ANALYSIS

ECONOMY AND FINANCE

FORGING THE NEW EU AGENDA

Progressive Inputs for European Economic Policy

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As we enter a new EU legislative term, the stakes are high for Europe. This collaborative analysis of progressive organisations, trade unions and the social-democratic movement, lays out key policy insights for the emerging EU economic policy agenda.

We discuss three priority areas: (1) the European Social Agenda and the EU's finances; (2) industrial policy for the twin transition and territorial cohesion; and (3) trade policy and international partnerships.

The challenge will be to translate these priorities into reality, by making the most of the limited resources and opportunities available to progressives in the new legislature.

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INTRODUCTION

David Rinaldi (FEPS) and Cédric Koch (FES)

As we enter a new EU legislative term, the stakes are high for Europe to step up and secure a strong and resilient economy that is able to deliver an inclusive and sustainable future. This publication, born out of a collaboration between progressive organisations, trade unions and the social-democratic movement, lays out essential policy insights to inform and inspire the emerging EU agenda.

This policy analysis mirrors the structure of the Progressive Economic Policy Conference that the *Foundation for European Progressive Studies* (FEPS) and the *Friedrich-Ebert-Stiftung* (FES), in cooperation with the *European Trade Union Confederation* (ETUC) and the *S&D Group*, organised in Brussels on 25 and 26 September 2024. It builds on background briefings to the six thematic sessions, which were revised based on notes and inputs from the discussions. With this publication, we make them available for the benefit of the many stakeholders in Brussels and beyond who work to make EU economic policy more progressive, and who will have to step up to shape the EU agenda over the next few years.

We organised the contributions into three macro areas:

(1) **strengthening Europe's socio-economic model**, focusing on the European Social Agenda and the future of the EU's finances;

(2) **industrial policy for full-capacity Europe**, focusing on the tools to deliver on the climate and digital transition and the need to foster territorial cohesion; and

(3) **global and sustainable Europe**, to reflect on the new role of trade policy, the competitiveness agenda and international partnerships for sustainable supply chains.

Each chapter is concise to be digestible, but, for each topic, we provide references and further reading for those who wish to expand their knowledge.

The policy aspects addressed herein do not look at the EU agenda in a comprehensive manner. There are many relevant topics for the progressive family not addressed in this publication, and not all the aspects we cover are dealt with in the detail they would deserve. Nonetheless, we believe that they are valuable by bringing together different aspects of EU economic policy in a condensed format to highlight concisely the current context, the priorities from a social-democratic perspective and some of the key policy solutions needed to make sure that the EU continues to deliver for its citizens.

What this policy study does not spell out in detail is the challenging political context in which the EU and progressives within it find themselves, as we seek to confront this historical moment. On one hand, several portfolios in the new Commission are under progressive leadership and the S&D Group remains the second-largest in the European Parliament and a key pillar of the informal coalition supporting the new Commission. On the other hand, much of the decision-making power within the Commission is effectively centralised under von der Leyen herself and diffused across portfolios to contain the autonomy of individual Commissioners and their political families. Furthermore, the EPP Group has already shown itself very open to voting with an alternative coalition, including the far right, to escape the priorities of its informal coalition partners on the centre-left. And in the European Council, which is central to much economic policymaking, progressives are awfully underrepresented in this new term.

The challenge for this legislature will therefore be to translate as much of our collectively priorities into policy change as possible, by making the most of the limited but nonetheless considerable resources and opportunities available to progressives in this new constellation. This policy study is meant to contribute to these efforts by equipping policymakers with the knowledge needed to craft effective solutions, promoting inclusive and sustainable development for all Europeans. In a sense, what follows, thus, serves as an invitation for further discussion and action. We encourage policymakers, stakeholders and citizens interested in a progressive Europe to engage with these ideas and find ways of turning them into reality in the challenging policymaking context we face over the next years. Together, let's fight to ensure we build a more sustainable, inclusive and prosperous future for the EU.

