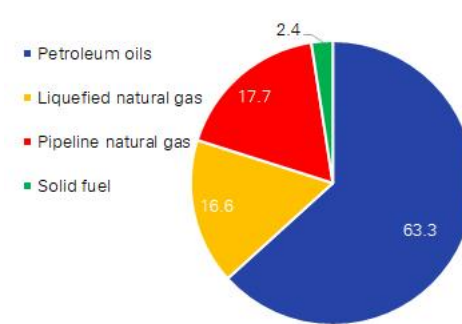
Based on the EU-US trade agreement of last summer<sup>11</sup>, Europe is expected to further increase its energy exposure to the US. The agreement says that the EU intends to procure US liquefied natural gas, oil, and nuclear energy products with an expected offtake value of USD 750 bn through 2028. If equally split over three years, this would equate to USD 250 bn or EUR 215 billion per year. In 2024, total European energy imports amounted to EUR 380 bn (Figure 8)<sup>12</sup>, of which only around EUR 60 bn was from the US. Increasing energy imports from the US to EUR 215 bn would mean increasing imports by 260%. This would be equivalent to being dependent on the US for almost 60% of energy. This appears unlikely to materialise in any case, and if the transatlantic alliance were to deteriorate further, it would raise questions in Europe about whether heavy reliance on US energy is a potential economic security risk that undermines EU strategic autonomy.

Figure 8: EU total energy imports by product type in 2024...



Source : Deutsche Bank, Eurostat

Figure 9: ...and as a share of total



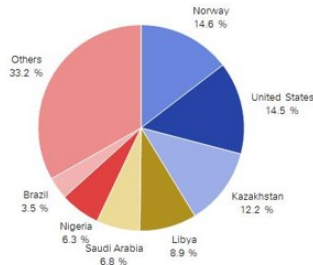
Source : Deutsche Bank, Eurostat

11 For more see "Joint Statement on a United States-European Union framework on an agreement on reciprocal, fair and balanced trade" [Directorate-General for Trade and Economic Security](#) on 21 August 2025

12 For more see "EU imports of energy products - latest developments" [Eurostat](#) and "EU-US trade deal: What it means" DB [Focus Europe](#) on 28 July 2025

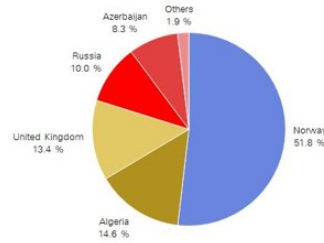


Figure 10: EU imports of Petroleum oils by trading partner...



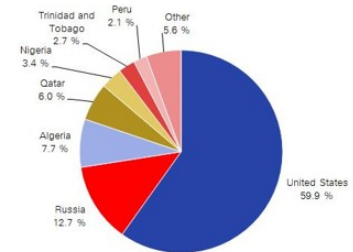
Source : Deutsche Bank, Eurostat

Figure 11: ...pipeline natural gas...



