



**What can
international
companies expect
from the upcoming
French EU
presidency?**

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One of the many unintended consequences of Brexit has been to bring forward France's tenure of the rotating EU presidency to the first half of 2022 – a period that coincides with French presidential and legislative elections to be held respectively in April and June.

This unusual electoral timing of the French EU presidency (FEUP) is likely to increase domestic political pressure on France's stewardship of the EU agenda as President Macron will most likely run simultaneously for re-election.

The French EU presidency offers perhaps the final opportunities of Macron's first term to bolster the reformist image on which his 2017

presidential campaign was based, even if many of the actual reform proposals he championed have yet to materialize.

The Brunswick Paris office has compiled this review of the main issues at stake in this FEUP and their potential impact on business.



The heavy weight of French internal politics

Eight months before the presidential election, the French political landscape appears as fractured as ever. While the regional elections of June 2021 might have been expected to give some indication of things to come, their record low turnout (barely one-third of the electorate voted) frustrates attempts at extrapolation.

Furthermore, the mainstream parties that were comprehensively outflanked by Macron's last presidential campaign have struggled to rebound and remained largely inaudible in the four years since.

The centre-right Republicans, who suffered the defection of several prominent members to Macron's government (including Economy Minister Bruno Le Maire), have found themselves confined to the relatively small political space between Macron's liberal centrism and Marine Le Pen's conservative hard right. While their decent score in the regionals lifted Republican hopes, it has also awakened the ambitions of several members of former president Nicolas Sarkozy's "young guard" (Xavier Bertrand, Valérie Pécresse and Laurent Wauquiez) potentially complicating the process of nominating a single candidate for the right. Michel Barnier's candidacy appears unlikely to shift that dynamic, despite its international resonance.

On the other side of the spectrum, **the centre-left Socialist Party has struggled to recover from François Hollande's presidency** of 2012-2017. Mirroring the squeeze on the right, the Socialists are caught between Macron's centrists and the radical left, and mired by internal dissent in major policy areas including the economy. Although Anne Hidalgo, the current mayor of Paris, stands out as a potential candidate, her patchy support among Socialists and weaker public standing outside urban centres may prove significant liabilities.

The Greens are now trying to claim the Socialists' historic leadership on the left, their national ambitions sharpened by a string of victories in mid-term contests including the 2019 European elections. Yet the party appears unwilling to enter a coalition with

other leftist groupings. **Another contender is Jean-Luc Mélenchon, leader of the radical left (La France Insoumise)**, who has attracted a significant following now showing signs of erosion, with some voters tiring of his extreme and uncompromising signature style. And while France's presidential election mechanics require small parties to join forces to reach the second round, Mélenchon is similarly reluctant to entertain coalitions. As a result, **the left's chances of winning the next election currently appear slim.**

On the far right, despite a strategy of "normalisation" that has allowed her to poach a handful of second-tier Republicans, **Marine Le Pen's Rassemblement National** (the former National Front) has not succeeded in capitalising on the social discontent manifested by the "gilets jaunes" and ongoing "antivax" movement that have marked Macron's tenure. **Le Pen has largely failed to present herself as a credible alternative** and appears to be gaining little traction.

While Macron has revived French influence over the global political and economic agendas and improved the country's attractiveness to investors (ranking as the top FDI destination in Europe for the past few years), **the promised in-depth reforms have been lacking.** He has accomplished some important overhauls (notably in the rail sector, labour law, taxation, and women's rights) but failed to deliver symbolic reforms to pensions, political institutions and environmental policy, partly due to the COVID-19 crisis.

The January-March period is likely to see Macron use the first half of his EU presidency to convert his agenda into some tangible results and demonstrate an approach to Europe founded on leadership rather than dogma – also leveraging his experience as a statesman against domestic opponents before the presidential campaign officially kicks off.

Macron's EU focus

Under the "Troika principle", Macron's government will be expected to work with current EU presidency holder Slovenia as well as the Czech Republic, which takes over from France in July 2022. France has said its EU presidency will focus on **three priorities: relance, puissance, appartenance (recovery, power, belonging).**

A detailed French presidency program is expected to be published in the second half of this year. Macron will want to focus on regulating international corporations – an area of renewed opportunity since the election of President Biden – partly in order to counter domestic criticism of his broadly liberal and pro-European slant.

Macron and his government will seek concrete progress on **digital, climate and social issues**. They will draw on well-established working relationships with the European Commission, its President Ursula von der Leyen and Internal Market Commissioner Thierry Breton.

Economic recovery and global taxation

Effective implementation of the **European recovery plan**, already a Slovenian priority, will have to be carefully monitored, with European capitals set to receive some €750 billion from Brussels in coming years for projects designed to serve digital connectivity and environmental objectives, among others.

