Executive brief: Policy and political forecasts at the start of the new EU cycle

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1. Upcoming EU policy agenda

Trade agenda

- Finalising **Mercosur** is increasingly hard (majority in the EP is shaky and France has not lifted its reservations in the Council).

- Trade negotiations with **India are expected** to be finalised by the end of the year (contention point: India is particularly critical of EU's CBAM introduction).

- The EU-**Indonesia** trade deal is also expected to be done by mid-year (disputes over deforestation rules and raw materials have stalled the negotiations so far, but new geopolitical context has revived efforts to finalize the agreement).

- The EU is considering reinstating quotas on imports of several agricultural goods from **Ukraine** (plans limitations on wheat, corn, barley, poultry and eggs from June through December).

EU-US trade developments

- The temporary tariff pause between the US and EU expires in July 2025. The US could re-impose or escalate tariffs if a deal isn't reached with Europe.

- The EU is preparing for potential retaliation, having already outlined a draft list of US goods to target. The list includes a wide range of products, such as **wine, bourbon, seafood, aircraft, cars, chemicals, electrical equipment, health products, machinery, and farm products.**

- These sectors are concerned they might face even higher tariffs if the trade conflict between EU and US escalates.

- The European Commission has initiated a public consultation to gather feedback from EU member states, industry stakeholders, and the public on the proposed retaliation list.

- EU goals in negotiations: The EU is pursuing a **zero-tariff deal** on industrial goods (excluding agriculture) and has proposed increasing the US imports (e.g., LNG, soybeans) to reduce the US trade deficit.

   The US asks the EU to reduce barriers (such as agriculture) and regulation of services.

Competitiveness and security remain the two driving factors of the EU agenda.

Energy & Transport

The main proposal is the **Review of CO2 standards for cars**.

Recent developments:

- In April, the European Commission proposed a one-time flexibility measure allowing car and van manufacturers to meet CO_2 targets over a three-year average (2025–2027) instead of annual targets, while keeping the targets themselves unchanged -> this way carmakers avoid fines.

   The proposal was approved by both the EP and the Council.

- The Commission must review the regulation in 2026 to decide whether the ban on new combustion-engine cars needs to be adjusted.

- There is pressure from manufacturers and Governments to move the review forward amid financial strains, but the Council is still divided.

- Merz campaigned on undoing the "ban" and Germany also insists on an exception for e-fuel-only vehicles, while Italy has been pushing for a similar consideration of biofuels (backed by Poland).

- EPP supports the early review, but will it form coalitions with right-wing groups as on the deforestation law? EPP didn't align with right-wing groups on this topic when voting in the early May plenary.

Further ahead: The Commission is also expected to propose a legal framework for registering new vehicles that run exclusively on CO_2-neutral fuels (such as synthetic e-fuels) for use after 2035 (a promise made to assuage Germany during the 2035 phase-out negotiations).

Industrial policy

1) **Reducing regulatory burdens** -> first and second Omnibus packages on sustainability and investment simplification were published on 26th of February 2025.

Key elements of the proposals:

- postponed corporate social responsibility reporting requirements by a period of two years;

- postponed due diligence transposition deadline by one year;

- narrowed down corporate social responsibility reporting scope: covers only firms with >1,000 employees;

- scaled back due diligence: covers only first-tier suppliers of EU companies;

- simplified EU Taxonomy disclosures;

- postponed requirement to purchase CBAM certificates by EU importers to 2027.

Current status:

1) Postponement already approved by EP and Council.

2) Other provisions such as:

- Narrow down the companies required to comply;

- Simplify reporting templates;

- Remove requirements to provide data points that are less critical, etc.

are subject to further negotiation in EP and Council -> trilogues expected before summer, final votes likely autumn 2025.

3) Simplification package for agriculture (presented on 14th of May):
   a) more flexible environmental standards in the CAP;
   b) new exceptions for small farms and organic farms, etc.

