

Newsletter

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EU elections 2024 AN OPPORTUNITY TO FUTURE-PROOF DEMOCRACY



As we start 2024, a very crucial year for European democracy with the upcoming EU elections on 6-9 June, it is worth hitting the pause button and reflecting on the costs of non-Europe. Otherwise, everything we have built over the past 75 years of peace, progress and prosperity could be doomed to slip through our fingers.

According to the Global Democracy Index (GDI) for 2023, the state of democracy worldwide is, at the very least, concerning. We face stagnation in some cases, and significant backsliding in others, even declines in countries that we thought were healthy democracies.

In Europe, we see deterioration in the scores of long-standing and strong democracies, including Luxembourg, the Netherlands, Portugal and the United Kingdom. Declines have affected a number of indicators, the most common being rule of law (especially predictable enforcement) and freedom of the press. Although these countries remain high-performing in most factors, the declines highlight the importance of constant vigilance in future-proofing democracy.

Russia's unprovoked war of aggression against Ukraine shows how fragile our democracies can be – and sometimes *are*. Across Europe, we are witnessing increasing attacks on liberal democracies. In several Member States core European values have been undermined, civic spaces cut off and media freedom curtailed.

All this must serve as a wake-up call for urgent action ahead of the EU elections to preserve democratic life and ensure that the narrative does not get manipulated, as the European Union is not the cause of the current crisis, but part of its solution.

From Russia's brutal invasion of Ukraine to the deadly lies around COVID-19, and now on the conflict in the Middle East, disinformation today is shaping major global events and is likely to influence the upcoming EU elections.

Disinformation has been compared to an "atomic bomb in our information ecosystem", a problem so insidious that it allows hate, anger and conspiracy theories to spread faster than truth. In the words of the journalist and Nobel Peace Prize winner Maria Ressa, it renders democracy "a dream".

Last June, the EESC launched its first event on fighting disinformation, kick-starting an awareness-raising campaign ahead of the European Parliament elections in 2024. Civil societies on their own can't defeat disinformation, but organised civil society can alert people about the dangers of disinformation and how easily fake news can polarise people and spread hate speech.

By assuming our responsibilities, we would also be able to strengthen the key role of organised civil society and social partners in supporting deliberative democracy processes as a complement to representative democracy.

Organised civil society is a vital pillar and the backbone of any democracy. A strong, independent and diverse civil society is more important than ever to strengthen the resilience of European democracy and to enhance active citizenship. The EESC clearly sees its role both as facilitator and guarantor of participatory democracy activities and as a bridge builder between the European institutions and citizens.

This is why, as we did in 2019, we should clearly encourage our constituents to vote so that they can act as multipliers and also encourage other people to go to the polls on 6-9 June. This should be the core of the resolution we are preparing.



Let's be clear: We, independent CSOs, are "guardians of the common good", with a pivotal role in identifying sustainable solutions, promoting societal innovations and building mutual trust within societies. CSOs also help to identify processes, provide expertise to increase the diversity of debates, and facilitate participatory democracy as set out in the Treaties.

At a time of growing threats to democracy, risk of abstentions and lingering anti-European sentiment, we need to explain why it is important to vote for a strong Europe that can play a leading role in the new geopolitical world order.

In this context, we must highlight the involvement of young people and youth organisations as it is particularly important to mobilise first-time voters and young voters. In order to achieve full representativeness, it is necessary to support solutions that allow for broad involvement and foster equal opportunities for all people eligible to vote. It is necessary to reach out to those who are furthest from the decision-making centres and engage in discussions with them. Greater participation at local level appears to be a necessity.

In times of complex change and challenges, deliberative/participatory democracy can be one part of a bigger picture of the systemic change that is needed in the next legislative cycle. There are many examples that, if implemented effectively, can enable policymakers to take hard decisions about the most challenging public policy problems and strengthen trust between citizens and government. It is essential to guarantee that decisions take into account the diversity of freely expressed opinions.

The value of the EU and EU democracy should not be taken for granted. As we tiptoe into 2024, wars are raging in Africa, Israel and Gaza, and Ukraine. These crises are explosive in their own right. Combine them with a presidential race in America, and the fact that more than half the people on the planet are being called to hold nationwide elections, and 2024 promises to be a make-or-break year for the post-1945 world order. Let's make sure we do our utmost to make Europe a safe haven for democracy.



