



FRENCH PRESIDENCY OF THE COUNCIL OF THE EU

Key issues to monitor for international investors in CEE, Russia & the post-Soviet sphere

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Issues & Sectors	Big Tech, Climate Change, Global Economy & Finance, Social Affairs, Security
Stakeholders	France, EU Institutions, CEE Countries, Russia, Ukraine, US, Western Balkans

During the French Presidency of the Council of the EU, which started on January 1st, France hopes to implement a number of significant regulatory changes to the functioning of the European bloc. French President Emmanuel Macron has proposed an ambitious agenda for the January-July period, with far-reaching consequences across a number of policy areas, including digitalization, sustainable development, global economy and finance. The green and digital transitions are expected to be at the forefront of the French EU Presidency, with France focusing on closing landmark pieces of EU legislation such as the Digital Services Act and Digital Markets Act, as well as a proposal for the world's first carbon border tax on imports.

The French EU Presidency comes at a highly challenging time for the European bloc as tension between Russia and the West continues to grow; 2022 began with much anticipated talks between the US, NATO and Russia but have ended without an agreement. The high-running tensions will most likely complicate France's EU ambitions, while Brussels' political row with Poland and Hungary, both locked in long-running disputes with EU institutions, will also cast a shadow on their extensive agenda.

In this memo, Aretera provides a brief overview of the expectations for the French EU Presidency, its main political and legislative priorities and the implications it holds for international investors.

This memo will cover:

France at the EU's Helm	2
Policy Directions	2
Legislative Priorities	3
Implications for Russia and the Post-Soviet Sphere	4
Macron's EU Presidency From a CEE Perspective	6
Looking Ahead	6

FRANCE AT THE EU'S HELM

On 1st January, France took over the rotating Presidency of the Council of the European Union for the first half of 2022. Succeeding Slovenia in presiding over the Council of the EU for the first time since 2008, the French Government will emerge as the top political stakeholder among European governments from January to July.

In the EU's institutional structure, the Council of the European Union – also known as the Council of the EU, the Council of Ministers or simply the Council – is one of the two bodies of the legislative branch. While the European Parliament represents EU citizens through directly elected lawmakers, the Council is composed of government ministers from each EU member state, who sit on policy-specific councils of EU legislature.

Holding the Council Presidency, France is tasked to prepare the political and legislative initiatives in the Council, organize and chair the meetings in its various, policy-specific bodies and represent the Council in its relations with other EU institutions, primarily the European Parliament, the European Commission (the EU's top executive body with power to initiate legislation) and the European Council, the body composing the EU heads of state and government who set the overall political direction in the European bloc. Three successive EU Presidencies are known as Presidency Trios, with the current one consisting of France, the Czech Republic and Sweden, up until July 2023.

France assumes the EU Presidency at a time when the country is bracing itself for much-anticipated Presidential elections, with its two rounds scheduled for April. With these two major events coinciding, French President Emmanuel Macron, expected to officially announce his re-election bid in February, is looking to push through as many proposals from the French EU Presidency as possible before the crucial domestic vote in April.

POLICY DIRECTIONS

On December 13th 2021, President Macron unveiled an ambitious political agenda for France's EU Presidency, with long-term strategic objectives covering a number of policy areas in the European bloc, as well as the EU's external relations with third parties. The French program is based on the priorities of the French-Czech-Swedish Presidency Trio that will run until mid-2023. These include:

- Protecting citizens and freedoms by focusing on shared European values and strengthening the EU's common asylum and migration policy.
- A new growth and investment model for Europe based on sustainable green growth, as well as industrial and digital sovereignty.
- Building a greener and socially more just Europe that better protects the health of its citizens.
- Advancing a global Europe that promotes multilateralism and renewed international partnerships.

According to President Macron, the French EU Presidency will focus on pursuing an agenda along three priorities:

- **Recovery:** France hopes to give impetus to the EU's post-pandemic recovery by creating jobs and supporting innovation, particularly in industrial sectors. To implement this goal, Macron wants the European bloc to be more flexible when it comes to budgetary and financial rules. In line with the EU's post-pandemic recovery funding scheme, Macron is aiming to ensure and foster the EU's green and digital transition, as well as to create more unified economic and social conditions within the EU's single market. Accordingly, the French EU Presidency hopes to build the foundation of a new European economic and investment model until 2030.
- **Strength:** Ever since his election as President, Macron has been firmly advocating for the vision of a sovereign Europe and the objective of strategic sovereignty that has necessarily become a key element in the Presidency program. In this regard, the French EU Presidency is expected to push initiatives that would make the European bloc more active on the geopolitical and diplomatic front and not necessarily in tandem with the United States. These include the definition of geopolitically strategic zones of engagement that will be prioritized during the French EU Presidency and beyond, a higher level of emphasis on the EU's own defense capacities and an advanced effort on the mutual protection of European borders.
- **Belonging:** In comparison with most previous EU Presidencies, the French Presidency is also expected to support and protect common European values such as democracy and the rule of law. Additionally, France will make efforts to academically build the EU's common history and support a conference and consultation series with citizens, called the Conference on the Future of Europe.

