

Angela Merkel's big political finale:

Germany's Presidency of the Council of the EU

BRUNSWICK



Strong leadership needed for a stronger Europe

The presidency of the EU council rotates every six months, meaning that each EU member state takes on the responsibility every 13 years. Each country holding the presidency then sets the agenda and drives the negotiation of compromises between EU member states alongside the President of the European Council. While the presidency has an important role in structuring the agenda, it is obliged to take on a more neutral stance to facilitate negotiations. Angela Merkel is one of the few leaders who will take on the role for a second time, from July 1 to the end of this year – she was also Chancellor back in 2007 when Germany last held the position. Once again, Merkel's aim will be to close as many negotiations on pressing issues as possible, which will be essential if Europe is to emerge effectively from the current crisis.

Given the challenges Europe is currently facing, the moment couldn't be better for an experienced leader: will the EU hold together despite huge economic pressure from COVID-19, growing populism and a yet unsolved migration crisis? Will Brexit be executed by the end of the year with a well-sorted agreement, or will the U.K. crash out without a deal? And will Europe be able to take a more visible and powerful stance on geopolitical and technological issues with regard to the U.S. and China?

In her final period, Merkel may act more independently as she finds herself in the unusual position of not having to consider the usual tactical limits that politicians suffer from when eyeing re-election: Merkel has definitively ruled out running for a fifth term as Chancellor in the Federal Elections next year. Moderating the EU27 as the EU council presidency will be her last big project, and she wants to be remembered as a leader

who has pushed European integration to the next level. Moreover, she will be working closely with a trusted political ally, the ambitious EU Commission head Ursula von der Leyen, who served as a minister in Merkel's cabinet for 14 years.

This constellation has raised hopes especially in some southern and eastern European countries that Merkel will soften her stance over austerity policies. On the other hand, however, German conservatives from her own Christian Democratic party appear minded to warn that Germany shouldn't give away even more money to European institutions, and to countries deemed to have behaved in fiscally irresponsible ways.

And so – the stage for Merkel's big political finale is set! We in Berlin have put together a briefing on a few of the sectors and topics that will be key over the next six months, with a mind to helping companies adopt and adapt their own positions and to engage in the wider political debate.

Financial Framework

Near the top of the agenda for the next few months will be the negotiations on the Multiannual Financial Framework (MFF), the EU's seven-year budget for 2021-2027. Even in ordinary times, this has always proved a challenging task, with the negotiations seeking to align the different priorities of the 27 EU member states, the Commission and the European Parliament. Merkel and her government need to manage some extra challenges, particularly as the previous British financial contribution is gone and needs to be filled by others. The post-COVID reconstruction of the European economy also needs to be planned into the budget.

Merkel has already surprised her friends and foes in May of this year by announcing the idea of a post-COVID EU recovery plan worth

EUR 500 billion together with French president Emmanuel Macron, by borrowing money on behalf of the EU. Finally, the EU Commission's proposal worth EUR 750 billion was approved by the European Parliament under the title "Next Generation EU", which will be linked with the MFF. Together, these recovery packages have a total financial firepower of EUR 1.85 trillion. It will be one of Merkel's most important and challenging tasks to finalize the complex financial package. She needs to change the minds of those member states currently against giving away their taxpayers' money to poorer EU states, and to insist instead on a system of financial checks and balances, and the highest possible repayment rate. Merkel made clear that brokering the recovery fund and the MFF is one of her top priorities. Under her leadership Germany also wants to negotiate the future legal framework and regulations of the European structural fund, which will be a key tool to stimulate the recovery of the regions with new investment.

As host and moderator of the budget negotiations, Merkel is in a position where she will have to reach into her pockets to get an agreement. Our bet, along with that of many commentators, is on a last-minute settlement.

Ensuring European digital sovereignty

Besides the overarching financial organization, digitalization will be at the heart of the German EU Presidency. Faced with an ever-stronger U.S. tech sector and the rise of China as the next digital superpower, the EU has a clear priority: fostering Europe's digital sovereignty. Germany wants to promote AI and quantum technologies and lift the Franco-German cloud initiative 'Gaia-X' to the European level. But the Chancellery is careful to strike a balance between promoting these technologies and avoiding falling into protectionist

thinking. Reuniting the bloc behind a common understanding of what this means in practice will require long debates and negotiations.

Germany has aligned its program closely with the subsequent Presidencies (Croatia and Portugal) and set ambitious goals: establishing European security standards on IoT devices, creating EU-wide content moderation rules for Internet platforms, and reaching an agreement on European data privacy standards which have been stuck in the Council for more than three years.

The coronavirus outbreak in Europe overshadows these plans. Some key issues have been pushed back towards subsequent presidencies, especially the comprehensive policy framework on Artificial Intelligence. Meanwhile, other topics emerged on the radar such as demands for a voluntary EU-wide contact-tracing system that reflects the bloc's high privacy and cybersecurity standards.