1

STRENGTHENING EUROPE'S SOCIO-ECONOMIC MODEL

1.1 GOVERNANCE AND TOOLS TO DELIVER ON THE SOCIAL PILLAR

Marie Hasdenteufel (FES), Dominika Biegon (DGB), Cédric Koch (FES) and David Rinaldi (FEPS)

CONTEXT

The European Pillar of Social Rights (EPSR) has reintroduced social policies at the forefront of the EU agenda, following the austerity measures that dominated the response to the economic crisis. While the EPSR is non-binding, it has become a crucial reference for EU institutions. The Pillar's Action Plan (2021), the Social Summit in Porto (2021) and the La Hulpe Declaration (2024) reaffirmed the commitment to building a Social Union. Significant initiatives, such as the Adequate Minimum Wage Directive, the Child Guarantee, the Social Economy Package and the EU Care Strategy, have already shown the transformative power that the Pillar can have. Despite the extremely successful leadership of outgoing Commissioner Schmit in the previous legislature, it seems that President von der Leyen isn't inclined to continue advancing social rights and the European Social Pillar with the drive needed. Her recent moves suggest a shift away from prioritising this agenda, almost as if she's reluctant to keep up the momentum set for social protections and rights across Europe. Circumstances though require special attention to social outcomes, not a disaffection to the Social Agenda. Less than a year after Jacques Delors' passing, it feels as though his vision has faded from memory. His idea of a Union that balances competition with solidarity and political unity laid the foundation for Europe's success. Now, as the Commission intensifies its focus on competitiveness and the internal market, it's more vital than ever to bolster our social rights and strengthen the Social Pillar to ensure that all Europeans can benefit from a stronger economy.

Considerable potential for further actions remains for bringing forward a new socio-economic governance model, hopefully framed in a way in which economic and social policies at the EU level reinforce each other. Within the upcoming Social Action Plan, there can be ways to give further teeth to the EPSR, for instance, by designing a Quality Jobs Initiative that's not only a mere roadmap but a proper agenda, focused on ensuring a just transition and workers' protection from misuses of algorithms and artificial intelligence (AI) in the workplace. Key legislative initiatives will be necessary, including a directive on a just transition in the world of work; regulating the role of labour intermediaries and introducing an EU general legal framework limiting subcontracting and ensuring joint and several liability through the subcontracting chain; addressing psychosocial risks, online harassment and shaming at work through a European directive; ensuring effective regulation of AI with the "human in control" principle incorporated into EU law through a directive on AI at the workplace; and delivering a directive on telework and the right to disconnect.

Another tool that the Union needs to develop to ensure good social outcomes is the conditionality to the allocation of EU public money based on social (and ecological) criteria, the so-called social conditionalities and safeguards. For instance, whoever receives financial support and investment should adhere to or promote collective bargaining agreements, commit to site retention and qualification schemes, and generally implement decent work criteria to foster quality jobs. Besides building new tools and improving the current governance, progressives in the coming mandate will also have to be vigilant to preserve what has been achieved, for instance, with the national plans implementing the EU child guarantee or the proposed 28th regime, as there are clear attempts at deconstruction.

What follows is not a comprehensive overview of what should be done at the EU level on social policies, rather we highlight a few new tools and directions to equip the socio-economic governance of the Union with more balanced and impactful means. A more complete overview of the European Social Agenda for this new legislature can be found via the policy study on "The Social Pillar and the future of the EU Social Agenda".

REBALANCING SOCIO-ECONOMIC GOVERNANCE

The European Semester, as the central governance framework to coordinate fiscal, macroeconomic, social and employment policies among member states, has experienced a gradual rebalancing towards social issues. Progressives must strongly oppose the idea of turning the European Semester into a tool solely aimed at fiscal coordination, as proposed by Draghi. The layering of the Recovery and Resilience Facility (RRF) on top of multilateral surveillance has transformed the European Semester into an instrument advising on spending and investment. However, the procedures in place for employment and social policy issues remain underdeveloped and less stringent than those for fiscal and economic problems.