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Belgian presidency of the Council of the European Union: A SHORT VIEW FROM EMPLOYERS

Besides Belgium having taken over the presidency of the Council of the European Union, Belgium itself and its own entities face important elections during the first half of 2024. At national level, the upcoming elections might lead Belgian decision-makers to be careful to end the term of office on a positive note. Currently, strengths such as above-EU average GDP growth and weaknesses such as above-EU average public debt are generating mixed comments. On the EU level, despite impressive achievements by the outgoing team, the number of proposals left over from the Spanish presidency is huge. At both levels, the challenge is to lay foundations for the coming terms of EU and domestic authorities.

Euro-scepticism is not high in Belgium, and Prime Minister Alexander De Croo could rightly claim that Europe is in Belgium's DNA, but public opinion is not displaying the same strong, enthusiastic pro-European spirit as before.

The seven-party government coalition, extending from Greens to centre-right, has presented its ambitions under a triple slogan: Protect – Strengthen – Prepare. This includes a significant social agenda, including worker mobility, mental health and sustainable social protection. A declaration on the future EU social agenda, with focus on the European Pillar of Social Rights, is expected to be the result of a summit in La Hulpe (mid-April): social partners will need to claim their autonomy and to uphold the principles of subsidiarity and national implementation in this regard.

The business community expects the Belgian presidency to pay due attention to the competitiveness of the EU economy. Belgium is a small country, and cannot on its own launch an industrial policy capable of meeting the challenges posed by the US Inflation Reduction Act and the state-controlled expansion of interests of the People's Republic of China. Think of the challenges facing a company like Volvo Cars, which has a large production unit near Ghent and has the US market as one of its main export markets. Neither Belgium nor Sweden have the means to provide support to the same degree as some other, larger, Member States. For this reason, Belgium will be



in favour of coherent EU policies to foster competitiveness, rather than internal competition through state aid within Europe.

A particular demand of the business community will be to reduce red tape, specifically with regard to permits and to reporting requirements, where quality information should have clear priority over the quantity of information to declare: when the Commission promises to reduce such requirements by 25% we will want to see evidence of that. Still, the Belgian presidency should be an opportunity to get to know Belgian success stories better: from vaccine production to worldwide dredging, Belgium has more to be proud of than speculoos, chocolate, comic strips and beer.

In addition to the twin green and digital transitions, the current concerns about the Ukraine's resistance against the Russian attack and the resumption of fighting in the Middle East, and longer-term challenges like our ageing societies, the business community would welcome a presidency that engages in an Industrial Deal in order to encourage sustainable growth that will generate jobs and bring prosperity across Europe. This means that the way the Single Market works must be improved, with well-balanced external trade policies, encouragement of skills development and innovation, and better conditions for access to energy, strategic raw materials and finance for businesses great and small.



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Head Office Tax system for MSMEs A HOT PROPOSAL IN A COLD EU WINTER

While the discussions about the European Commission's (EC) proposal on establishing a Head Office Tax (HOT) system for micro, small, and medium-sized enterprises (MSMEs) haven't started yet in most countries, it's time to use our cold winters to focus on the HOT – Head Office Tax – proposal!

Everyone in my “Brussels bubble” was impatiently awaiting the day that the EC published its proposal for an SME Relief Package. It doesn't surprise me: SMEs currently account for almost all EU non-financial business sector enterprises (99.8%), two-thirds of total EU employment (66.6%), and slightly less than three-fifths (56.8%) of the value added generated by the non-financial business sector. As is always the case, the proposed package didn't satisfy everyone's expectations.

The HOT proposal is only one small part of this package. The proposal aims to simplify tax compliance procedures for MSMEs, reduce their administrative burden and promote cross-border trade. Simplifying tax compliance procedures and reducing the administrative burden will mean that MSMEs will be able to allocate more resources to innovation, investment and job creation. This, in turn, can contribute to economic growth and job creation across the EU.

Nevertheless, the proposal also gives rise to concerns about its scope, its effects on companies' competitiveness and the effectiveness of cooperation between tax authorities in different Member States.

The establishment of a head office tax system for MSMEs would simplify tax compliance procedures by providing a single point of contact for businesses operating across multiple Member States using permanent establishments. Currently, MSMEs face a complex web of different tax regulations, reporting requirements and administrative procedures in each country in which they operate. This often leads to higher compliance costs and a greater overall administrative burden. With an option to choose to continue to work and only file tax returns with the tax authority of the country in which their company's head office is located, MSMEs can benefit from streamlined processes, harmonised tax rules and reduced administrative costs.