And while Germany will be pushing to reach its ambitious goals within the Council, the Commission is gearing up in its fight against "Big Tech". Competition Commissioner Margrethe Vestager has launched several antitrust and tax cases against Amazon, Google, Apple and co. The EU has also committed to pushing ahead with a digital services tax, despite Washington's efforts to block a global deal. Vestager said Brussels would "really, really prefer a global consensus," but will push ahead on its own, "if we need to."

Making the energy transition a cornerstone of the post-COVID economic recovery

Against the backdrop of the so-called "coronavirus presidency", climate and energy issues might at first seem to play second fiddle, but they are very much set to play a strong role in the pandemic recovery

efforts. Transitioning to a sustainable economy remains one of the core elements in Germany's upcoming EU presidency. Merkel and her team are keen on driving forward the European Green Deal and explicitly set the UN 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs) as a guiding principle of the German Presidency.

On 18 June 2020, Merkel reconfirmed that Germany's goal was to make Europe's climate neutrality by 2050 legally binding and to adjust the targets for 2030 accordingly. Talks about increasing the EU's 2030 climate target face hurdles but need to be finalised before the year is out.

Approaches for achieving the newly set targets need to be found. In particular, the extension of carbon emission pricing to all sectors and the introduction of a moderate minimum carbon floor price in the framework of the EU Emission Trading System (ETS) shall be discussed under German leadership. The question will be whether to put more emphasis on reduction in the sectors covered by the ETS or on the so-called effort-sharing sectors like transport and buildings. Many countries, including Germany, have struggled to bring emissions down in these areas, and Merkel has said that difficult negotiations would await on how to allocate responsibilities to the different member states.

In the energy realm, an important subject for Germany's Council Presidency is hydrogen – a key element in decarbonizing European industry. The climate transformation of industry is a core German interest. Therefore, Germany wants to press ahead with the creation of the necessary markets and infrastructures for hydrogen within the EU. This shall spur investments into new technologies and make European companies a global leader in hydrogen. As vast amounts of renewable energy are needed to produce green hydrogen, the rapid expansion of

offshore wind energy is another crucial issue. Germany will seek to establish European framework conditions for the joint renewable energy projects of the EU member states.

Shaping the future of globalization and Europe's relationship with rivals and partners

The most difficult task here will be the Brexit negotiations with the United Kingdom. Only during the beginning of the presidency will it become clear if there will be a hard or a negotiated Brexit. The challenge is that the British Government is not being cooperative and has moved away from previously agreed political declarations. However, the German government insists on "a balanced relationship between rights and obligations and fair competition conditions."

China will be the second overarching topic. The EU is far from having a common China policy. While China is feared by many as a systemic rival and competitor, the country is also a partner, not only due to the sheer size of its market, but also because of the need for cooperation on climate issues and WTO standards. Merkel has never given in to the growing wave of anti-Chinese politics across Germany or at the EU level and is keen on maintaining a proper balance, based on mutual interests. She has kept the door open for Huawei in Germany against strong external resistance from the U.S. and in the Federal Parliament. On the other hand, she has successfully pushed Xi Jinping to stop his 16+1 approach across Europe which has been splitting the EU.

The transatlantic boundaries between the EU and USA are still under pressure. The German government has called the U.S. its "closest foreign and security policy partner outside the EU". Merkel believes in

this partnership but has no illusions about her shattered relationship with President Trump. Until the U.S. presidential elections in November, there will be neither a new approach on a bilateral trade agreement nor hopes to strengthen international multilateralism or climate diplomacy. The German presidency will take that time to work towards an ambitious climate diplomacy among the EU and its member states. Germany also wants to relaunch the EU's Africa policy and support the African Continental Free Trade Area.

Why corporates should engage

Europe knows it needs to strengthen technology-wise to catch up with U.S. and China and to avoid further dependencies. Therefore, companies with promising technologies – especially in the health, tech or energy sectors – can expect a lot of political goodwill. The framework

of the European Green Deal, the SDGs and the significant financial firepower of the corona recovery fund, which is linked to a sustainable business approach, also represent an enormous investment opportunity. The new funding opportunities and loosened EU state aid rules also open more opportunities for business.

Besides this, there is already a reinvestment in supply chains and production in the health sector. This includes a reset towards a more sustainable agriculture and fishing industry under the EU heading "Farm to Fork Strategy", which Germany will support in its presidency.

Beyond the headlines about growing protectionism and Foreign Direct Investment controls, our impression remains that Europe continues to be open to and keen on investment from abroad, especially after COVID-19. Of course, governing politicians in Germany and across many European countries are under

pressure from populist parties, causing them to react with tougher investment legislation and regulation. But – for Germany at least – these policies are more cosmetic than anything else. Governments ultimately want to facilitate international investment, so long as they have sufficient oversight – not block it entirely

And please also note: the German presidency will put in place initiatives for ensuring greater equality and diversity in business. This will allow companies with successful gender or diversity strategies to raise their profiles as best practice cases. Others will have to monitor closely how they can make their senior management and board structures more diverse.