Source : Deutsche Bank, Eurostat

Figure 12: ...and liquefied natural gas

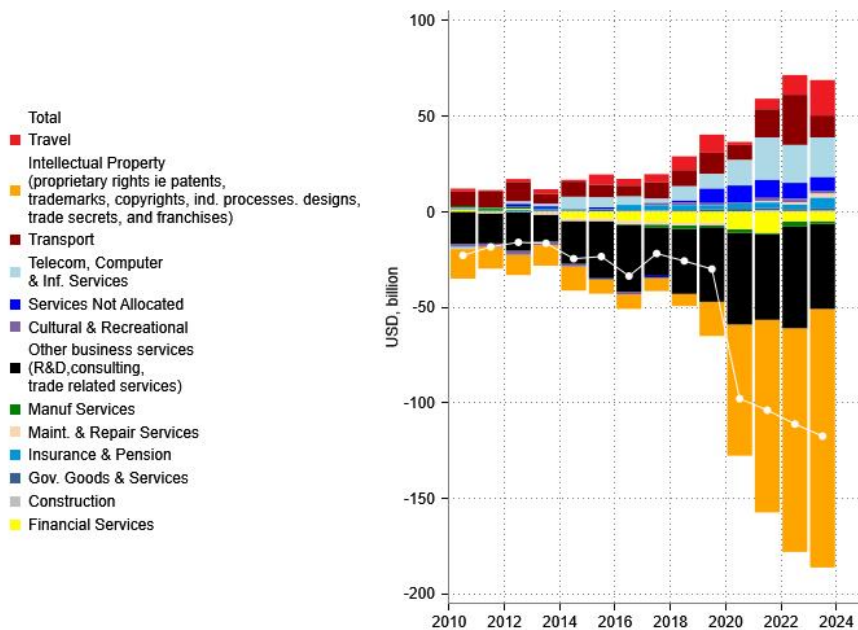


Source : Deutsche Bank, Eurostat

... and there is also trade in services to consider

The EU has a large deficit with the US of around USD 100bn in the field of services (see Figure 13). The EU's trade deficit with the US is primarily driven by two categories: Intellectual Property (IP) and other Business Services (this includes R&D, consulting, trade-related services, etc.). The IP deficit is likely to be driven by multinational firms in the pharmaceutical and technology sectors in particular. The EU also has a trade deficit with the US in financial services. In contrast, the EU's largest service surpluses with the US are in Transport Services (rental and associated services, and travel) and Telecommunications, Computer, and Information Services.

Figure 13: Europe has a trade deficit in services with the US



Source : Deutsche Bank, OECD, Macrobond



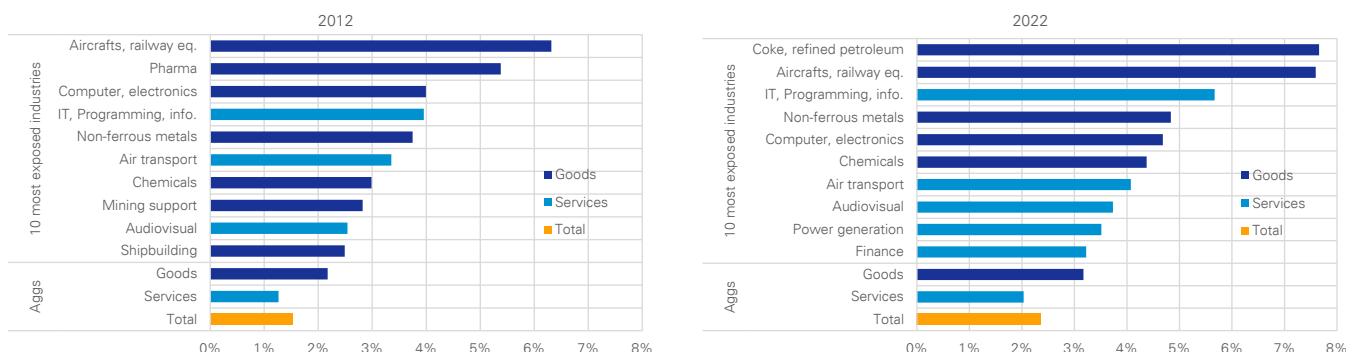
Some caution is needed when interpreting EU services data due to the prevalence of multinational firms with operations in countries such as Ireland (and other EU countries). These entities often book value added activities in the pharmaceutical and tech sectors, even though the patents may be held by parent companies located in the US. Transactions between these firms and their US-based parent companies can create distortions in the reported services trade balance<sup>13</sup>.

### Looking at the economic exposure through the Input-Output (IO) lens

The above relates to the European direct trade exposures to the US. But the region's reliance on US supply arguably also includes the connections the US has with other countries that also trade with the EU. We assess these value chain exposures by using a global Input-Output table. We have described the methodology in previous research notes<sup>14</sup>.

Europe's total exposure (direct and indirect) to inputs produced by the US is particularly pronounced in a couple of sectors, notably coke and refined petroleum (7.7% of the industry's inputs are sourced from the US), aerospace (7.6%), and information services (5.7% - see [Figure 14](#)). Interestingly, of the 10 most exposed European sectors in 2022, five were service-providing segments, against only three in 2012. This reflects an increasing reliance not only on US energy (power generation and air transport being amongst the most exposed), but also on key services such as tech, which are integral to modern value chains, such as audiovisual/media, finance and IT).

Figure 14: Euro area - Share of US in inputs to production - 10 most exposed industries



Source : Deutsche Bank, OECD ICIO. Note: these charts reflect both direct and indirect industry exposures, ie the weight of the US in all the value added flows required for the industries to attain their levels of output in 2012 and 2022.

