



Europe Policy Outlook

EU Elections, National Policy & US Relations

May 2024

Executive summary

EU elections won't dramatically change EU policy

- The European Parliament elections on June 6-9 are expected to result in a large gain in seats for far-right parties. Most will fall into the ECR (European Conservatives and Reformists) and ID (Identity and Democracy) groupings.
- Centrist and center-left parties, especially the Greens, will likely lose vote share.
- Despite increasing fragmentation and a pull to the right, Ursula von der Leyen will almost certainly remain European Commission President following the elections. EU institutions will continue implementing sustainability-focused trade rules and retain a confrontational stance toward Russia and China.

Transatlantic relations hang in the balance ahead of US elections

- The European Union and United States have partnered as allies on many issues under the Biden administration. A second Biden administration would seek to deepen those ties. A potential Trump return to the White House would upset that alliance.
- Trump has proposed increases on tariffs that could hit US-Europe trade flows and limit European market access to the United States.
- More dramatically, Trump has threatened a withdrawal of support for NATO and resolved to negotiate a rapid peace with Russia on Ukraine. These moves pose a serious threat to the security of many European countries and will hasten European efforts to forge an independent foreign policy.

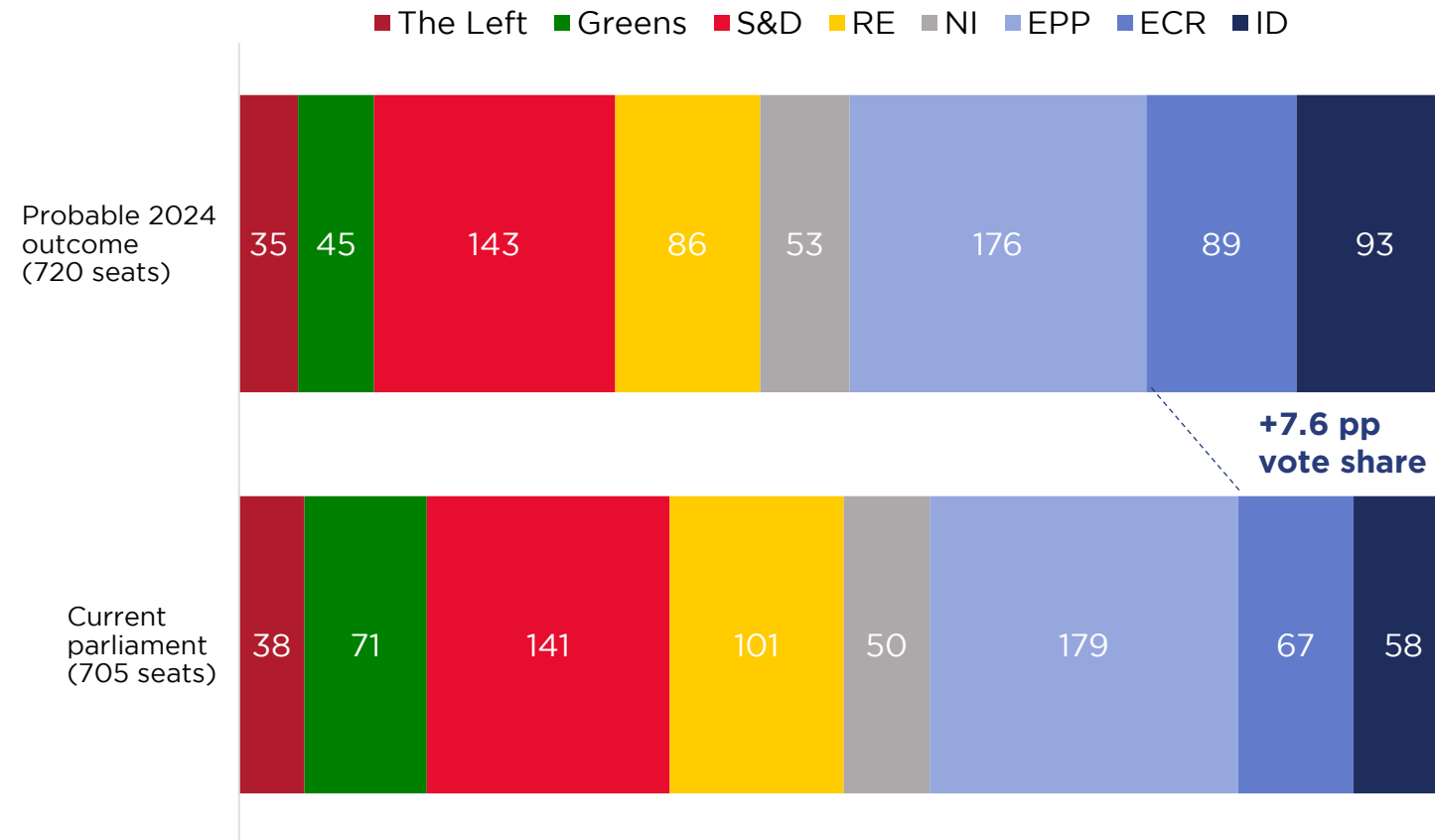
SECTION I

EU Parliament Elections and EU-level Policy Outlook

EU Parliament will shift to the right following June 2024 elections

Far-right groups are on track to take a quarter of seats

PROJECTED EUROPEAN PARLIAMENT GROUPINGS



- Far-right Identity & Democracy (ID) is set to become third-largest parliamentary grouping, after the traditional center-right EPP and center-left S&D
- Together with European Conservatives and Reformists (ECR), far-right parties could take a quarter of seats
- Greens and centrist Renew Europe (RE) are on track to lose a significant share of seats

Von der Leyen is likely to remain Commission President

Despite EP fragmentation and election process uncertainty, VdL has enough support from across groupings

POTENTIAL EUROPEAN PARLIAMENT GOVERNING COALITIONS AFTER JUNE ELECTIONS



- The most likely government is a continuation of current Grand Coalition + RE, with fewer seats
