

As Europe Decides: *The Year of Change*

Around 400 million voters will take part in the European elections in June 2024, setting the direction of the European Union until the end of this decade.

Each month, FGS Global will help you unpack the core themes of the election campaign and recommend actions for companies. Set the stage now for your success in the next five years.

In a nutshell

- President von der Leyen's **Green Deal is here to stay** – but this time with a business model.
- Industrial policy is moving out of the think tanks and business associations onto the shop floor. Workers and other internal stakeholders are voicing.

Take action. Right now.

- **Climate policy will remain a central plank of another von der Leyen Commission.** But there is a new spirit to prioritise competitiveness and investments over burdensome regulation. Map your exposure and engage with political stakeholders to secure a regulatory framework conducive to your sustainable transformation.
- **Broaden the conversation and build alliances with dormant stakeholders.** Trade unions, investors, local and regional governments may share your corporate concerns and have an interest in maintaining jobs and enabling future investment. Engage them and amplify their voices to reach new political constituencies.

Agenda

20 March: Tripartite Social Summit

Mid-March: Letta report on Future of Single Market

21 to 22 March: European Council

4 to 6 April: EU-US Trade and Technology Council

17 to 18 April: Special European Council on Single Market

22 to 25 April: Final plenary of European Parliament mandate

29 April: Maastricht European Presidential debate

13 to 15 June: G7 Summit

Von der Leyen's case for a second term: Green Deal, but this time with a business model

European Commission President von der Leyen has now confirmed she is seeking a second term. We agree with most observers that she is the most probable candidate to succeed. With the backing of the German CDU party, she is **effectively guaranteed of securing the centre-right European People's Party nomination** as their lead candidate for the June European elections. Rising to the top in 2019 as a dark horse candidate, President von der Leyen built a strong public persona through subsequent crises. She is now building her case for a second term.

Having been elected in Parliament with a slim majority in 2019, she proved skilful in forging coalitions through the political centre and passed ambitious climate legislation with the support of the Greens. In her first term, she delivered on previously politically toxic areas – making forays into European social policy through SURE, issuing a version of Eurobonds to fuel Europe's post-covid economic recovery, bringing European policy in line with the Paris climate agreement, and committing Europe to Ukraine after Russia's invasion. She is now looking to solidify her achievements. Ahead of the elections, the President is shelving some potentially vote-losing policies and making overtures to political and business leaders with a renewed sense of urgency to revitalize Europe's competitiveness. **These are genuine shifts that are not just tactical.** But her commitments to decarbonising Europe remain, and she will not roll back big time on existing legislation.

We expect her campaign to go beyond **restoring Europe's competitiveness** and focus also on **deepening European defence cooperation**. In the face of Russia's onslaught against Ukraine and upheaval around the future of transatlantic relations, she has committed to installing a permanent Defence Commissioner, and will outline her Defence Industry Strategy in March. Expect strong language on closer integration of the European defence value chain, the ambition to allocate significant European funding to ramp up continental defence production capacity, and the political muscle to make progress in this field. European politicians are acutely aware of the weaknesses in the defence fabric of the bloc and are looking to both Brussels and private investors to turn the tide and reduce dependence on foreign allies for equipment and supplies.

Calls for an “Industrial Deal” are loud and clear

The Belgian Council Presidency has been using its term to highlight the importance of **revitalizing European industry**. Part of this project is the “[Antwerp Declaration for a European Industrial Deal](#)”, signed at a major event organized by chemical industry association CEFIC in Antwerp on February 20. CEOs of major industrial firms, trade associations, and the largest industrial union federation representing over seven million workers signed a declaration **calling on lawmakers to take urgent action to keep European industry afloat**.