### Specific imports matters too

Our research also suggests that, while the US and Europe are competing in many markets, global value chains have formed so that they are partners in many others (i.e. both regions exchange complementary goods). Moreover, some of the inputs that Europe sources from abroad are quite complex and arguably difficult to replace. In a recent research note<sup>15</sup>, we find that as much as 10% of EU imports from the US and China are of high complexity. These are non-trivial amounts, and such imports would probably be difficult to substitute quickly or to reshore without making sizable investments (assuming Europe is endowed with the right factors of

13 For more see "Exploring EU trade with US and China" DB [Focus Europe](#) on 20 May 2025

14 For more see See "Exploring EU trade with US and China", [DB Focus Europe](#), 20 May 2025

15 The complexity shock around the corner, [DB Europe Chart Of The Week](#), 17 April 2025.



production to embark on such productions at all). If we consider moderately complex items, the European import exposure rises to around 25-30%. Bottom line, disruptions to trade with the US could reverberate and put strain on the supply side of the economy in Europe.

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## #2.1: Economic leverage and what we learned from the EU response to US tariffs

The EU's response to the US trade policy shift last spring can provide us with some insights about how the bloc reacts to external pressure – even though the situations may not be entirely comparable.

A first lesson from the EU response to US tariffs is that the EU decided not to escalate the trade war and retaliate or to activate its "trade-bazooka", the Anti-Coercion Tool (for further details see above section). Instead, the EU chose the de-escalatory path and an economically rational strategy not to counter tariffs with tariffs (and at least settle for 15% instead of 25% auto tariffs). Apart from economic considerations (including a dependence on US tech, for example, cloud computing), EU leaders may also have taken into account security-related aspects given the bloc's dependency on US defence capabilities. This was arguably the most feared part of US escalation dominance.

Second, reaching decisions in the EU's consensus-oriented political system takes time. The European Commission may be quick in coming up with a proposal, but it may take weeks or even months for member states to greenlight it. Divergent national interests often complicate decision-making. For example, it took nearly three months for the EU to finalise (the never-enacted) retaliatory measure against US "reciprocal tariffs", with some countries successfully asking for certain products to be removed from the list to avoid becoming a target for US counter-reactions.

Avoiding tariff escalation vis-à-vis the US bought the EU time to further develop its strategic autonomy. Crucial elements involve the signing of the Mercosur trade agreement after 26 years of negotiations, the new [EUR 90bn loan for Ukraine](#), further improvements to the EU's Single Market (e.g., addressing the so-called terrible ten non-tariff barriers) and the recent Resource-EU plan.

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## # 3: Understanding short-term shock transmission

In this section we think about how an escalation of tensions between the EU and US vis-à-vis Greenland could transmit into the European macroeconomy. We start by looking at political/geopolitical uncertainty and how this maps to economic uncertainty and economic growth. However, to generate significant economic cost a geopolitical shock needs an amplifier such as a disruption to energy supply, financing or trade (including supply chains). Greenland has strategic importance, as we mentioned at the start, but it does not have an energy, financing or trade nexus. For these channels to be relevant, the Greenland situation would have to escalate into tensions directly between the EU and US.

### Political and economic uncertainty

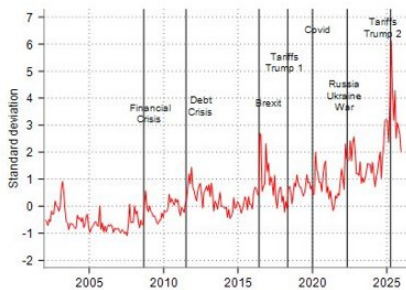
Uncertainty is one of the possible channels through which tensions in Greenland could affect the Euro Area economy. Various measures of uncertainty exist, focusing on different aspects such as trade or politics. For the type of shock



considered in this article, the primary focus should be on political uncertainty. [Figure 15](#) illustrates the development of a political uncertainty indicator, as conceived by Professors Baker, Bloom, and Davis<sup>16</sup>. It shows some increases during the financial and debt crises, and more pronounced spikes during Brexit, COVID-19, and most recently following the tariff shocks (around "liberation day" in early April 2025).

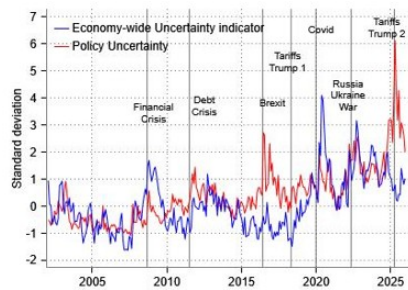
Most relevant for the transmission channel, however, is how a rise in the political uncertainty indicator impacts the economy. To assess this, we proceed in two steps.

Figure 15: Policy Uncertainty over time...