– **The introduction of the Social Convergence Framework into the European Semester to identify excessive social imbalances** like youth unemployment is not an end in itself but **should be deepened and used to urge governments to take concrete actions.** The identification of risks to upward social convergence should systematically lead to the adoption of recommendations. One idea to make the recommendations more effective would be to include them in the preparatory phase of the Semester (autumn package) and to merge them with recommendations on employment into a Joint Employment and Social Convergence Report. Moreover, it would help to keep the EPSR high on the EU agenda and mainstream its actions in all relevant EU policy domains, while making sure to reach the 2030 Porto headline targets.

– The Spanish and Belgian EU presidencies had started promising work to relaunch the value of **social investment as a tool for a resilient economy**. These aspects, which **have the potential to substantially improve the fiscal framework**, cannot be abandoned, even if the political momentum might seem to have passed. It is still beneficial to stress the returns on social investment and their value as a pro-growth strategy. It could be beneficial to reverse the burden of proof: instead of demonstrating that social investment generates growth, provide evidence of the cost of non-investment to showcase how detrimental the lack of proper investment in health, education, childcare, long-term care, active labour market policies and the like is for the economy. Keeping social investment low is not fiscally neutral and is detrimental to long-term potential growth. The Scandinavian social welfare model also confirms that social investment can be an asset for competitiveness.

– **The democratisation of EU socio-economic governance is overdue.** Within the technocratic nature of the European Semester, neither the national parliaments nor the European Parliament have a decisive decision-making role. If, in the future, the disbursement of EU funds is conditional on the successful implementation of structural reforms (which is the case with the RRF), the structural reforms decided upon in the European Semester must be democratically decided.

SOCIAL CONDITIONALITIES TO ORIENT PUBLIC SPENDING TOWARDS SOCIAL PROGRESS

One effective tool for advancing social progress is the implementation of social conditionalities in all forms of public funding and public procurement. Whenever EU funds, whether direct or indirect, are utilised, these payments should actively support the achievement of EU social goals and the EU Green Deal, particularly in promoting quality jobs. By doing so, public money can serve as a catalyst for good company behaviours and support better working conditions. This approach has already proven successful in the Common Agricultural Policy, where the allocation of public funds is tied to social conditionalities. Portugal, under the Socialist Party, has also experimented with positive and progressive conditionalities, for instance, linking public support to companies that had devised plans for equal pay and had engaged in collective bargaining. Some European measures in this domain could include:

– **Social conditionalities, such as ex ante eligibility criteria when applying for funds or support** (e. g., excluding employers that don't respect applicable labour standards), **can shape the overall objectives for funds** (e. g., ensuring the creation of quality jobs) **or act as award criteria** that favour, for example, companies with collective agreements. In general, conditionalities must be measurable, verifiable and enforce consequences in case of non-compliance. Conditionalities should be developed together with social partners.

– **To achieve an ambitious industrial policy, Europe must integrate social conditionalities as a core element.** These conditions should be embedded across various EU funds, the state-aid framework and the procurement rules. It is now essential to kick off the debate on this for some smart conditionalities to be included in the upcoming Multiannual Financial Framework (MMF).

– **Social conditionalities in EU budget funding must be paired with a renewed Public Procurement Directive.** The EU allocates 14% of its GDP (€2 trillion) annually to public goods and services, providing a significant opportunity to advance social goals and promote collective bargaining. Currently, public procurement prioritises the lowest price, often resulting in a race to the bottom in employment conditions.