- A far-right government is much less likely
- Grand Coalition paves the way for continued centrist policymaking across EU institutions, but a narrower majority and high share of far-right seats will pull policy to the right
- Von der Leyen is likely to remain Commission President, with few alternative contenders

Likely “Grand Coalition” means status quo on EU policy

A low-likelihood, right-wing government would push for change on key issues

	Grand Coalition + RE S&D RE EPP	Grand Coalition + Greens Grn S&D EPP	Right EPP ECR ID
Likelihood	High	Medium	Low
Sustainability	<ul style="list-style-type: none"> Status quo, but new initiatives may slow 	<ul style="list-style-type: none"> Expansion of Green Deal agenda into new initiatives 	<ul style="list-style-type: none"> Delays or rollback on sustainability measures
Migration	<ul style="list-style-type: none"> Implementation of EU Asylum and Migration Pact: accelerated deportations and “mandatory solidarity” 	<ul style="list-style-type: none"> Increased scrutiny on humanitarian violations in third countries 	<ul style="list-style-type: none"> Focus on reducing immigration Strengthen member states’ powers; increase funding for border forces
Russia-Ukraine war	<ul style="list-style-type: none"> Continued support for Ukraine, including EU accession Tightening existing sanctions on Russia 	<ul style="list-style-type: none"> Continued support for Ukraine, including EU accession Tightening existing sanctions on Russia 	<ul style="list-style-type: none"> Likely sticking point for EPP cooperation with far-right parties ID would push for negotiated peace with Russia
Relations with China	<ul style="list-style-type: none"> Expansion of subsidy probes; other efforts to raise tariffs Enhanced investment screening 	<ul style="list-style-type: none"> Increased action on forced labor and human rights 	<ul style="list-style-type: none"> Harder line against China, with some confusion on details

CBAM implementation will continue under next Commission

Taxes on carbon-intensive imports will begin in 2026

CBAM – Affected products, value and share of EU imports

Product area	Value of EU imports from extra-EU (2023)	Share of imports from extra-EU
Cement	€1.1 billion	<0.1%
Electricity	€10.4 billion	0.4%
Hydrogen	€1.9 billion	<0.1%
Fertilizers	€7.1 billion	0.3%
Iron and steel	€74.4 billion	3.0%
Aluminum	€30.8 billion	1.2%
All CBAM products	€125.6 billion	5.1%