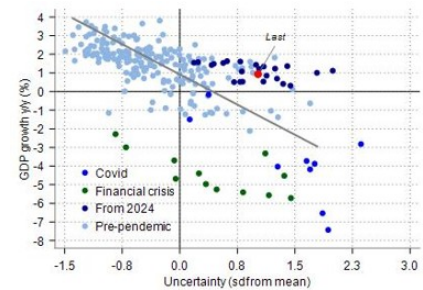
Source : Deutsche Bank, [Economic Policy Uncertainty](#), Macrobnd

Figure 16: ...and its correlation with our Economy-wide Uncertainty indicator



Source : Deutsche Bank, [Economic Policy Uncertainty](#), Macrobnd

Figure 17: Economy-wide Uncertainty indicator and GDP growth



Source : Deutsche Bank, Eurostat, Macrobnd

- First, we utilize our proprietary economic uncertainty indicator (see [Figure 16](#) and [Figure 17](#))<sup>17</sup>. This indicator measures uncertainty by assessing the dispersion of panelist responses to forward-looking questions in the European Commission Business and Consumer Survey. Historically, there has been a negative correlation between economic uncertainty and Euro Area GDP growth (see again [Figure 17](#)). Based on the historical relationship, we estimate that a protracted shock to **our proprietary economic uncertainty indicator of one standard deviation (s.d.) would reduce Euro Area GDP growth by 0.4 percentage points (pp)**. To put this in context, there was a 2 s.d. shock during the GFC, a 4 s.d. shock during the pandemic and a 3 s.d. shock when Russia invaded Ukraine.
- Second, we examine the sensitivity of our economic uncertainty indicator to changes in policy uncertainty. As panelist answers to survey questions may capture uncertainty from various sources, including geopolitical risks, trade uncertainty, and changes in financial conditions, we previously assessed the drivers of uncertainty by regressing our economic uncertainty indicator on available indicators such as trade, policy, and financial market uncertainty.<sup>18</sup> **We found that a persistent shock (12 months) of one standard deviation to policy uncertainty lifts economic uncertainty by 0.5 standard deviations**. Combining this finding with our first point suggests that, all else unchanged, **a one standard deviation shock to policy uncertainty has a cost to euro area GDP of 0.2pp**. To put this into context, policy uncertainty increased by 2.5 s.d. when Russia invaded Ukraine and

16 For more details please go [here](#) and [here](#)

17 See for instance "What if? The Impact of Proposed US Tariffs on European Growth & Inflation" DB [Focus Europe](#) on 9 September 2024

18 For more see "What's driving economic uncertainty?" DB [Focus Europe](#) on 3 November 2023

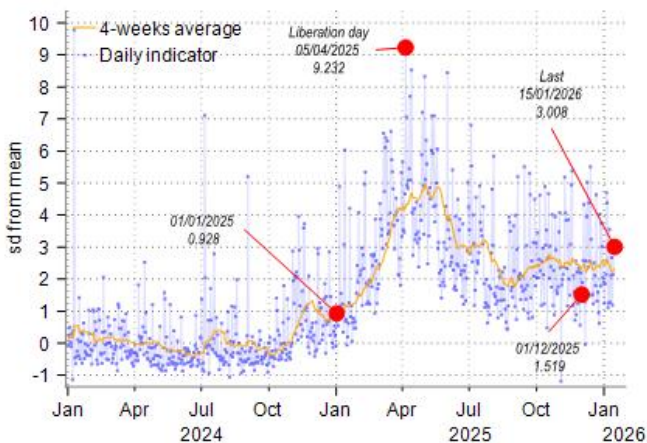


5 s.d. during the 2025 tariff tensions with the US.

Unfortunately, the European policy uncertainty indicator is released on a monthly basis, with December being the last available month. We will need to wait a couple more weeks for the January release. In contrast, the US policy uncertainty indicator is updated daily (Figure 18). To put the daily US indicator into context, it rose by almost 9 standard deviations between early January 2025 and "liberation day" in early April 2025. More recently, the indicator has increased by 1.5 s.d. (comparing the latest available point in mid-January 2026 to early December 2025).