4) upcoming as part of the Commission's simplification agenda:
   A) Omnibus package on small mid-caps and removal of paperwork requirements;
   B) Digital package;
   C) member states to push for an Energy package as well.

The Commission also wants to extend documentation exemptions and funding programmes that have so far only applied to SMEs to midcaps.

Reactions:

- **EP** is divided, EPP is key.

- **Council** is also split between France and Germany who support the simplification agenda vs Denmark, Spain who oppose revising climate and due diligence requirements.

2) **Clean Industrial Deal** -> this term's flagship initiative on sustainability and climate action was published on 26th of February.

Upcoming as part of the Commission's industry agenda:

A) A new Clean Industrial State Aid Framework (by June 2025);
B) Industrial Decarbonisation Accelerator Act (Q4 2025);
C) with more to follow in 2026.

Key elements of the proposals:

● sector-specific measures: introduce a voluntary carbon label for industrial products (steel first, cement next);

- introduce sustainability and "**made in Europe**" criteria in both public and private procurement to prioritize low-carbon EU-made goods;

- **simplify state aid rules to enable member states to finance/subsidise clean tech projects.**

Reactions:

- **in the Council**:

    -> France and Italy back the "Buy European" approach, while Netherlands and Sweden prefer free-market principles and warn of WTO issues.

    -> on state aid, Denmark, Belgium, the Netherlands and the Czech Republic oppose subsidy races fearing unequal competition by the budgets of larger countries like Germany and France.

Digital

Divergence of directions between EU & US

1) Simplification agenda will also cover digital -> **Digital package** (Q4 2025)

Revision of the Cybersecurity Act and of the GDPR will be part of the digital simplification package.

The US is exerting pressure to also weaken enforcement of the Digital Services Act (DSA) and Digital Markets Act (DMA). Meanwhile, France, Spain and Greece are pushing for mandatory age restrictions for users of social networks including Facebook and X.

This is an important bargaining chip for the EU on trade.

2) **European Democracy Shield** (Q3 2025) to address foreign interference.

France, Germany, the Netherlands, Belgium, and Spain are rather vocal on countering foreign interference in EU elections and establishing a dedicated EU body.

3) **Digital Networks Act** (Q4 2025) to overhaul telecom rules to improve connectivity.

EU countries are divided on the '**fair share**' option which would see large tech companies pay for telecom infrastructure (France is in favour, Germany against).

Environment

Main proposals:

1) **A new Chemicals Industry Package** (Q4 2025)

Key elements of the proposal:

- simplify the REACH regulation, including streamlining registration processes;

- ban the use of PFAS ('forever chemicals') in consumer products, with exemptions for essential industrial applications.

Current status: Commission shared a **draft** REACH revision in April 2025 (CARACAL meeting).

Reactions:

- **EP** is divided, adopted a water-related resolution (7th of May) calling for **PFAS phase-out** and the need for **specific targets on water consumption, such as in farming, energy and industry**.

  EPP made an agreement with S&D for the plenary, but initially in the committee EPP sided with ECR (which argued for the necessity of some PFAS) -> shows majorities will keep changing on a case by case basis.

- **in the Council**:

  -> Nordics support tougher PFAS rules, while CEE countries oppose amid fear of increased costs for their industries.

-> Czech Republic, Hungary, Italy, the Netherlands, Romania, Slovakia, Spain and France also push for an **EU Critical Chemicals Act to provide funding to the chemical sector** for decarbonisation.

- **in the Commission**: most Commissioners dealing with environmental topics tend to be more supportive of targets -> this will cause delays in the EP and Council in case the Commission opts for ambitious initiatives.

2) **A new European Water Resilience Strategy** (to be published by the Commission on 4th of June 2025)

Main contention point: ensuring **water access for farmers and other economic stakeholders vs pushing ahead with sustainability and water efficiency requirements**.

Further ahead:

- **in the Council**: CEE and Southern countries which are heavily reliant on the agri-food sector are expected to push back against binding water use restrictions.

- **in the Commission**: Ribera and Roswall are likely to act as a counterbalance against the push to side-line environmental safeguards.