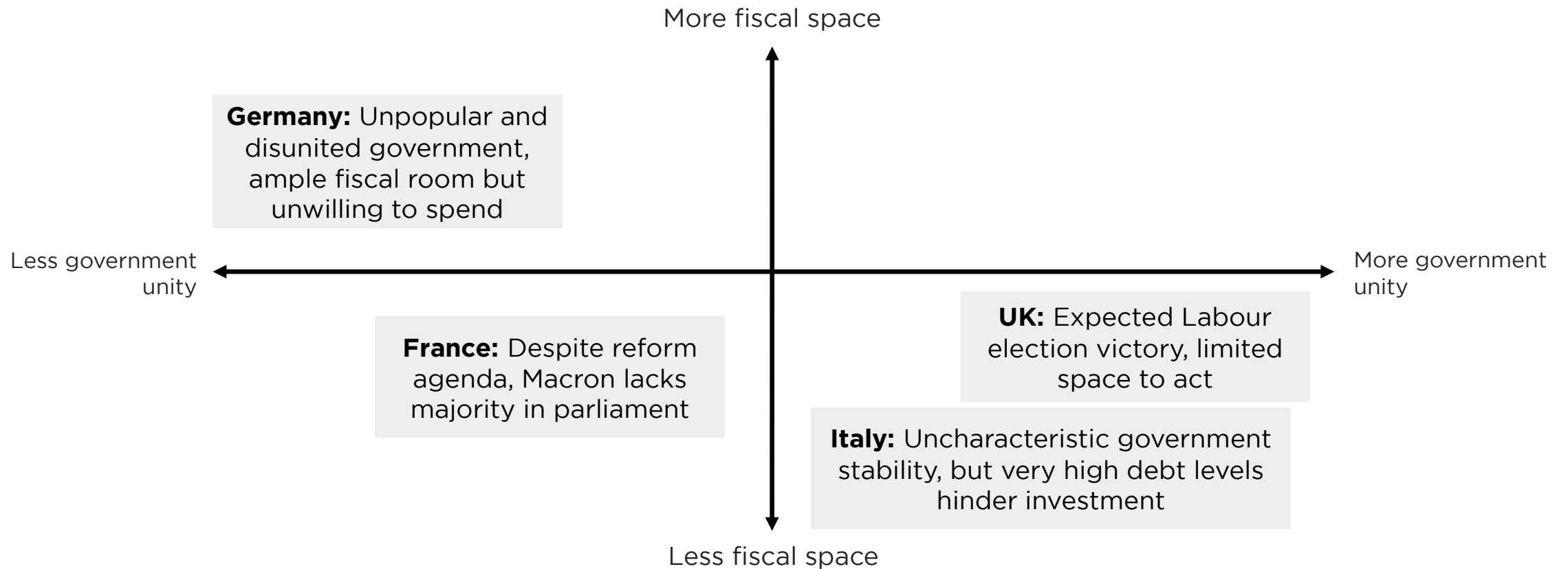
- The European Union’s Carbon Border Adjustment Mechanism (CBAM) entered into force on October 1, 2023
- The world’s first-ever effort to address carbon leakage and manufacturing competitiveness by introducing taxes on carbon-intensive imports
- Affected goods are cement, electricity, hydrogen, fertilizers, iron and steel, and aluminum
- Transitional Phase, during which importers must report their CBAM imports to the EU, will continue until January 2026
- Starting in 2026, importers will have to pay a tax to bring the price of their imports in line with the prevailing EU price, which is subject to a domestic carbon tax
- The list of affected products will expand in 2030 to include oil, glass, ceramics, paper products, and others

SECTION II

National-level policy outlook for 2024-25

Major European governments struggle to invest

High public debt levels and government dysfunction will slow reforms



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European countries aim to increase attractiveness