For example, a small software company based in Latvia that wants to expand its operations to France and Italy would currently have to navigate three different tax systems. This involves understanding the different tax rates, reporting requirements and compliance procedures of each country. With a head office tax system, the company can have a single point of contact – in Latvia – simplifying tax compliance and reducing the overall administrative burden.



All this of course sounds too good to be true. There are serious limitations on which MSMEs can use this optional system: only those doing business in other Member States using permanent establishments (PEs). This means that no benefits are being proposed for those companies that operate using subsidiaries. We also noted that there is no data available on how many companies operate using PEs or on how many of them would be eligible to use this HOT system.

In addition, combined with the EC's BEFIT (Business in Europe: Framework for Income Taxation) proposal, a situation could well arise where three different companies operating in the same country, in the same city and on the same street, right next door to one other, could be using three different tax reporting systems: – the local system, the HOT system and the BEFIT system. This raises the question: will this increase or decrease their competitiveness in that particular place and at that particular moment?

Questions also need to be asked about cooperation between different tax authorities, their degree of confidence in one other, and their willingness to exchange information.

All these concerns need to be properly addressed. But we need this HOT proposal to survive the EU and national political mills in order to support EU MSMEs. We need to take a step in a direction that creates opportunities for MSMEs to grow, expand and make use of the advantages of the Single Market.

So I encourage readers of this article and of the upcoming EESC opinion ECO/584 "Establishing a Head Office Tax system for SMEs (HOT)", which will be discussed in the EESC's January plenary, to engage in discussions here in Brussels and back home with the stakeholders and policy-makers involved and to convince them not to bury this HOT proposal in the corridors of Brussels, but to agree on and implement it as soon as possible and, to assess its outcome and to expand its scope if its forecast impact proves to be correct. This is an opportunity to support the EU economy's backbone – MSMEs – and to give another small push towards raising the EU's global competitiveness.



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["Establishing a Head Office Tax system for SMEs \(HOT\)"](#)

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Developing a new European strategy for the internal market

Between the inception of the idea of a European single market in the 1980s, its design and its launch in the early 1990s, many historical changes have taken place on our continent and beyond. Since then, the EU itself has more than doubled in size and membership, dealt with crises and conflicts, with nature-related, economic, social and technological challenges. And in the meantime, the geopolitical situation has changed dramatically, too. A new superpower has risen in Asia and turned into a systemic rival for the EU on many levels. Over the years, the principles of the internal market, i.e. the free movement of goods, services, capital and labour have proven a boon for the EU's economic performance. It remains, however, far from perfect.

The implementation of the commonly agreed rules can be rather patchy, administrative requirements have mushroomed, and market surveillance capacities are woefully limited. In addition, today, it struggles with conflicting objectives:

- requests for subsidies by industry but also other actors at national level versus calls to limit State aid and keep the playing field level across Member States;
- local production requirements to keep value creation and jobs in Europe versus demands for open markets and access to them as a way of remaining cost-competitive with global competitors and providing consumers with affordable products;
- access to indispensable raw materials for the production of goods from cars, to wind turbines or solar panels, to kitchen or garden appliances, versus the supply conditions of these resources, such as guaranteeing labour and environmental standards and competing with competitors for such resources.

Openness of the EU's markets and borders, a key aspect behind the original single market thinking, has become insufficient in a world that no longer respects multilaterally agreed international trade rules.

In fact, it risks turning into a vulnerability for the EU, if it isn't equipped with some safeguards, such as strict surveillance of the quality and safety of products entering the EU's market or the screening of investments and related objectives by investors. In a world that is turning away from multilateral rules-based systems towards states restricting or limiting access to resources based on their national interests, the economics of globalisation, of internationally integrated supply chains no longer function.



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An internal market that was based on these rules therefore needs a new strategy. It should focus on several aspects: a European industrial policy, a favourable framework for businesses and SMEs, social economy enterprises, public support for the European project, properly organised and efficient services of general interest and steps to preserve and develop our social model.

As also discussed in the upcoming EESC opinion INT/1043 “Developing a new European strategy for the Internal Market”, which will be examined in the EESC’s January Plenary, the completion of the EU capital market is crucial for deepening the internal market. The capital market should be focused on financing the production, purchase and flow of goods and services, in particular by supporting businesses’ R&D&I and services of general interest, and by encouraging entrepreneurship. Furthermore, priority should be given to policies that provide a framework for innovation by private companies and favour innovation through access to venture capital and cooperation between industry and science. The enforcement of the *acquis* must be a further priority for strengthening the internal market. Unfortunately, many of these rules have not been transposed into national law, are being implemented very differently, or are being applied to very different degrees. This is a serious and substantial obstacle to the smooth functioning of the internal market. National and regional authorities must work better together in aligning their administrative procedures, rendering them more interoperable and using available technological solutions.