Defence

1) **Defence Omnibus Simplification proposal** (by June 2025) to streamline legal and administrative requirements in defence procurement.

2) **ReArm Europe Plan / Readiness 2030** published in March 2025:

- the use of Article 122 TFEU allows the Council to act without the ordinary legislative procedure; EP is only consulted, not co-legislator

  Key elements of the proposal:

- **allow Member States to allocate up to 1.5% of their GDP to defence without breaching EU fiscal rules**;

- provide loans earmarked for joint procurement of key military capabilities -> **condition: defence contractors must be based in the EU or associated European partners**.

Reactions:

- 16 members states, including Germany, Poland, Finland, Greece or Portugal, requested activation of the "national escape clause" to enable higher defence spending, whereas France, Italy, Spain have held back on using the clause.

- France is championing the "Buy European" approach. However, there is resistance from Germany, Italy, Sweden and the Netherlands which have close ties with non-EU defence producers.

Health

The **Critical Medicines Act** was published in March 2025. It aims to reduce the EU's reliance on countries like China and India for antibiotics and other essential medicines.

Key elements of the proposal:

- mandates the creation of a dynamic list of critical medicines, to be updated periodically by the European Medicines Agency (EMA);

- EU-based and third-country producers supplying the EU must conduct detailed supply chain risk assessments for medicines on the critical list;

- **encourages Member States to adopt multi-criteria tenders, factoring in: geographic origin of the product (e.g., EU-made) and environmental standards**.

Contention point: **systematic application of joint procurement and stockpiling**, and the use of a binary EU/non-EU industrial presence indicator for assessing supply chain vulnerability.

Further ahead: **11 EU countries, including Germany**, advocated for the CMA to be part of a **broader security framework, similar to the US** approach where pharmaceuticals are integrated into defence goods supply chains.

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2. Politics in the EU institutions

Political dynamics in the EP:

- Kingmaker EPP agrees more with centre-left than the other right-wing groups, including on issues such as decarbonisation of road transport, water usage by farmers, etc.

- This leads to reflections inside the main party: EPP cohesion is slightly lower compared to the other groups. Among the main "rebels" within the EPP, we see influential delegations such as the Polish and French increasingly deviating.

Our **fresh projections - how the EP would look like if elections were today**:

- After almost 1 year since the EP elections, our projection on the size of coalitions shows that the centrist bloc (EPP + S&D + Renew + centrist NI) will keep losing ground.

    -> expect more pressure on the cohesion of the mainstream camp.

- Political centre is already being occasionally defeated, such as on this ECR amendment on Covid-19 procurement investigations which was approved in the plenary in early May 2025.

Increasing competition in the Council

- The share of unanimous decisions keeps decreasing in the Council, leading to longer negotiations and less predictable outcomes

- Over the past decade, Visegrad governments structurally assumed an oppositional role in the Council, particularly on issues linked to sovereignty and socio-cultural values, but also on environment, competitiveness, etc.

In this regard, Italy is becoming a key ally for CEE to push back against regulatory requirements.

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3. Stability of national governments

- Germany: Merz majority in the Bundestag is small and he starts from a low level of popularity. Our assessment on the popularity of leaders shows Merz didn't get a post-election boost, such as the winners of the Australian and Canadian elections, and his popularity is lower than Sanchez (who has been in government for several years)!

  Grand coalition government leaves lots of space for the AfD to grow.

- The Polish Presidential will be key to determine whether Tusk's government will be able to play a more influential role at the EU level. Tusk's candidate performed below expectations in the first round, signalling the domestic challenge that the Polish government is facing.

- Portugal and Romania are likely to remain unstable after the elections due to the rise of new forces that challenge the political establishment.

  It is crucial to keep track of likely government changes, as our stats on the duration of national governments show that most governments don't last for a full mandate.

  We can also assess the political capital of national governments.

Note: to have access to all the data included in the briefing, you need a premium account. If you don't have one already, feel free to contact us at team@eumatrix.eu to discuss terms.