LEGISLATIVE PRIORITIES

Building on the Presidency priorities and program, France is widely expected to focus on the following policy areas and sectors, with wide-reaching implications expected for international investors, including those in the CEE region:

- **Climate change:** France will face high pressure to deliver on the EU's green transition as the European bloc hopes to become fully carbon neutral by 2050. At the heart of the French EU Presidency will be the European Commission-proposed Fit for 55 package, a landmark but controversial set of EU legislation that aims to reduce EU carbon emissions by 55% by 2030. The package includes a wide range of heavily debated elements, with the suggested expansion of the EU's carbon pricing scheme being among one of the most controversial. For domestic political reasons, the French government is cautious about such an EU-wide initiative but will engage in European-level discussions to make progress on climate change.
- Even more important to France is the so-called **Carbon Border Adjustment Mechanism (CBAM)**, a piece of climate protection regulation – commonly known as the carbon border tax – that targets high-carbon imports to the EU. The legislative framework for the latter has already been proposed by the European Commission and awaits EU-level consultations among the institutions that will be led by France. If adopted, the mechanism would have far-reaching consequences for a number of industries, including steel, cement, aluminum, fertilizers and energy producers.

- **Digital technology:** Digitalization will be arguably among the highest priorities as Macron hopes to make Europe a “digital power” by achieving digital sovereignty. France has been a strong supporter of two transformative pieces of EU legislation – the Digital Services Act (DSA) and the Digital Markets Act (DMA) – proposed by the European Commission in late 2020, with President Macron hoping to complete negotiations and adoption while France presides over the Council. Both the DSA and the DMA were endorsed by the Council last year and supported by the European Parliament, with Macron expected to lead inter-institutional talks before the French Presidential elections.
- The DSA was proposed to fight disinformation, questionable advertising practice and illegal online content, while the DMA includes a sweeping set of new EU regulations aimed at ensuring a high level of competition between social media and tech firms, as well as preventing large companies from abusing their market position. The Council of the EU already adopted its position on the two legislative proposals and **France is now keen to have both the DSA and the DMA introduced** weeks before the April Presidential elections.
- **Economy, finance and industry:** The French EU Presidency is also expected to put particular emphasis on a European-level initiative to introduce a minimum corporate tax. Last year saw a global agreement fostered by the Organization for Economic Cooperation and Development (OECD) about introducing a global minimum corporate tax rate at 15%, while the European Commission last December came up with a corresponding proposal for the European bloc. An additional scheme to tax large digital companies was also endorsed during the OECD talks, with France hoping to turn both reform plans into reality by 2023. Furthermore, France also hopes to create European “industry champions” and push the EU to offer more support to governments to boost key industries, such as cloud technology, microchips and batteries.
- **Social affairs:** President Macron is widely expected to support a corresponding plan from European Commission President Ursula Von der Leyen to introduce a European minimum wage by 2024. The French EU Presidency is set to lead talks in favour of minimum wage legislation for all EU countries with the aim of strengthening the EU's social pillar.

IMPLICATIONS FOR RUSSIA AND THE POST-SOVIET SPHERE

France took over the EU Presidency at an extremely challenging time in terms of the European Union's relations with Russia; tension over Ukraine has reached a new high early this year. Kyiv and its international allies fear an all-out Russian invasion of Ukraine, while Moscow fears that any further expansion of NATO, which Ukraine hopes to join, on Russia's borders will mean a major security threat for the country. In mid- January, Russia took part in much-awaited security talks with the United States, the OSCE and NATO, however they proved largely unsuccessful and it currently remains unclear whether tensions will de-escalate. Most recently, the talks were followed by direct negotiations between US Secretary of State Antony Blinken and Russian Foreign Minister Sergey Lavrov, but these also ended without an agreement. In addition, the US is now actively considering sending thousands of troops to Eastern European NATO member states. Tensions between the two sides are expected to be even higher as Moscow is preparing for a joint military exercise with Minsk in neighbouring Belarus in February.

Responding to the escalating tensions along marking the priorities of the French EU Presidency, Macron said that the European bloc needs a new security pact with both NATO and Russia. Notably, the EU was not part of the aforementioned talks in mid-January, however EU leaders warned Russia of “severe consequences” in case of an invasion of Ukraine – without clarification. While Russia has repeatedly denied any moves to invade Ukraine, such an escalation of tensions would immediately impact not only the two countries but the whole CEE region. The EU and Ukraine's Western allies would most likely move towards introducing additional, primarily economic sanctions against Russia, however with President Macron taking the initiative, the French EU Presidency would likely mean a new diplomatic push – now involving the European bloc – with hopes to de-escalate the stand-off. Based on Macron's initiative, Russian and Ukrainian officials will meet in Paris on January 26th, along with their German and French counterparts, while the French President is set to speak to his Russian and Ukrainian counterparts soon.