The complex relationship of EU Institutions and national member states

The complex matrix made up of EU institutions and the competencies of national states is somewhat difficult to understand. Therefore, some words of explanation:

The allocation of competences between the EU and the member states is defined by the EU treaties. The EU is solely responsible for monetary policy (for Euro members), establishing competition rules; for trade and customs policy and the conclusion of international agreements. Shared responsibility exists in a number of areas including the internal market; agriculture, the protection of the environment, consumer protection, transport, energy, and research. Many decisions still lie with national governments and parliaments, particularly on the details of the implementation of EU legislation or on matters such as national security and the protection of citizens.

Executive

The European Council sets the policy agenda and consist of the EU's 27 national leaders. The European Commission proposes and implements legislation. It consists of 27 Commissioners, nominated by the European Council and approved by the European Parliament.

Legislative

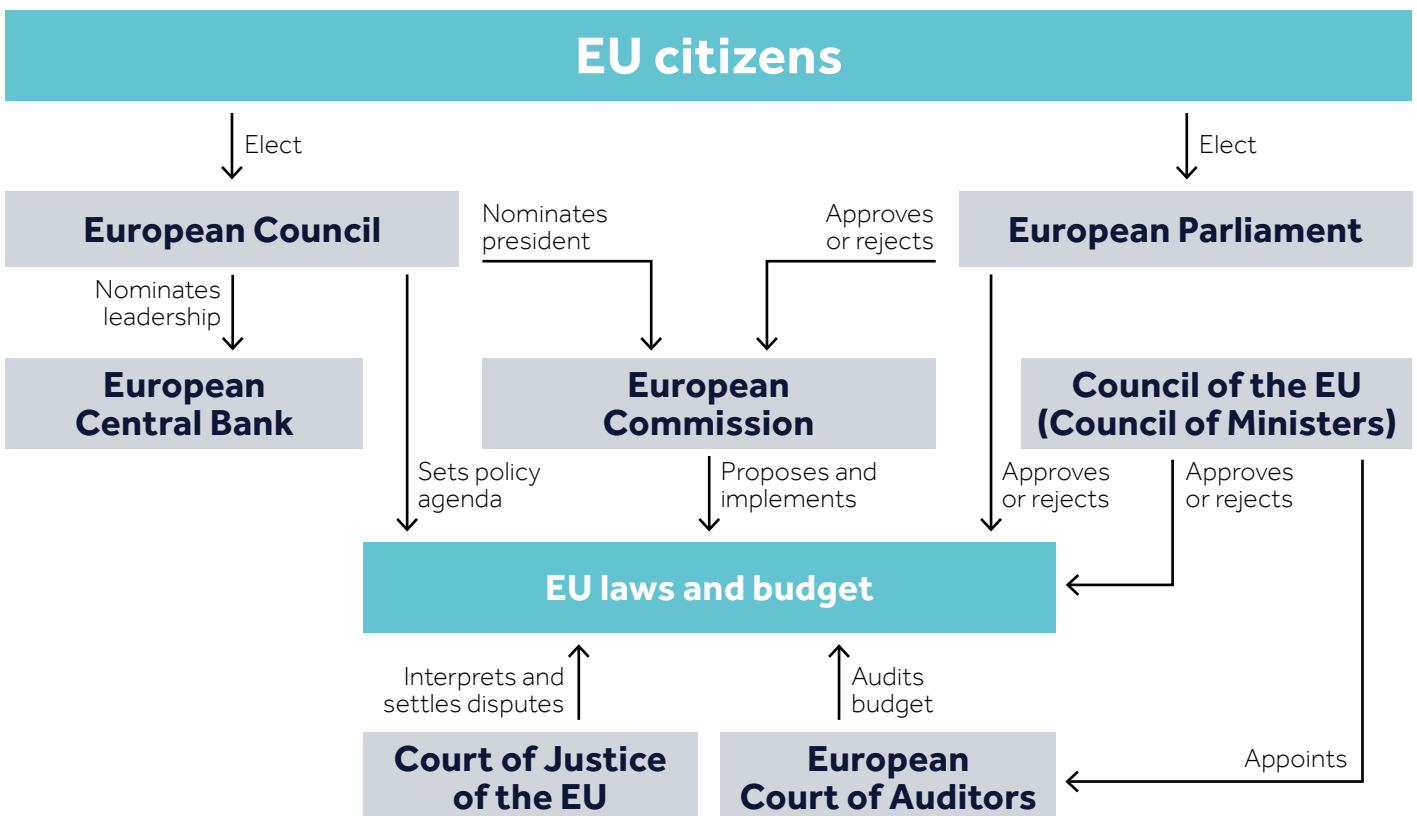
The European Parliament is the co-legislator. It has 751 members, directly elected by EU citizens. Together with the Council of the European Union (Council of Ministers) it reviews proposals, amends them and eventually passes legislation. The European Council consists of 27 national ministers, grouped by policy area.

Judicial

The Court of Justice of the European Union interprets EU law and settles disputes. There are two courts with judges appointed jointly by national governments. The European Court of Auditors audits the EU budget and has 27 members, appointed by the Council of Ministers.

Financial

The European Central Bank maintains the stability of the euro and oversees the European financial system. Its President and executive board are appointed by the European Council.





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