

SPAIN'S EU PRESIDENCY & ITS IMPLICATIONS FOR BUSINESSES IN CEE

Digitalization on top of Spain's EU agenda, with significant implications for several other sectors

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Spain has taken over the six-month Presidency of the Council of the European Union from Sweden and will set the EU's political agenda for the second half of 2023.

Due to the overwhelming need to focus on Russia's war against Ukraine and its consequences, countering the impact of the war will remain one of the main drivers of Madrid's political agenda at the EU level, with special focus on providing aid to Kyiv and ensuring that sanctions against Russia, which are already in place, are effective.

At the same time, significant EU legislative changes are also expected during Spain's Presidency, most importantly in areas including sustainability, technology regulation, digitalization, the gig economy and free trade, with potentially far-reaching implications for international investors present in the CEE region.

Below, Aretera provides further insight into the Spanish Presidency of the Council of the EU, the results of the now concluded Swedish EU Presidency, as well as into the likely policy directions and legislative priorities of the European bloc during the next six months.

This memo will cover:

-  a brief introduction into EU decision-making,
-  expectations for the Spanish Presidency of the Council,
-  the key pieces of EU legislation to monitor across industries in 2023,
-  implications for international investors.

INTRODUCTION

On 30th June, Sweden concluded its six-month Presidency in the Council of the European Union, handing over the EU's rotating Presidency to Spain, whose government will now set the European bloc's agenda until 31st December 2023.

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, Spain 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 trio consisting of Spain, Belgium and Hungary.

SPANISH AGENDA LOOKS BEYOND RUSSIA'S WAR

Spain takes on the EU Presidency at an historically challenging time for the European bloc, which is beset with severe political, economic and social challenges. As in the past 18 months, Russia's war against Ukraine will continue to define the EU agenda.

Accordingly, the security of the European bloc in relation to the war is among the priorities of the Spanish EU Presidency program, which pledges to continue economic and military support to Ukraine. Together with the European Commission, Spain will lead in designing additional EU sanctions against Moscow. Madrid is also expected to drive European and international efforts to support Ukraine's reconstruction.

The Spanish government has also pledged to strengthen the application of already adopted restrictive measures against Russia. Spain will promote dialogue with third States to ensure the global effectiveness of sanctions, which is also among the top priorities of the European Commission. Furthermore, the Spanish Presidency will work to prevent the possible repercussions of sanctions on areas such as food security and humanitarian assistance, in order to maintain the EU's role as a humanitarian actor.

While supporting Kyiv undoubtedly remains on the top of the EU agenda, Spain has also defined four main priorities that will drive their efforts to secure new regulations and amend existing ones in the European bloc. These priorities include:

- reindustrializing the EU and guaranteeing its strategic autonomy,
- making progress in the green transition and in environmental adaptation,
- promoting greater social and economic justice,
- strengthening European unity.

KEY EU LEGISLATIVE EXPECTATIONS

| Selected EU Files/Policy Proposals Under the Spanish EU Presidency (H2 2023) | | |
|--|--|---|
| Policy Component | Description/Relevance | State-of-Play |
| Artificial Intelligence Act | first-ever EU-wide rules on AI-based technologies | Spain to lead inter-institutional talks (trilogue) to secure agreement by end-2023 |
| Corporate Sustainability Due Diligence Directive | establishes corporate due diligence duty, with focus on human rights & the environment | inter-institutional talks already underway, however no guarantee for adoption |
| Critical Raw Materials Act | meant to help the EU secure key green transition supply materials | inter-institutional talks already underway, Commission aims to secure deal by end-2023 |
| Cyber Resilience Act | sets rules for marketing of products with digital elements | EU Parliament vote expected in July, Commission aims for adoption by end-2023 |
| Ecodesign for Sustainable Products Regulation | aims to reduce pollution and associated waste by making products last longer | Spain stands good chances of securing an EU deal by end-2023 |
| EU Health Data Space | allows EU citizens easy access to health data | trilogue likely to start during the fall, Parliament aims for adoption before EU elections |
| EU-Mercosur Association Agreement | aims to boost EU economy by cutting dependency on countries such as China | strong reservations from key member states over agricultural and environmental concerns |
| EU Pharmaceutical Policy Revision | whole set of new rules for the pharmaceutical sector | no progress during the Swedish Presidency, debates still ongoing |
| Gigabit Infrastructure Act | allows faster 5G and fiber network rollout, replaces EU Broadband Cost Reduction Directive | draft proposal unveiled in February, discussions in early stages |
| Packaging and Packaging Waste Regulation | aims to make all packaging reusable or re-cyclable by 2030 | Parliament to adopt position in October |
| Platform Workers Directive | Commission proposal aims to reclassify around five million gig economy workers | Long-awaited Council deal in June, position largely different from Parliament's |
| Regulation on Standard Essential Patents (SEPs) | aims to regulate how tech firms enforce their rights over SEPs, and make the SEP process transparent | Commission proposal unveiled in February, EU institutions set to start internal discussions |
| Regulation to Prevent & Combat Child Sexual Abuse | requires tech companies to establish AI tools to track down offenders of minors | EU institutions currently forming their position, vote in Parliament expected in October |