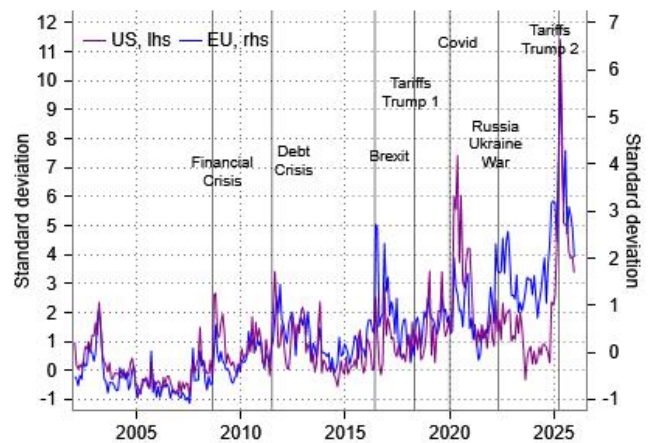
The monthly US and European policy uncertainty indicators are highly correlated, though the US indicator is slightly more volatile (Figure 19). While it is challenging to determine causality, a one standard deviation increase in the US policy uncertainty indicator typically translates into a 0.6 sd increase in the European index. If this relationship holds true, the European index may increase by approximately 0.9 standard deviations between January and December. Based on the above elasticities, this would reduce European GDP by 0.2pp if the shock were sustained for 12 months.

Figure 18: US daily policy uncertainty indicator



Source : Deutsche Bank, [Economic Policy Uncertainty](#), Macrobnd

Figure 19: US and Europe monthly policy uncertainty indicators



Source : Deutsche Bank, [Economic Policy Uncertainty](#), Macrobnd

### Financial conditions

Financial conditions are another channel through which a 'Greenland shock' could transmit to Europe as widening risk premia and spreads, uncertainty, etc tighten the availability of credit in Europe. To assess the potential impact, we look at how financial conditions in Europe have evolved in response to recent global geopolitical events involving military conflict, namely: the 2022 Russian invasion of Ukraine; the 2023 conflict between Israel and Palestine; the 2025 US bombing of Iranian nuclear facilities; and the 2026 US capture of Nicolás Maduro.

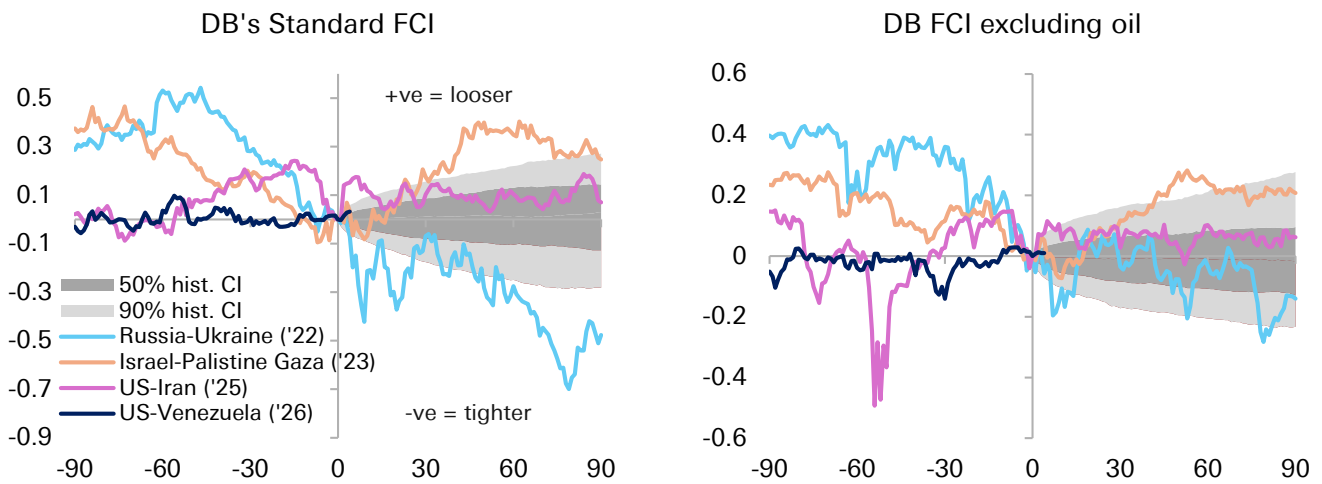
Of the various events analysed, only Russia's invasion of Ukraine in 2022 saw a significant tightening of financial conditions (often well outside the 90% confidence interval of historical moves) according to our Deutsche Bank FCI measure (Figure 20, LHS). While it is not surprising that Russia's invasion of Ukraine had the largest impact, two factors suggest the magnitude of the shock might be hard to measure.



First, the FCI was tightening before the day the invasion was launched. Some of the pre-event tightening may have been in anticipation/fear of the event. Second, the Deutsche Bank FCI includes oil prices. As a significant importer of oil, changes in the price of oil affect disposable income in much the same way as a change in funding costs. If we exclude oil from our FCI, financial conditions did not tighten anywhere near the same degree (Figure 20, RHS), suggesting energy acted as an amplifying factor.