NO COMPETITIVENESS WITHOUT SOCIAL POLICY

Progressives must engage in the competitiveness debate and ensure that they work for a highly competitive social market economy, using the competitiveness narrative as a means of doing so. The competitiveness agenda for Europe has to go hand in hand with the reinforcement of social and territorial cohesion, to avoid a worsening of the geography of discontent. To this end, the EU should prioritise investment in the creation of quality jobs, enhancing our productivity and international competitiveness. Increasingly, companies are reporting labour shortages, leading to higher workloads for employees, reduced profitability and slower growth. Meanwhile, many workers are trapped in low-paid jobs with minimal security. A resilient workforce with diverse skills is key for competitiveness, and training and reskilling for workers is a key investment area to secure the future of the EU economy.

– **Investing in training may alleviate labour shortages:** training reduces turnover and increases productivity, thereby increasing output per worker. The right to training for all workers without costs and during working time should be ensured.

– **Expenditure on learning (employed and unemployed people), a just transition and re-integration into the labour market should be exempt from the net expenditure indicator in the economic governance framework.** This could also be framed in a legislative initiative favouring the concept of a just transition, with a holistic approach, in the world of work.

– **Social rights must be considered in the transformation of the EU economy:** the EPSR should be integrated into the Green Deal Industrial Plan and the new EU Competitiveness Fund must include a social investment leg focused on training, reskilling and the just transition.

– **Legislative initiatives should be put forward to ensure quality jobs are urgently needed**, including to guarantee just transitions and the anticipation and management of change, to regulate subcontracting and intermediaries, to ensure the respect for the right to disconnect, to prevent psychosocial risks and to guarantee the right to training.

– **In this framework, an initiative to develop an EU instrument focusing on job retention schemes and support for workers and families hit by the green and digital transitions should be considered.** Building on the positive experience of SURE, it would develop a common approach to active labour market policies and designing permanent EU stabilisers/reinsurance of government expenditure on employment and social protection, especially to face future (exogenous) shocks.

REFERENCES AND BACKGROUND MATERIAL

This input includes elements drawn from the works by Amandine Crespy (Université libre de Bruxelles), Sonja Bekker (Utrecht University), ETUC, UNI Europa and the S&D group and on discussions with experts from national governments. Further resources include:

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1.2 FUNDING THE EU'S FUTURE

Cédric Koch (FES), Dominika Biegon (DGB) and Marie Hasdenteufel (FES)

CONTEXT

At the start of this new legislative period, the EU's finances are at a crossroads. On one hand, massive investment needs are clear, with regards to decarbonisation, innovation, digitalisation, competitiveness, resilience, defence and potential enlargement, among other priorities in a growing portfolio of common European challenges. On the other hand, company investments remain muted compared to other world regions; member states have begun fiscal consolidation after the expensive health and energy crises of recent years; and the EU's exceptional regime of suspended budget rules, loose state-aid rules and a substantial EU recovery fund is coming to an end. A central and controversial question for the next legislature is, therefore, how can the EU institutions and member states together provide the private and public funds needed to jump-start the EU economy in a changed global context? And how can we ensure that these investments include sufficient resources to protect those workers and other groups impacted by the very transformations they bring about? One of the merits of the Draghi report was to point out the massive need for investment, though neither the European Commission nor member states seem to champion this line of thought. There are more and more references to the fact that private-sector financing needs to be leveraged, which is an undeniable truth, but that should not be an excuse to avoid a relevant public-sector initiative that can match the stimuli injected by the USA and China.

THE POTENTIAL AND LIMITS OF PRIVATE-SECTOR FINANCING FOR EU PRIORITIES

Given the giant financing needs to address today's confluence of challenges, the private sector will necessarily have to provide as much of the necessary investments as possible. Current reform debates on the Capital Markets Union (CMU) and the broader policy of de-risking and incentivising private investment and improving investment conditions for companies at the national and EU level rightly seek to unlock this potential. At the same time, the following is clear:

– **The private sector will not be able to plug EU investment gaps alone in most sectors.** Substantial amounts of public funding are needed to trigger private investments where there is no business case yet, where transition costs discourage change and in strategic sectors where geo-economic dependencies could be abused. Additionally, public funds are key for investments in infrastructure and in other public goods like skills that market actors have no sufficient incentive to provide, as well as in investment enablers, such as just transition measures, all of which can create the conditions for private actors to flourish and invest further in their respective fields.