Framed under the concept of **competitive sustainability**, industry leaders teamed up with Ursula von der Leyen and Belgian Prime Minister Alexander De Croo to stress the importance of Europe’s manufacturing sector to delivering climate solutions: “*Only with a strong industrial fabric and strengthened social dialogue in Europe can we ensure that the green transition will be a Just Transition (...). A competitive European industry, based on a European Industrial Deal, is the “conditio sine qua non” for the successful delivery of the EU Green Deal. It is also the only way to show to the rest of the world that the Green Deal works for all.*”

The call for an “**Industrial Deal**” following the Green Deal is becoming increasingly louder. Both trade associations and member states are calling on the incoming European Commission to dedicate more resources and political attention to setting up Europe’s economy for success while aiming for decarbonizing and digitizing industry. The [European Roundtable of Industrialists](#) has weighed in pointing out that political goals and supporting policy frameworks must create a pull for investment in Europe.

Heavy industry and some political powerbrokers like the German social democrats emphasise the role of increased public investment in (cross border) infrastructure. The EPP is taking aim at overregulation and red tape, want a “one in, two out” principle to reduce the regulatory burden by simplifying legislation, and demand greater support for European start-ups and small and medium sized enterprises.

Earlier in the month, industry ministers met in the former mining town of Genk to discuss EU reindustrialization. Three **key priorities** are emerging:

- On supply chains, ministers highlight **diversification of supplies**, with increased emphasis on **production and extraction within the EU**.
- On industrial capacity, there is growing **consensus** that the EU must strengthen the **renewables, semiconductors, biotechnology, agrifood and defence** sectors.
- Given fiscal constraints, there is a renewed sense of urgency to **deepen capital markets to leverage the potential of Europe’s institutional and retail investors** as a source of private funding for the transformation.

The **future role of state aid in industrial policy looks more uncertain**. Commissioners Thierry Breton and Paolo Gentiloni have started pitching “horizontal” European subsidies,

saying “[t]here is a need for a **European alternative to state aid**”, arguing that national subsidies lead to fragmentation of the internal market. A variant of this idea is echoed by Italy’s government (more on that below).

We expect the **debate on a potential European state aid envelope** to continue for some time. Germany, the biggest spender on national state aid, and some other member states are questioning the need for one, highlighting the underutilization of existing investment programmes like NextGenerationEU and the possibility of repurposing existing funds for “old” EU policies for R&D support schemes.

A new push to deepen the Single Market

As always in economic downturns, European leaders rediscover the unused potential of an incomplete Single Market. Ahead of the European Council meeting in March, former Italian Prime Minister **Enrico Letta** will share his recommendations to reform the flagship of EU integration. Three decades in, the Single Market is suffering from fragmentation, red tape and national gold-plating of EU laws. **Bureaucratic barriers** for the provision of services across borders and the lack of progress on the **Banking Union** and **Capital Markets Union** prevent citizens and corporations alike from tapping the full growth potential of European integration. Key sectors – like **telecoms, defence, and energy** – struggle to tap economies of scale as outdated national concerns prevent the consolidation of true European champions, slow down innovation, and raise prices for business, consumers, and governments alike.

Expect creative and ambitious proposals in Letta’s report to **tackle the question of financing the green and digital transition** – with a greater role for private finance – and a **European regime of corporate law** for companies to incorporate under – delivering a simple, predictable, and attractive set of rules superior to the myriad of national rulebooks. Letta won’t shy away from the thorniest issues. Neither should you. We expect at least part of his recommendations to become part of the next Commission’s agenda.

Final stretch of this mandate: Laws delayed, but not derailed

“Aim for the moon. Even if you miss, you will land among the stars.” The von der Leyen Commission has put forward ambitious EU laws but has had to postpone or even withdraw some of its flagship ideas along the way. Supply chain due diligence legislation, the idea for a European financial transaction tax, the completion of the Banking Union, initiatives to develop a true European Capital Markets Union, or the final agreement on a European Deposit Insurance Scheme are **all stuck in Council**. The 2035 ban of the internal combustion engine could be opened up again. Meanwhile a **mood shift in the European Parliament** has made



it difficult to progress with some of the last pieces of the EU Green Deal, such as a reduction in the use of pesticides in agriculture.

Other proposals never even saw the light of day. The **long-awaited revision of the European REACH legislation**, governing the approval and use of chemicals in the bloc, has been postponed to the next mandate. Faced with an increasingly outdated rulebook, Europe's industry has been calling for a holistic overhaul of the legislation but has been met with a divided College of Commissioners and disagreements between different units within the Commission's services, grinding the reform to a halt.