(Source: [Spain's EU Presidency Program](#))

DIGITALIZATION AMONG THE KEY ISSUES

Spain's four official EU policy priorities for the next six months are reflected in a series of EU policy proposals the Spanish EU Presidency will wish to advance. Concerning the EU's planned re-industrialization, Madrid will work to reduce vulnerabilities from global supply chains, promote competitiveness and support sustainable growth. In this segment, advancing key files on digitalization is expected to be the single most important priority of the Presidency. These files include the Artificial Intelligence Act, the Cyber Resilience Act and the Gigabit Infrastructure Act; all of which are currently under different stages of consultation.

Completing a socially just green transition is also among the main priorities. In this regard, the EU's Fit for 55 package – a landmark set of various policy proposals aiming to cut Europe's greenhouse gas emissions by 55% by 2030 – is on the top of the political agenda. Spain hopes to complete the adoption of the package, which will mean a series of environmental and other regulations, while Madrid also looks to conclude EU-wide electricity market reform to guarantee affordable consumer prices across the European bloc.

Other EU environmental files that may see progress include the Industrial Emissions Directive, the Ambient Air Quality Directive, the rules of the so-called Euro 7 vehicle pollutant standards, as well as the Hydrogen and Gas Markets Decarbonization Package.

Promoting greater social and economic justice is naturally a priority for Spain's centre-left government, which promised to guarantee European tax justice, promote EU-wide minimum taxation standards, completing the European Health Union and guaranteeing the rights of workers in new economic sectors. On health policy, the next six months may bring significant progress on the European Health Data Space that would provide EU citizens with easy access to health data.

In addition, one of the key regulatory questions of the next six months will be whether the Spanish Presidency will be able to make progress on the EU's Platform Workers Directive, an EU Commission proposal that aims to reclassify the more than five million workers of the EU's gig economy. First proposed by the Commission in December 2021, the Directive aims to introduce a legal presumption of employment for "self-employed" platform workers that the Commission believes is misclassified, while it also seeks to regulate algorithmic workplace management. With the latter, the regulation – similar to the Artificial Intelligence Act – would again be the first of its kind for the European bloc.

MADRID AIMS FOR CLOSER TIES BETWEEN THE EU & LATIN AMERICA

Spain aims to strengthen European unity (which is the fourth priority of the Presidency) by providing continued support to Ukraine, advancing EU accession talks with candidate countries, improving the EU's crisis management capacity and supporting the revision of EU decision-making. Spain also supports expanding the use of qualified majority voting (QMV) in the Council, while Madrid would also aim to complete the EU's much-debated Pact on Migration and Asylum.

For cultural reasons, Spain is keen to bring the EU and Latin America closer together, most importantly by making progress on the EU-Mercosur Association Agreement and forging closer trade ties. Expectations are high for the upcoming EU-Latin America Summit in mid-July, however EU member states remain divided over agricultural reasons and environmental concerns. Aside from Latin America, Spain also hopes to strengthen EU relations with the US, the bloc's Southern Neighbourhood, Africa and the Western Balkans.

LOOKING AHEAD

EU consensus remains that Russia's war against Ukraine has no clear end in sight, putting the joint European response to the war and its consequences to the forefront when it comes to EU decision-making. At the same time, the coming months could see significant legislative changes at the EU level, with the potential to impact international investors in a range of sectors, including digitalization, energy, the gig economy, infrastructure and sustainability.

Simultaneously with its Presidency in the Council of the EU, Spain will hold snap parliamentary elections scheduled for 23rd July. The snap elections were called by Spanish Prime Minister Pedro Sánchez after his centre-left Spanish Socialist Workers' Party (PSOE) lost in the country's local elections in May, against its main rival, the centre-right People's Party (PP), while the Spanish far-right also made significant gains. Recent polls suggest that the PSOE is trailing behind the People's Party (with 28% against 35%), while a lot will depend on how the far-right VOX party and Sumar, a newly formed radical left-wing party will perform at the ballot box.

Holding snap elections while holding the EU's rotating presidency is an unwanted but not an unprecedented circumstance for an EU member state. Even if the snap election results in a change of government in Madrid, the Spanish Presidency is expected to be largely unimpacted as its program is finalized and the Presidency itself is already in progress. However, the pace of achieving EU-wide consensus on certain files might itself be impacted, requiring international investors to closely monitor EU political processes in the next six months and beyond.

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