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BULLETIN

Security, Competitiveness, Climate: Swedish Presidency of the Council of the EU

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Continued support for Ukraine, making the EU economy more competitive in line with a free market approach, and advancing the green transition feature among the Swedish government's priorities. However, in light of internal and international economic challenges, reconciling these ambitions will be difficult. The EU's reaction to new subsidies for industry planned by the U.S. government will be an important subject of negotiations between the European Commission (EC) and the Member States.

The protracted war in Ukraine and global economic turbulence, to a great extent related to the former, have created a flurry of challenges for the EU. High energy prices have driven up the cost of industrial production and are a factor behind high inflation. The EU economy could slide into recession. In October, the EC revised its forecast for GDP growth in 2023 downwards (0.3% instead of 1.5%). Meanwhile, Member States must look for means to finance instruments that protect citizens struggling against the galloping costs of living, as well as humanitarian and military aid for Ukraine. The U.S. government's scheme to provide significant subsidies for green technology companies that produce in the United States has alarmed EU politicians. It is seen as an incentive to European firms, among others, to relocate.

Main Goals of the Presidency. Sweden presented a programme built around four priorities: aid for Ukraine, strengthening the competitiveness of the EU economy, progress in implementation of the green transition, and firm protection of the rule of law. As regards support for Ukraine, the Council will most likely prolong the privileged treatment of Ukrainian refugees and the regulations that abolished tariffs on Ukrainian products. These decisions were adopted in March and June, respectively, for a period of 12 months. New proposals regarding sanctions will likely be tabled, while the Council will also be considering ways to counteract circumventing existing restrictions. The presidency intends to make some progress on the legally highly complex issue of seizing the frozen assets of Russia's central bank and oligarchs close to the regime for the purpose of Ukraine's reconstruction.

The relatively new centre-right Swedish government strongly emphasises the necessity to improve the conditions for economic activity and investments in the EU. On this issue, reconciling the interests of Member States will be a tall order. The U.S. government's ambitions to increase local production have pushed France and Germany to strengthen their insistence on modifying EU competition policy to grant governments greater freedom in subsidising firms. Meanwhile, members from Southern Europe expect that the Green Deal Industrial Plan, announced by the EC president, will involve a new fund that could be a source of grants or at least loans given on favourable terms. The Franco-German initiative, however, has provoked apprehensions among some members who are wary of state interventionism (including Sweden) and less affluent states that do not have the capacity to bankroll companies on a large scale. The "frugal coalition" of Austria, the Netherlands, and the Nordic states is sceptical of the idea of establishing yet another facility that would result in new debts for the EU or the Member States. The most attractive outcome for the EU would be a compromise with the U.S. government that grants access to its new scheme for companies that also produce in the EU. The presidency's role in achieving such a deal will, however, be limited, as talks with the U.S. administration will be conducted chiefly by the Commission.

Another issue where the presidency will be trying to design a compromise between the "frugals" and Southern Europe will be fiscal rules that constrain members' budgetary policy. The EC unveiled its proposals for reform last November. Reaching a deal in the first half of the year is, however, unlikely. Divergences between the North, generally fiscally conservative, and the South, which has been demanding more fiscal space for investments, are too significant at present.

Sweden will strive to make progress on negotiations related to the green transition, directives on renewable energy, and energy efficiency in particular. It will most likely be less resolute on issues that involve certain constraints on economic activity in the name of environmental and climate protection. Last year, the Council's opposition blocked negotiations on an EC proposal to slash the use of pesticides in agriculture. Ministers also have expressed reservations about a draft regulation intended to boost the protection of ecosystems. Corporate lobbyists invoke economic turbulence and suggest watering down requirements related to environmental protection (such as rules related to due diligence or the packaging directive). Such pleas are likely to find understanding in the presidency, which is sensitive to the needs of the business community.

Institutional Reform. The debate on reforming EU institutions could become a sticking point in the presidency's relations with the European Parliament (EP). In spring, the latter will most likely adopt additional proposals for treaty changes and will expect the Council to react to its motion to establish a treaty convention. Sweden, like the majority of Member States, does not consider treaty changes to be urgently needed. However, rejecting parliament's initiative could put the Council and the presidency in a tight spot. It could give the impression that these governments are against debating changes that not only enjoy the backing of the chamber but also were advocated by citizens within the framework of the Conference on the Future of Europe. A potential compromise could be to replace the unanimity rule with qualified majority voting through existing procedures, accepted by some states that are against treaty change. Yet, Sweden will have a hard time convincing all Members to accept such a solution.

An Awkward Partner. The presidency also could face problems related to the national political context. The minority government headed by Ulf Kristersson was established thanks to the support from far-right Swedish Democrats (SD), which are critical of the EU. No members of the party are ministers but the coalition agreement grants SD some control over government policy. The prime minister emphasised the government's support for integration. Furthermore, making the rule of law one of the four priorities could be seen as a symbolic gesture to alleviate the concerns of EU partners. However, SD's positions could constrain the presidency's room for manoeuvre in EU negotiations, especially when it comes to issues such as migration, on which SD rejects closer cooperation. In a more positive scenario, SD will soften its critique of the EU and refrain from actions that could harm the reputation of the government in the hope of strengthening ties with the European centre-right to boost their impact on EU decisions, especially following next year's European elections.

Conclusions and Prospects. The presidency is particularly important to the Swedish government created just two and half months before its inauguration. The credibility of Kristersson's cabinet in the EU arena in the coming years will to a large extent hinge on its performance during the presidency. These six months will most probably not be enough to orchestrate compromises on the most important issues (fiscal rules, revision of the multiannual budget, or institutional reforms), but Sweden can be expected to strive for progress in shaping the Council's position. All the more so as Spain, which often does not see eye to eye with Sweden, will take over in the second half of the year.

For a liberally-minded Swedish government that lauds free trade, competition, and restrictive budgetary policy, it will be a challenge to steer negotiations on the new instrument to support EU industry. Pleas for greater state aid and more community spending are bound to come up in the debates. It also will be difficult to reconcile the ambition to make the EU economy more dynamic while reducing its harmful impact on the climate and environment.

From Poland's point of view, the Swedish presidency's steadfastness in maintaining strong support for Ukraine is important. Sweden also should be willing to discuss modification of the Eastern Partnership and ideas for including Ukraine in EU policies even before accession. In the context of negotiations on boosting the development of green technologies, Sweden's support for nuclear energy is significant. Finally, the 30th anniversary of the Single Market, celebrated this year, creates an opportunity to highlight the calls consistently promoted by Poland for eliminating the remaining barriers to the free flow of goods, labour, and services.