In the face of likely pushback, the Commission also **temporarily shelved the Water Resilience Initiative**. While backed by some governments from Mediterranean countries suffering from droughts and wildfires, the anticipated criticism from agriculture and industry convinced the Commission leadership to postpone this legislative proposal mere weeks before the anticipated date of publication.

Sectoral legislation has also seen significant delays. A proposal for the reform of the **framework on access to in-vehicle data** – essential for the future course of Europe's automotive industry – was foreseen for mid-2023, has been pushed back publicly until the end of 2023, and has since been missing in action, **leaving legislators and corporations in limbo**.

However, don't hold your breath. Ideas tried and failed once have a tendency to come back. Just one example: Ditched in 2013 in the face of major agricultural and government pushback, the EU Soil Health Law found a new life as the Directive on Soil Monitoring and Resilience a full decade later. The Commission services always take the long view. **Withdrawn legislation almost never derails totally but is merely delayed to another mandate**.

Interestingly, **so far, no major political or industrial force has called for abandoning the EU Green Deal** nor disputed the need for European net zero emissions by 2050. It is an open question whether this broad front holds after the elections and the likely strengthening of the populist far right. Nonetheless, European industry continues to generally support Europe's climate ambitions.

The Pulse: conversations in the capitals

Boost for industry in Northern France unnerves neighbours

Piecemeal public investments and affordable energy have helped regions in the North and Northeast of France building a completely new value chain for electric vehicles. With political support for lithium extraction and refining projects, government-backed **billion-euro investments in battery plants**, and the **relocation of steel and recycling sites from Belgium**, the French border regions fight hard to retain their role in the European automotive industry. The recent boost in French industry does lead to intense political debates with neighbouring EU countries about the distortive effect of French subsidies on the Single Market.

Italy pushes for revamped bond-backed EU Sovereignty Fund

Italy's right-wing government has been aligning with fellow Southern European partners to revive a traditionally left-wing idea, a **bond-backed EU Sovereignty Fund**. Italian Enterprise Minister Adolfo Urso vocally supports this idea and is quoted as "*we have to develop common European resources, which have to rebalance the different fiscal capacities of the member states*". Simultaneously, Urso calls for speeding up **approval times for state aid**. His call for more European resources to invest in European tech and industry is somewhat surprising, given the traditional scepticism towards these proposals among the nationalist right-wing politicians the Meloni-led government usually allies with.

Czechia calls for more EU investment in defence

The Czech Republic is calling for EU initiatives that could **help funnel public and private money into defence projects**, circulating proposals like allowing the European Investment Bank to loan money to defence contractors. The Czechs aim to popularize the idea to include defence into a list of investments for the "social dimension", which traditionally focuses on social housing and healthcare. Czech government sources compare their approach to the development of European green bonds and expect European legislators to provide more **incentives for industry** and **eliminate barriers that discourage investment in defence**.

Veteran MEPs to become key influencers in a rejuvenated Parliament

In the face of stiff turnover, a one- or two-term tenure puts veteran MEPs at a major advantage in Brussels, as some prominent voices return to lead their groups on key issues. Renew Europe's **Bart Groothuis** will remain a key stakeholder in all things tech and digital, while the Greens' **Bas Eickhout** and returning progressive liberal **Gerben-Jan Gerbrandy** will likely build a cross-party tandem on environmental and industrial policy. **Expect them to be a vocal team in retaining Europe's ambitious climate policies**.

Commissioner **Maros Sefcovic** is rumoured to fill Slovakia's seat at the Berlaymont, for his fourth consecutive term. Poland is likely to nominate **Radek Sikorski**, with Czech minister of Industry and Trade **Jozef Sikela** holding the best cards to succeed outgoing Vera Jourova.



Our team

Our experts at FGS Global bring together decades of government and consulting experience, combining geopolitical and regulatory expertise with a corporate and capital markets perspective. Our team spanning across Europe can provide unique insights into stakeholder perception and reputation to help companies engage stakeholders effectively – especially in a year of change.

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