– **The CMU can address specific financing challenges for segments of the economy (especially start-ups and scale-ups), but it cannot solve the EU's broader funding problems and will not suffice to trigger private investments into the sectors needed in future**, which were also underfinanced in the USA with its deep capital market prior to the IRA and CHIPS Act. Aside from the challenges of legal harmonisation or a 28th regime, a CMU would also require redistributive accompanying measures to ensure cohesion, equality and unity in the economic and social fabric of the EU.

– **Private finance must be conditioned to follow and serve common democratic and progressive goals, thus increasing acceptability when financing the EU's future.** Social conditionalities ensuring positive net employment creation and quality jobs in public procurement, as well as in EU funding instruments, are thus key, as are public equity stakes whenever public and private funds jointly invest in future gains. The sustainable finance framework should be completed with a social taxonomy and reinforced to ensure growth of sustainable securities and greater alignment of current assets to the EU taxonomy.

AN EU COMPETITIVENESS FUND TO COMPLEMENT THE NEW EU FISCAL RULES

The new EU fiscal rules restore a focus on consolidated budgets and gradually reducing debt, but they remain problematic and potentially counterproductive in their treatment of investments and must be further improved during their implementation phase in this term. Not least due to pressure by progressives, in her political guidelines, von der Leyen has presented an EU Competitiveness Fund as a central project of her second Commission to raise EU investments in key strategic sectors with clear EU added value. We now have to make sure that the new fund will come quickly, be ambitious enough and address the right challenges.

– **The status quo of primarily national industrial policy fragments the single market, is inefficient and cannot compete with the geo-economic scale of China or the USA.** To overcome it and complement the new fiscal rules and state-aid rules due to return in 2025, a large-scale increase of EU-level investments and joint industrial policy priorities to modernise the state-aid rules are needed, especially after the Recovery Fund ends in 2026. An EU Investment Fund would bring massive economic, and thus, fiscal, benefits and avoid drastically higher economic and fiscal costs of inaction, and should therefore be defended as a priority for economic and fiscal reasons.

– **For Clean Tech to decarbonise industry and expand renewable energy supplies, which also lower energy costs for EU businesses, rapid deployment of EU funding is especially urgent.** Industrial decline is already taking place and future-oriented investments, including by key European firms, are undertaken abroad given the uncompetitive and insecure funding landscape for firms in the EU compared to the USA (or China). This threatens to irreversibly endanger decent jobs and downstream sectors of the economy. Industry and trade unions are strong allies in this context.

– **An EU investment fund should focus on funding EU public goods by unlocking private investment via the European Investment Bank (EIB) and public procurement, but needs at least 1% of EU GDP in public funding per year to credibly address the current gaps in financing and sustainably transform the EU single market.** It should focus on key strategic sectors with clear EU added value, where all member states benefit from common transnational investments and public goods at the scale of the single market. Concrete EU-wide projects, such as transnational electricity and hydrogen grids or high-speed rail lines, are essential to justify large EU funding increases and can ensure sufficient political support for a broader investment fund, which also addresses industrial decarbonisation, skills and expanded R&D funding.

– **To achieve the necessary scale, a new investment fund should be pragmatically financed through a mix of resources, including higher member state budget guarantees and contributions, new own resources (see below) and new EU bonds.** Member state contributions should be raised and member state budget guarantees (which do not entail direct liabilities for member state budgets and do not imperil fiscal rules) should be reused for more EU investment. More own resources will become necessary to repay the NextGenerationEU (NGEU) loans from 2028 onwards in any case, and any eventual deal in the Council on new revenue sources must be used by the European Parliament, progressives in member states and trade unions to demand additional own resources to sustainably finance significantly expanded common EU investment. There are viable legal pathways to new EU bond issuance outside the Article 122 model, which can be pursued if new own resources are secured. Important governance lessons, which improve on the RRF's weaknesses, should be incorporated, rather than demanding a repeat of NGEU 2 (focus on verification and documentation procedures away from the underlying purpose, the inflexibility of performance-based financing, difficulty in involving local and regional authorities, risk of unequal treatment due to non-transparent procedures).