Therefore, to see a significant tightening of financial conditions due to conflict over Greenland, we would likely need an amplifying factor such as an energy shock, a shock to the stability of the financial system, or a major supply chain disruption. Otherwise, the impact on financial conditions would likely be limited. Indeed, were US-EU escalation to weigh on the euro exchange rate, this could even have some easing effect on financial conditions.

Figure 20: Change in financial conditions following recent military conflict events

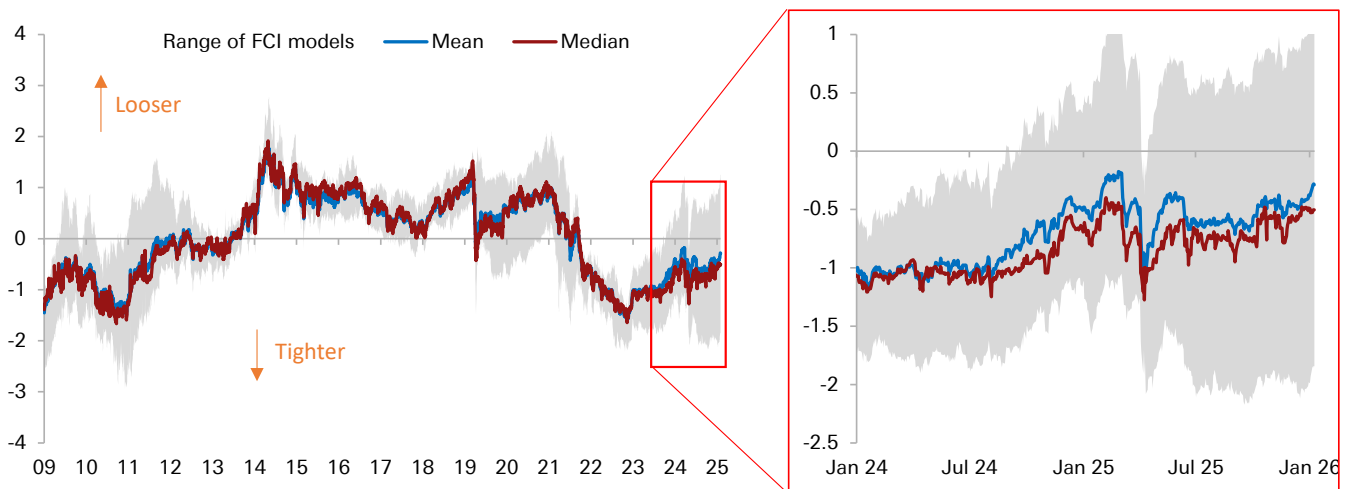


Source : Deutsche Bank, Bloomberg Finance LP.  
Notes: Horizontal axis measures the number of working days since the start of the event: Russia's invasion of Ukraine (24/2/2022), Israel-Gaza conflict (7/10/2023), US bombing of Iranian nuclear facilities (22/6/2025), Capture of Venezuelan leader Nicolás Maduro (3/1/2026). Vertical axis measures change in financial conditions (in standard deviations, positive = looser, negative = tighter) relative to the day before the event. Shaded regions represent the historical confidence intervals based on average movements of the FCI.

A variety of FCI measures suggest that financial conditions are currently close to the historical average (Figure 21). It would take more a significant degree of tightening for financial conditions to go back to the peak tightness seen in late 2023 – just after the ECB had finished its tightening cycle. Our standard FCI measure implies it would take something on the order of Russia's invasion of Ukraine to get financial conditions that tight again (and that would be assuming the ECB does not intervene given the move would be counter-productive for the desired policy stance).



Figure 21: A range of FCI measures suggests financial conditions are fairly close to the historical average



Source : Deutsche Bank, Bloomberg Finance LP.  
Note: The range of FCI estimates comes from our own DB FCI models as well as our replications of various FCI measures employed by the ECB. All models have been normalised over the same sample to ensure comparability between models.

The decomposition of various FCI measures we look at suggests that the recent loosening of financial conditions has been driven by stock prices, the exchange rate, and energy prices. It is difficult to predict if these factors would tighten significantly in the situation of a conflict, and a lot of the response would probably be dependent upon how the EU would react politically to the situation.