A new system of cooperation to find the best solutions is required, and a new spirit of collaboration between Member States is essential to create a genuine sense of European identity. The introduction of a pan-European civic and social service to be carried out by every young European could be one way of improving understanding of what other peoples, countries and cultures need.



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Navigating Strategic Autonomy: A ROADMAP FOR THE EU IN A SHIFTING GLOBAL LANDSCAPE

In the wake of the COVID-19 pandemic and the seismic events surrounding the Russian invasion of Ukraine, the EU finds itself at a crossroads, compelled to redefine its approach to economic integration and strategic autonomy. Strategic autonomy, a term embraced by the von der Leyen Commission alongside the Green Deal in 2020, calls on the EU to fortify its resilience and safeguard its interests in an era marked by geopolitical uncertainties.

Historically championing open markets and a rules-based system, the EU now confronts challenges that demand a recalibration of priorities and policies. The shift comes in response to a global landscape where major powers, notably the US and China, are adopting policies to reduce reliance on others and advance national interests. As the multilateral rules-based trading system encounters fundamental challenges, the EU has heightened focus on reducing external vulnerabilities tied to unreliable trade partners and precarious value chains. Protecting access to critical raw materials has gained significant political attention, especially in light of the twin transitions towards green and digital technologies, which increasingly rely on these materials and demand access to new markets.

Because of its multiple dimensions, the pursuit of strategic autonomy is not a one-shot policy. It demands a comprehensive approach that should address economic vulnerabilities without wounding the global trading system. In this endeavour, the choice of policy instruments is critical.

Diversification: myth and reality of decoupling

Diversification of supplies, encompassing products, services and investments, has already started on a global scale as part of companies' reassessment of geopolitical risks. In some cases, firms have already chosen to relocate (part of their) production and explore other suppliers. However, achieving immediate diversification, and even more, completely decoupling from China, faces major limitations. The reality is that new dynamics are already emerging to navigate policy restrictions. Value chains are becoming more complex in response to policy attempts to muster control of trade. More intricate structures potentially concealing indirect links and dependencies are hidden behind de-risking patterns in direct trade.

It must be acknowledged that China holds a central position in global trade and supply chains and therefore it demands special attention when formulating a strategy to reduce



vulnerabilities or, more broadly, when implementing a de-risking strategy. Any attempt to decouple from China presents challenges for policymakers and businesses. In certain sectors, decoupling remains unfeasible due to specific input product supplies and raw material control. The intricate connections of global value chains with China mean that diversification efforts may not immediately reduce reliance on Chinese inputs and suppliers. Even substantial shifts in production to alternative destinations may only lead to marginal decreases in China's global supply of exports and its contribution to manufacturing or supply chains. Consequently, achieving de-risking is likely to be a prolonged process. This acknowledgment does not diminish the importance of the broader diversification objective. However, it is essential to recognise that diversification is a complex and long-term challenge, and expectations must be aligned accordingly.

Trade policy: less weaponisation, more partnerships

Some lessons should be learned from the recent experiences in the realm of trade and, in particular, the attempts to weaponise trade. Despite the growing prevalence of export restrictions, the effectiveness of such measures remains uncertain. Russia's endeavours to exert pressure on the EU through gas supply cuts, the imposition of a price cap on Russian oil by Western nations, and China's control measures on gallium and germanium have led to price increases and some political turbulence. However, none of these measures have swiftly achieved their ultimate objectives. Supply chains are demonstrating a remarkable ability to adapt, surpassing initial expectations, and importers are successfully identifying alternative sources. The reality is that numerous countries, including Azerbaijan, Taiwan, Türkiye and Viet Nam, remain open to trade and are poised to capitalise on trade rivalries and disputes rather than become entangled in them.

Because of such dynamics, the EU should harness existing trade agreements, forge new strategic partnerships and actively engage in the reform of the global multilateral system.

Trade policy falls within the exclusive competence of the EU, presenting opportunities for further action. Although the potential for the EU to expand its strategic import networks, particularly for critical raw materials, through trade policy may seem restricted due to existing extensive networks, the recently finalised trade agreement with Chile demonstrates that there is still room for advancement.

Industrial policy: save the single market, rethink industrial strategy

Key EU initiatives to achieve strategic autonomy so far include the [Critical Raw Materials Act](#), the [European Chips Act](#) and the [Net-Zero Industry Act](#). Their overarching aim is to secure or diversify supplies and foster innovation and production in the EU.