PROTECTING AND IMPROVING THE MFF

Given the various challenges to finance the EU's future, the next EU budget (MFF) will (have to) be reformed substantially to increase its efficiency and effectiveness in the context of changing priorities. While more focus and strategic orientation based on the effective performance of EU funds is important in the upcoming MFF reform, progressives agree that:

- **EU-level financing must play a growing role if we want to reach the growing list of common EU priorities, such that a significant increase in the size of the MFF is needed.** An efficiency-improving reform of the MFF cannot unlock sufficient funds without drastically cutting those budget lines with significant political risks, especially in poorer and more rural regions, which are already at higher risk of populist far-right mobilisation and voting. Successful programmes like the innovative countercyclical stabilisation tool SURE must be protected and could even be expanded as part of the new Commission's preparedness package.

- **The Cohesion Funds need reform to increase their efficiency to better achieve their goal as a regional convergence instrument, which also contributes to agreed EU priorities, but they should not be relabelled as solving other problems at the expense of this purpose or outright slashed to fill other gaps in the EU budget.** In a moment in which the single market is deepening, cohesion policy must, in this case, be reinforced to offset the potential negative impact of economic integration that some areas will inevitably suffer. It is key to ensure that – in the new MFF – social, territorial and economic cohesion funding and policies, as well as ESF+, are fully safeguarded. Spending for social progress objectives must be increased, including supporting quality jobs, promoting social dialogue and collective bargaining, and capacity building for social partners.

- **On the revenue side, the EU needs new own resources at sufficient scale to finance current and prospective liabilities more independently from member state budgets.** These should (for legal and political reasons) focus on areas untaxed so far by national finance ministries and must be defended as thereby increasing fiscal space for all member states that struggle to consolidate their budgets. A financial transaction tax, a single market levy, a tax on billionaire or net wealth, and fairer capital taxation are the most promising potential sources with sufficient size and could be coordinated within the EU to serve (at least in part) as new EU own resources, alongside those proposed by the Commission in 2023. Taxing undertaxed sectors like shipping, aviation, private jets and luxury pollution, as well as share buybacks and a single market levy should also be considered.

- **Targeting and conditionalising the EU budget can be helpful, but the RRF model of reforms and milestones should not be introduced uncritically to the entire EU budget.** Conditionality is desirable to protect the rule of law and fundamental rights or to improve labour and environmental conditions. However, national-level economic and social policy reforms are unsuitable for the structural funds that address regional and local administrations without control over governments. Worse, using the entire EU budget as a financial instrument to enforce national fiscal consolidation and controversial structural reforms undermines the democratic legitimacy of national and EU policymaking to the (further) benefit of far-right populists at the national and EU levels, given the weaker role of the European Parliament compared to national parliaments and the lower legitimation of the Commission president compared to heads of state.

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2

INDUSTRIAL POLICY FOR FULL-CAPACITY EUROPE

2.1 INDUSTRIAL STRATEGY FOR CLIMATE, CONVERGENCE AND QUALITY JOBS

Anna Kolesnichenko (FEPS) and David Rinaldi (FEPS), with inputs and comments by Stephan Thalhofer (FES) and Ben Lennon (ETUC)

CONTEXT

As the new European Commission is taking shape, it is clear that competitiveness and industrial policy will be its top priorities. At the moment, there is quite a lot of debate around these concepts, and different stakeholders are advancing their visions. There are, for example, calls for deregulation and the promotion of European champions to enhance competitiveness. Plus, conservative organisations are claiming that the green transition is too costly and should be scaled down.