France, a strong advocate for **global tax reform**, will also keep pushing the EU as well as other allies and partners to align on commitments including a global minimum corporate income tax that could net France an additional €6 billion per year. Current OECD-led negotiations that include the United States are taking place under the European threat of a unilateral tax on tech giants.



Sovereignty

Adopting the **Digital Services Act (DSA)** and **Digital Markets Act (DMA)** will be another major EU presidency objective. France will likely continue to push for Member States to acquire adequate tools to **limit the influence of major tech players**. This could include advocating expanded legal definitions that allow Member States to police a broader range of harmful content and disinformation. France will also continue, alongside Germany, to work on the implementation of the **GAIA-X project**, which aims to provide European companies with an alternative to Chinese and US cloud computing resources.

The emphasis on strengthening EU sovereignty could also manifest itself through a **potential tightening of current FDI controls** to protect European companies in strategic sectors against foreign takeovers (hostile or otherwise), coupled with significant investments in industries where Europe is considered vulnerable or over-reliant on trade partners, such as semiconductors. In this context, the EU may seek to **foster additional investment** by bringing in outside expertise, as illustrated through the efforts deployed by Commissioner Breton and President Macron to convince Intel to establish a microchip foundry on the continent.

Climate

In July, the European Commission published a proposal to implement a carbon tax at the EU border, which would target imports of specific goods produced in jurisdictions with lighter environmental regulation. Starting in 2026, the proposed tax would target sectors such as cement, iron and steel, aluminium, fertilizer and energy production. Industry associations have already voiced concerns, especially regarding the impact on investment, while some NGOs would have preferred earlier implementation.

Amid the increasing global focus on environmental, social and governance (ESG) goals and criteria, France is keen to see the EU become a standard-setter in extra-financial reporting, rather than allow the United States to impose its own views and priorities unchallenged. Economy Minister Bruno Le Maire and other government figures have indicated support for an ambitious review of the EU Non-Financial Reporting Directive. An initial draft of EU sustainability reporting standards should be released in 2022.

Social

Implementation of common rules for a **European minimum wage** could be another French EU Presidency win, making good on May pledge by President Macron to deliver a deal. Recent attempts to forge a common position with Sweden and Denmark are a sign of serious intent in Paris. The objective would be to develop shared standards to ensure an adequate minimum wage across the EU.



Geopolitics and trade: clouds on the horizon

As France's immediate predecessor in the EU chair, Slovenia will seek to advance issues such as a proposed **AI regulation, the EU-China trade deal and green finance** (including the fraught question of whether nuclear power should qualify for climate-friendly investment labelling). Progress could be impacted by Slovenia's disputes with Brussels over actions by Prime Minister Janez Jansa's right-wing government that are deemed increasingly at odds with EU core values, including freedom of press.

In addition to the tensions with Ljubljana and France's looming elections, Macron's EU presidency will take place in the context of **leadership change in Germany**. Macron is likely to be dealing with a new German Chancellor still basking in the post-election honeymoon phase – depending on how long it takes to form a coalition after the September polls.

Brexit remains a major issue that France will have to oversee. More than five years after the referendum and nine months after Britain's EU departure took full effect, the process is far from over. London's relations with the bloc (and especially France) have soured, with President Macron becoming the most vocal critic of the UK's refusal to comply with the Brexit agreement in full. British Prime Minister Boris Johnson could yet accelerate efforts to bolster UK attractiveness to investors, for instance through corporate tax policy moves designed to stem the flow of capital, jobs, and talent to the continent.

France will take the European Union helm in a **particularly demanding international context** shaped by relations with the **United States and China**. Although US-EU ties have improved under President Biden, they will face important new tests including the negotiation of international agreements such as the OECD's global tax deal. The EU is meanwhile attempting a tough balancing act on China, pursuing Beijing's cooperation on climate and economic issues while simultaneously seeking to address its increasingly aggressive trade policy and human rights shortcomings. A new Russian stunt cannot be ruled out either, as the country seeks to position itself against the US in response to sanctions relating to the Nord Stream 2 pipeline.

Finally, France and Europe must deal with an **ongoing terrorist threat** from extremist organizations and individuals fully impregnated with Salafi ideology, that has led to the mobilization of French security forces at home and abroad, in theatres such as the Sahel region. The threat of terrorism is often linked in the media to **migratory pressures** that will only increase with the Taliban's return to power in Afghanistan and an eventual withdrawal of Western (mostly French) forces from West Africa.



If Macron has a free hand and succeeds at advancing the issues that are most important to him, this French EU presidency could have a significant impact for business, and especially for large international groups.

This is therefore a good time for companies to assert or reinforce their positions on these major issues to connect with decision makers in Paris and Brussels.

The Brunswick Paris team is available to help you navigate the French business ecosystem and will provide you with the relevant political and policy analysis for your project (political engagement, mergers and acquisitions, FDI process, competition or anti-trust process, investment opportunities or divestment issues)

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