### Arctic trade route

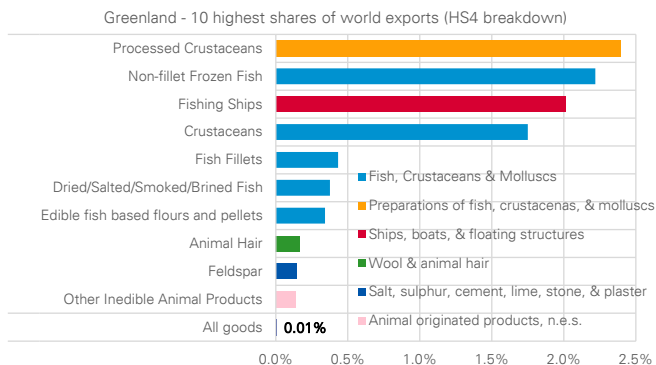
Greenland accounts for a mere 0.01% of global exports, with the highest share (1.5% of global exports or more) being found in certain types of fish and seafood products. Disruption of activity in Greenland is thus unlikely to have any meaningful impact on global value chains or on European inflation.

The same reasoning largely applies to Arctic trading routes, currently representing a strategic future alternative rather than an economically significant trade artery. In 2023, Asia-Europe seaborne trade remained overwhelmingly concentrated on the Suez Canal, which handled approximately 1.57 billion net tonnes of shipping, according to the [Suez Canal Authority](#). By contrast, while the Northern Sea Route (NSR) carried around 36 million tonnes of cargo in total (the vast majority consisting of Russian domestic supply and energy exports, while true transit traffic from Asia to Europe amounted to only around 2-3 million tonnes, as reported by [Rosatom](#)). Even allowing for differences in measurement units (Suez net tonnage versus NSR cargo weight), this implies that Arctic routes accounted for well below 1% – and closer to 0.1% – of the Asia-Europe maritime corridor in 2023. The Northwest Passage contributed an even smaller amount, with no economically meaningful Asia-Europe trade flows.

However, trends in climate change point towards the northern sea routes becoming a more important channel over time as lower sea ice levels make the route more navigable for longer periods of time each year. Thus, while the short-term impact of losing some control of it to the US might be small, the long-term consequences would likely be greater, especially if trade with China increases. However, because it will take time for the northern sea routes to become more important, even in the event of a conflict, Europe would have time to negotiate access rights after political conditions have stabilised at a new equilibrium.



Figure 22: No item where Greenland supply is noticeable globally



Source : Deutsche Bank, BACI

## # 4: Long-term ramifications for the EU

There is considerable uncertainty about how the situation vis-à-vis Greenland will play out between the EU and US. The threats to Greenland's sovereignty and the recent actions in Venezuela are further evidence of the rapidly changing geopolitical environment and the unravelling of the post-1945 international order under Trump 2.0 (see the thoughts of our geopolitical team on Venezuela [here](#) and Greenland [here](#)). This world is one for which the EU – built on trade, openness, integration, multilateralism and the rule of law – is not well designed.

The EU relationship with the US is coming under increasing strain. The internal pressure for EU policy to adjust to this changing external environment is building. Through decades of openness, the EU acquired significant external dependencies that have become critical vulnerabilities: the dependence on Russia for cheap energy, on the US for defence (and tech), on exports for growth, on imports for critical supply chains. As a result, the EU is suffering a broad-based competitiveness shock. It cannot realistically compete – it does not have the power to adequately assert itself and protect its interests – economically or politically.

To address this imbalance, the EU needs to sharpen its trajectory management and stop the military and economic gap with the US from widening further, and it needs to create power and leverage in geostrategic conflicts and negotiations. It needs to be able to win concessions, not have to cede them. Several policies could fit with these objectives:

1. **More defence spending.** Defence spending is rising and will have to keep rising. Persistent underspending on defence over the last 30 years since the end of the Cold War has led to a significant deterrence deficit. Having been about 1.5% of GDP over the last decade or so, defence spending by NATO Europe reached 2% in 2024 and last year NATO set a new target of 3.5% of GDP by 2035. The spending plans by the Big 6 NATO Europe members are consistent with aggregate spending rising on a trajectory to 3% of GDP by the end of the decade. If extrapolated, this trajectory would reach 3.5% of GDP by 2035. Peace in Ukraine is unlikely to significantly change this rising trajectory. To provide credible security guarantees to Ukraine, Europe needs to close its defence capability gaps. Confidence in the NATO umbrella is falling and now spending on Arctic security is entering the defence equation.