Progressive forces need to advance their own agenda on competitiveness and industrial policy based on decarbonisation and the social-democratic core principles of social justice, territorial cohesion, social dialogue and workers' rights. A solid, clear and easy-to-communicate narrative has not emerged yet in the progressive camp. There are just bits and pieces of a strategy, and specific tools and priorities are yet to be elaborated.

THE ROLE OF THE PUBLIC SECTOR

The state, at the EU, national and regional levels, needs to **reclaim ownership of industrial policy**. The *laisser-faire* approach to industrial development of the last four decades failed, leaving the EU with massive underinvestment and sectoral deficiencies, which resulted in weak productivity and the emergence of vulnerabilities in strategic sectors. Social partners should promote a stronger role of the state, non-profit organisations and social economy for a new economic and social model.

A stronger role of the state does not mean a return of the old traditional model of bureaucratic management – this model is not viable in times of rapid transformation and innovation. The state must become agile, with a strong steering capacity, while being deeply embedded in both social and business networks and supportive of the needs of workers. The state needs to set the priorities and **define missions** for industrial development and then steer and collaborate with businesses on their achievement, engaging trade unions along the way.

The immediate task in this regard should be to **strengthen state capacity** at all levels. If the state is to be able to steer the economy, it needs capacity and resources. To begin with, governments should reduce their reliance on outsourcing of strategic work to consultants. Institutional capacity needs to strengthen at all levels, including the creation of dedicated institutional structures, increasing staff numbers and substantially improving data availability to inform decisions. The capacity gap is especially acute at the local level, and it is at the local level where the implementation burden falls.

Overall coordination, prioritisation and political ownership of the transition are lacking at the EU and national levels. The European Commission should increase policy coordination and political ownership of climate issues, including the transition, by elevating its responsibility at the EU and national levels. The current overreliance on environment ministers and the exclusion of labour and social and economic ministers in the just transition and climate work is a mistake. A future Executive Vice-President for Just Transition of the Commission should lead to strong social and employment measures in the future energy and climate policies.

FUNDING AND ITS CONDITIONALITY

Another big challenge is **funding**. Under the new fiscal rules, most member states do not have enough flexibility to adequately finance climate and social needs. As we have suggested in the section on funding, the EU needs a **permanent investment instrument** to ensure that required investments in climate, digital and social dimensions are promoted and secured in the long term. Also, **new own resources** should be added – progressive taxes on the wealthiest individuals, on capital and on pollution and a fight against tax evasion.

Common funding is needed to make the EU industrial policy truly European. At the moment, the essence of the

EU industrial policy is state aid that is implemented by member states and determined, to a large extent, by their individual fiscal capacity. Even IPCEIs, which aim to serve common European interest, are run and financed by member states, while the deployment of EU money is optional. This approach is inefficient and risks producing further regional divergence. Common EU funding is also more economically efficient, as it can be done at much lower rates than those faced by individual member states.

The most immediate thing that could be done is to put **social and environmental conditionalities** in all **state aid and public procurement** in the EU. As highlighted earlier herein, social conditionalities are an essential requirement for any public funding to provide quality jobs and a skilled workforce. Public procurement accounts for 14% of the EU GDP, yet this instrument is not used strategically: the majority of procurement procedures use the lowest price as the only award criterion for public contracts. Having social conditionalities included in the revision of the different EU funds and in the next **MFF** can also be seen as one of the key aspects that brings together competitiveness and employment standards, de facto ensuring that EU spending delivers a double dividend.

Governments and the EU can also consider taking or expanding the **equity stakes** in strategic sectors that receive state support – this is the way to achieve steering and benefit the budget and taxpayers from any upside of the investments. Furthermore, some innovative solutions could be done on the monetary policy front, like **dual interest rates** that enable lower funding costs for green investments.