While France will likely aim for a new security agreement concerning the situation in Ukraine, Macron's push for a more sovereign Europe could also mean accelerated geopolitical and economic competition, particularly when it comes two strategic zones of engagement which France wants to prioritize during its EU Presidency. Paris hopes to use the January-July period to review the EU's partnership with Africa and propose a “new deal” to African countries, covering a wide range of cooperation areas, including education, health, pandemic response and migration. Under France's leadership, Europe could see a new partnership with Africa during the EU-African Union Summit that will be held in mid-February. Alongside Africa, the Western Balkans region is also regarded by France as a strategic priority during the EU Presidency and potentially beyond. Several countries of the region, including Serbia, Montenegro, Albania and North Macedonia, hope to join the European bloc, however a number of political factors have cast a shadow over the still ongoing or paused accession talks.

Under its EU Presidency, France has vowed to support reforms in candidate countries and organize an EU- level conference on the Western Balkans in June as part of a strategic prioritization, with President Macron calling for a clear accession perspective with the Southeast European countries and reviewing the bilateral partnership. The choice to prioritize Western Balkans and Africa was arguably made to counter the local and growing Russian (and Chinese) influence, envisaging growing geopolitical competition between the two sides. At the same time, the French EU Presidency is less likely to prioritize the Eastern Partnership (EaP), a cooperation format between the EU and six former USSR states (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine), also seen as a region of political and economic competition between Russia and the West.

Additionally, the proposed carbon tax under the CBAM also means reasons of concern for Moscow as Russia could be among the hardest hit countries if the tax is introduced in 2023 (at the earliest) before becoming entirely operational in 2026. After the European Commission outlined its plans to impose a CO2 tariff, Rosneft chief Igor Sechin said the CBAM could cause far greater damage to Russia than the EU's current sanctions. However, while calling on Moscow to commit to a green transition, the World Bank last December said the Russian economy could easily weather the impacts of the CBAM, with the macroeconomic effects likely to be negligible.

MACRON'S EU PRESIDENCY FROM A CEE PERSPECTIVE

The French President is looking to revitalize and reform the European bloc amidst increasingly troubled relations in Brussels, as well as the Polish and Hungarian governments. EU institutions have, for years, been accusing Poland and Hungary of breaching democratic standards and the rule of law, with both countries facing currently ongoing rule-of-law proceedings at the EU level. Tensions rose last year when the European Commission moved to block post-pandemic recovery funding for both countries, referring to growing concerns of institutional corruption and anti-democratic practices. This comes as the European Commission this year aims to introduce the so-called rule-of-law conditionality, a previously agreed mechanism and toolkit that would tie EU funds of the bloc's 2021-2027 budget to upholding the rule of law – provided that the European Court of Justice approves it in a much-awaited ruling.

While the French EU Presidency has been vocal about supporting European values, Macron sees no chance of progress on the rule of law before the upcoming Hungarian parliamentary elections, also to be held in April, in parallel with the French Presidential vote. His remarks came after he met Hungarian Prime Minister Viktor Orbán last December to discuss the then-upcoming French EU Presidency – ahead of a summit between France and the Visegrád Group (which includes Hungary, Poland, the Czech Republic and Slovakia). At the same time, the French EU Presidency program openly supports the implementation of the rule-of-law mechanism when it comes to the EU budget. Tensions are widely likely to remain, especially with regards to the upcoming elections in France and Hungary, while the issue of the rule of law – and its subsequent handling – could easily fall victim of both the French and Hungarian electoral contests.

LOOKING AHEAD

France has put forward an ambitious and detailed agenda to shape the political and economic future of the European Union for the tenure of the French EU Presidency and beyond. President Macron hopes to transform the European bloc by a number of crucial political and legislative initiatives, with far-reaching consequences in a number of sectors and industries. Green and digital transition will be at the forefront of EU-level policy discussions as the European bloc hopes to continue its post-pandemic recovery and France aims to build a new economic model for the continent. With expectations running high, however it is yet to see whether Paris will be able to achieve its policy goals.

The French EU Presidency comes at a highly challenging time in EU-Russia relations, with tensions reaching a new high as the West fears a Russian invasion of Ukraine. Macron will likely push for a more active EU engagement after his call for dialogue with Russia. At the same time, France's prioritization of the Western Balkans and Africa under its EU Presidency could mean increased geopolitical and economic competition with Moscow.

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