But face political and budget constraints

EXPECTED POLICY DIRECTION IN 2024-25
FROM FOREIGN INVESTOR PERSPECTIVE



Decreases attractiveness Neutral Increases attractiveness

POLICY AREAS	FRANCE	GERMANY	ITALY	UK
LABOR	Reduced unemployment benefits; more education and training	Facilitating skilled immigration; minimum wage increase & new regs	Reduced red tape; facilitating short-term contracts	Likely minimum wage increase and reduced employment flexibility
INDUSTRIAL AND INCENTIVES	France 2030 investment plan; streamlined regulations	No clear domestic industrial strategy	New sovereign fund; domestic content provisions	No detailed industrial strategy proposed
TRADE AND TARIFFS	Strong supporter of EU trade/industrial policy and local content provisions	Mixed support for EU-level industrial policy	Strong supporter of EU trade/industrial policy and local content provisions	Continued FTA negotiations; efforts to align with EU
INFRASTRUCTURE	Planned investments across road and rail, but some budgets cancelled	2030 FTIP underway, but most funds directed toward maintenance	Strong investments across modes, helped by NextGenEU funds	Plans for speeding up construction; port upgrades
TAXES	Fiscal consolidation will focus on spending cuts rather than tax increases	Current government prioritizing tax reform	Ongoing tax changes to bring in line with OECD agreement	Increased taxes on high incomes and reduced loopholes; few corporate tax changes