Traditionally, EU industrial policy instruments have been rooted in single market principles and the safeguarding of the four freedoms. However, in the aftermath of successive crises and a shifting global landscape where influential players employ State intervention to consolidate their positions, it has become increasingly apparent that the conventional tools of the EU single market may fall short in ensuring strategic autonomy. This recognition of change is propelling the evolution of EU industrial policy objectives, elevating its significance as a key policy instrument in the EU.

Today, EU industrial policy is not only tasked with fortifying industrial competitiveness but also with attaining strategic autonomy. The latter implies that decisions based solely on economic considerations may leave the EU vulnerable to unreliable partners, potentially allowing them to pursue political goals at the expense of EU interests. Consequently, the paradigm is shifting towards directing, reinforcing and subsidising investments in specific sectors, economic regions or countries as the new norm. This evolution introduces significant challenges to upholding the principles underpinning the single market, and potentially EU economic convergence

and integration. Allowing Member States to provide State aid to strategic industrial sectors will create an uneven playing field due to varying fiscal capacities, economic structures and traditions in determining national-level industrial policy to foster competitiveness.

Safeguarding the single market while striving for strategic autonomy is a balancing act that requires a thorough re-evaluation of the EU's industrial policy. This includes extending industrial policy instruments and exploring the use of EU funds to support a comprehensive strategy. Importantly, this reassessment requires a careful evaluation of industrial restructuring to align with green and digital transition priorities.

This piece is derived from a study titled "What ways and means for a genuine strategic autonomy of the EU in the economic field?" commissioned by the European Economic and Social Committee and drawn up by C. Alcidi, Kiss-Gálfalvi, D. Postica, E. Rigetti, V. Rizos and F. Shamsfakhr.



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Read the new study **"What ways and means for a genuine strategic autonomy of the EU in the economic field?"** here: <https://europa.eu/!n98Tdd>

The study was commissioned by the EESC on request of the EESC Employers' Group and was prepared by CEPS.

Welcome to our new EESC Employers' Group member!



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Short message:	I have worked with Swedish labour law for a long time and in recent years also on ILO-related issues, so now I am really looking forward to working on EESC issues. A strong supporter of the EU – there are pros and cons of membership, but we are all stronger together in the EU.

European Innovation Stress Test

A NEW CONCRETE AND PRACTICAL INSTRUMENT

The EU is losing ground to its international competitors, and this is partly due to legislation that sometimes creates unexpected barriers to research and innovation activities. The new European Innovation Stress Test, as suggested by the Belgian Presidency of the Council in its request for an exploratory opinion, might be an impactful instrument for enhancing the EU's innovation environment.

It is of strategic importance to maintain and stimulate innovation investments in the EU and attract new investments from third countries. If EU initiatives stimulate, rather than discourage, investment in innovation, only then will Europe be able to use the power of innovation for its long-term competitiveness, to enable the green and digital transitions, and to grant a high standard of life for all Europeans.

Of course, this presupposes that the authorities ensure good framework conditions that are conducive to promoting all kinds of R&D activities of investors and operators, whether public or private. Multiple conditions need to be fulfilled, including sufficient workforce and talent, positive attitude to risk-taking, sufficient financial support and capital markets. In addition, lifelong education and the appropriate involvement of the social partners play key roles. The European Commission has to identify where its strengths and weaknesses in our innovation landscape lie, and address these.

A practical solution for checking how innovation-friendly future European initiatives are, would be to create a checklist. This would help to verify that new initiatives do not create, directly or indirectly, a new obstacle to investment in innovation in the EU. This "top 10" checklist of requirements should concern both the availability of talent, gender equality, present or



future tax incentives and the taking into account of reliable scientific data.

The upcoming EESC opinion INT/1045 "Introducing a European Innovation Stress Test", which will be discussed at the EESC January Plenary, will detail questions and suggest ideal answers for this checklist. If a piece of legislation does not fulfil one of the points on the checklist, the European Commission would have to justify its choice or make changes to its proposal. It is therefore a practical and easily implementable guidance which complements the existing framework (including the "innovation principle" and the "better regulation tool-box") and should contribute to its effective implementation. Of course, the tool can only have a real impact if the current and mostly the next European Commission uses it systematically and monitor it.

All public actors, on the European, national and even the local level, should be involved in using this new tool. Europe needs all hands on deck so obstacles to innovation can be effectively avoided and we can make the EU the most attractive region in the world for innovation activities.



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