2. **Accelerate strategic autonomy.** Strategic autonomy means the ability to trade and maintain alliances and do so with greater independence in terms of EU security and defence, energy supply, technology, supply chains, finance (including digital payments), etc. In a sense, Mario Draghi's Report on Competitiveness in September 2024 was the blueprint for achieving strategic autonomy. The European Commission has instituted a policy agenda to begin to deliver on Draghi's recommendations - the "Competitiveness Compass" - but progress was slow in 2025 (see our [note](#) here). Progress with regulatory simplification (omnibus packages) and the 28<sup>th</sup> regime for EU start-ups are to be mentioned. The European Council is due to meet in Alden Biesen (Belgium) on 12 February to discuss competitiveness.
3. **Maximise Single Market.** The EU single market (internal market) is arguably the EU's greatest asset, with a market place of 450 million consumers. Tapping the potential of the Single Market has become even more urgent than before given more restrictive access to the US market for EU exports. The Single Market is not just a source of potential further growth for EU member states, it is a market that other countries want to export into. According to IMF research, remaining internal barriers lead to an estimated ad valorem equivalent extra cost for intra-EU trade of 44% for the average manufacturing sector and 110% for the service sector. The EU Single Market Strategy, presented in May, intends to address the ten most harmful barriers, such as harmonized packaging, labelling and waste rules, as well as facilitating the cross-border posting of qualified professionals. The strategy proposes some measures for better enforcement (e.g. an annual single market enforcement agenda and single market sherpas in each member state). However, success will also critically hinge on member states taking more ownership for achieving a fully integrated single market.
4. **Funding.** One of the hurdles to strategic investment (defence, energy, cloud computing) is the high level of public debt in the EU. However, as geopolitical frictions grow and increasingly impede EU interests, the argument to view defence as a 'European public good' (EPG) increases. This dovetails with a rising debate on common funding. We see momentum for common funding of EU defence picking up in 2026 for three main reasons. First, the threat perception looks set to remain high as exemplified by recurring drone incursions around sensitive infrastructure, and national efforts are unlikely to be enough to close the EU's defence spending gap regarding the new 3.5% NATO target (the new target does not apply until 2035, but to give a sense of scale, if it applied in 2025 it would require an estimated EUR 226 bn of additional defence spending this year). Second, existing common funding options have been fully exploited over the course of last year (repurposing existing funds like NGEU/cohesion funds or leveraging the EU budget with the EUR 150 bn SAFE instrument). Third, as NGEU will expire in December 2026 and thus net EU bond issuance is set to peak, the "sovereignty" aspect of a sufficient supply of EU safe assets might also increasingly be discussed in the so-called frugal countries like Germany. Beyond EPGs and defence funding, the EU also needs to push the Capital Markets Union/Savings and Investment Union. Deeper capital markets would reduce the burden of strategic investments on public balance sheets and increase the supply of risk capital for innovation.
5. **European security umbrella.** There is a genuine concern in Europe that a more coercive takeover of Greenland by the US would in effect end NATO and the North Atlantic alliance that has served as Europe's security umbrella for more than 70 years. Even in less coercive scenarios, questions are likely to be raised about the role of the US in European security. Politico



is reporting that European Commission President von der Leyen has tasked Cyprus, the current holder of the six-month rotating Presidency of the EU, with developing a new European security strategy over H1. What this means has not been defined. The work will likely be high-level for now<sup>19</sup>.

- 6. Collective action challenge.** Finding unanimity among 27 EU member states has long been a challenge. Cohesion is important to the EU, but when it hampers progress, in particular at times like this of significant global change, the onus is on finding ways to move important policy agendas forward more rapidly. This could increase the role of 'coalitions of the willing', for example, under the EU's enhanced cooperation rules, new intergovernmental agreements or other arrangements. In the defence area, NATO Europe members are also coordinating; for example, the UK and France agreeing in principle to commit troops to Ukraine under a peace deal. In effect, to go forward, the EU might need to go narrow. If subgroups make progress and succeed in certain areas, that could incentivise others to join the group. The EU deal on support for Ukraine in December showed a couple of things: (1) the willingness to push the unanimity threshold (on permanent freezing of Russia's reserves), but also that there are limits to this as the Council did not risk trying to push the Commission proposal to make indirect use of Russian reserves by a narrow qualified majority; and (2) while the bar to reach EU unanimity for joint funding is high, narrower enhanced cooperation solutions are possible.

Despite the seriousness of the threat to Greenland and the long list of things the EU arguably should be doing to build power and assert itself in a more geopolitically frictional world, barring a major crisis we still anticipate only a gradual and piecemeal approach to policy. Each of the issues is big and complex, and the EU remains hampered by political fragmentation and internal political hurdles in 2026 (e.g., the five State elections in Germany and the still-divided parliament in France).

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<sup>19</sup> "VdL touts new EU security strategy", Politico Brussels Playbook, 16 January 2025.



# Appendix 1

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