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SECTION III

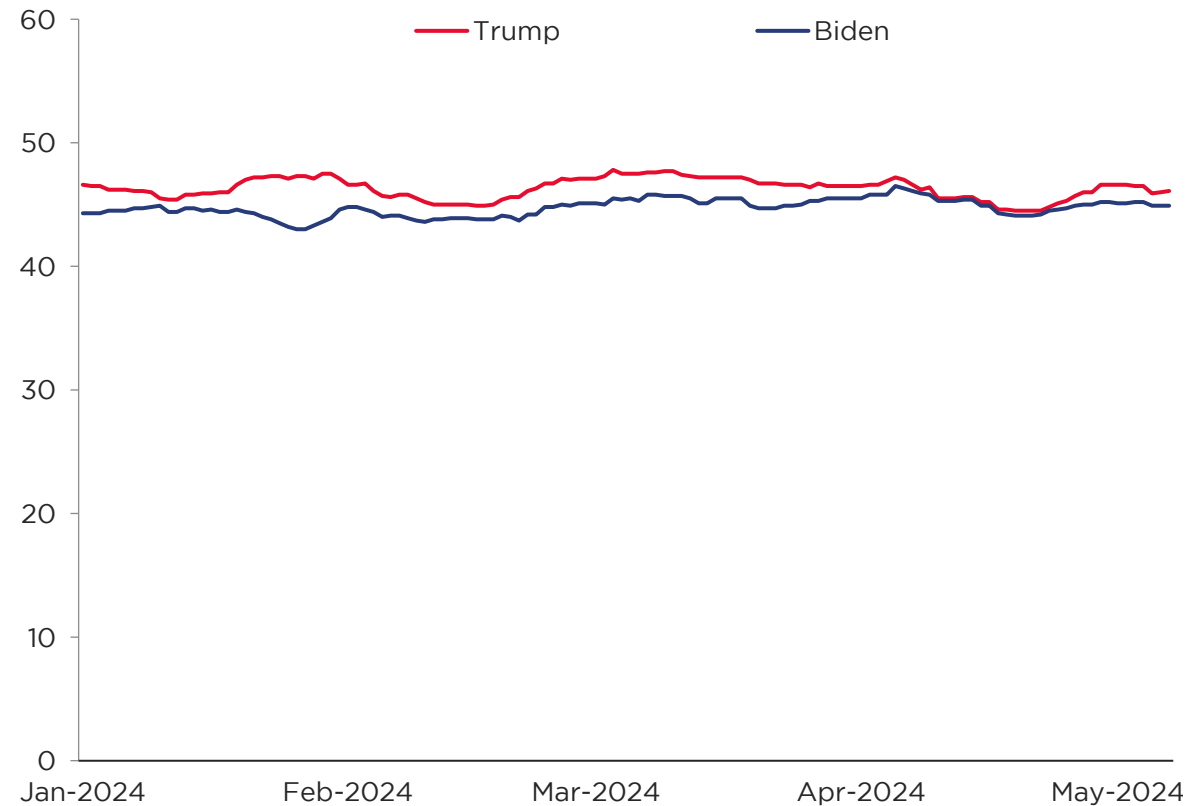
Outlook for EU-US relations

Transatlantic relations hinge on US election outcome

Presidential race is a tossup, but Trump has slight edge in polling

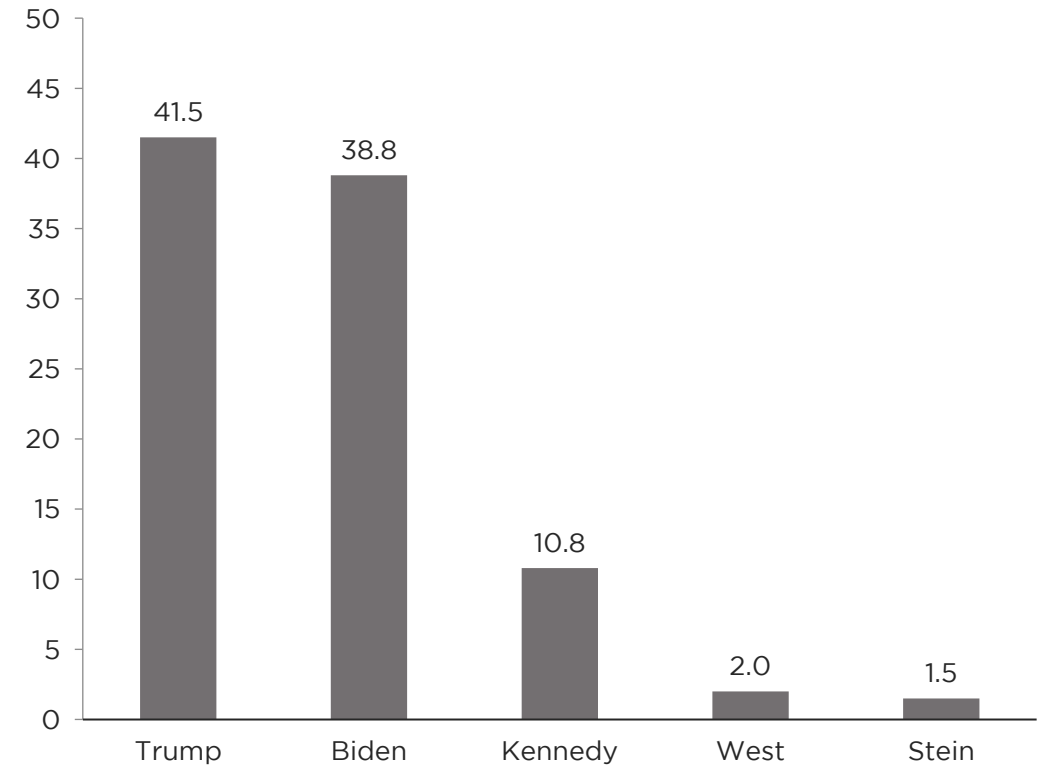
Trump holds the lead in 2024, but Biden has recently narrowed the gap

Polling average, Trump-Biden matchup, voting intention, %



Third-party candidates could tip the balance toward Trump

Polling average, 5-way matchup, voting intention, %



Trump's policies would strain US-European ties

Particularly on defense and security

Trade

Mixed to negative impacts on Europe, depending on European leaders' response

Proposals

- **10% universal tariff**
Negative impact on all US trading partners, but European exports to the US are likely less impacted than others
- **60%+ tariff on Chinese imports**
May benefit European exports to US; some Chinese goods will make their way to Europe
- **Matching tariff rate**
Will raise tariffs on US imports from EU for some products, like cars

Security

Abandonment of security umbrella will test Europe's defense architecture

Proposals

- **Negotiated peace with Russia on Ukraine**
Directly undermines EU policy; may encourage Russian rearmament and incursion into other European countries
- **No military support for NATO members below 2% threshold**
Invites attacks on a majority of NATO members; will drive higher defense spending across Europe

Biden seeks solidarity with Europe against China/Russia

Depth and type of partnership will depend on makeup of US Congress

Trade

Transatlantic relations and EU access to US markets should move in a positive direction

Proposals

- **Trade and Technology Council (TTC)**
Continue progress made on restoring trust, identifying common ground on stance toward China
- **Critical minerals partnership**
Deepen transatlantic marketplace for clean energy tech; Congress may slow efforts over authority concerns

Security

Biden will seek to continue support for Ukraine and NATO as well as sanctions on Russia

Proposals

- **Commitment to Ukraine's security**
Having secured another round of funding, Biden will seek a longer-term commitment modeled on European 10-year plans; implementation will depend on support from Congress
- **Continued sanctions until war's conclusion**
Supports EU's sanctions on Russia and raises likelihood that sanctions regime will continue hurting Russian economy

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