Quality of spending is important. Based on the experience with the RRF, we see that, if too much pressure is put on the speed of spending, the quality suffers. Sometimes countries decide to give funds to big companies, as it is quicker, but it is not helpful for development and diversification, nor for building of the European capacity and security. We need to adopt a developmental approach to industrial policy and to stress the transformative potential of funding.

To increase **transparency** in the allocation of public aid received, each member state should annually publish an accessible register of aid granted to each company.

HOW INDUSTRIAL POLICY CAN ADVANCE PRODUCTIVITY, COMPETITIVENESS AND COMPETITION

To enhance European **productivity and competitiveness**, the industrial policy needs to **stimulate innovation, especially know-how and skills**. Studies show that knowledge and skills are the main drivers of productivity and growth in modern economies, more than capital investment. Moreover, Europe's key strength is people. To become stronger, the EU needs to focus on its strengths, not just weaknesses. At the same time, the EU has a major gap in skills: according to business surveys, the availability of skilled labour is one of the main obstacles to manufacturing production and investment for European businesses. The skills shortage is particularly evident in the net-zero fields, exacerbated by a very low female employment share. Current EU industrial policy documents treat good jobs as a secondary objective or relegate them to the social policy domain, rather than seeing them as an integral part of industrial policy. This needs to change if the EU wants to regain its productivity and competitiveness.

Another major asset of the EU is the **single market**. For companies, this is the major consideration when making investments: how much demand will there be; how big is the market? The European single market is also a major asset in dealing with international partners, as they are keen to tap this largest pot of income and demand in the world. The EU, however, is not using the potential of this valuable asset enough. One reason is fragmentation, another is consistently suppressed demand. Increasing investments would help reinvigorate the demand, and therefore, the power of the single market.

Competition should underpin all industrial policy instruments. Market concentration is not good for competitiveness. Recent experience shows that company monopolies are too often doing excessive share buy-backs to increase the wealth of their investors rather than investing in innovation.

The **car industry** is going to be the test case for European industrial policy. It is an example of how an industry fully left to the discretion of the private sector gets into trouble. European car makers, especially German ones, have stuck to a very profitable but mistaken business model for a long time. When considering the future of the industry, we need to have a holistic view of mobility that encompasses not only cars, but also public transport and other mobility options. The restructuring of the car industry is going to be costly and can require substantial reskilling. The member states and the EU should play an active role in this transformation, providing not just financial support but also directionality (through conditionality and possibly taking equity stakes in companies).

REGIONAL COHESION WITH EUROPEAN TOOLS

Increasing regional inequality has been a core and well-known feature of market integration. Key EU policies to manage it have been state aid, cohesion policy and lending by the EIB. All these instruments have had only partial success in tackling regional development inequalities. Among the reasons behind the growing divide between the core of Europe and its periphery are certainly some national matters, but the EU framework is not helping to overcome the divide and deliver on convergence: (1) there is an **embedded preference for national over common European interests** in European instruments and institutions; (2) the tools are also more national than European (see, for instance, fiscal policy and state aid); and (3) there are few ways for the Union to support strategic and implementation capacity in the countries and regions that are suffering from sub-optimal governance.

The EU needs to find a way to have a common industrial policy, implemented according to **European, rather than national, logic** and European tools in addition to European frameworks. Otherwise, there is serious danger of widening divergence between countries and regions and ultimately a risk of further EU disintegration. The major obstacle for developing a strong European dimension of industrial policy is a lack of European financial resources. Another impediment is unequal institutional and technological capacity in different regions. Therefore, the emerging European industrial policy should include strengthened **cohesion instruments**, including both finances and capacity building to use regional potential in a coordinated and steered manner.

SERVICES OF GENERAL INTEREST

The build-up of industrial capacity should be accompanied by the creation/upgrade of **infrastructure and provision of public services**. Accessible, affordable and high-quality services of general interest covering all EU regions, from urban centres to rural areas, are the key preconditions for citizens to exercise their freedom to stay. Only a structured approach and constant investment in services of general interest can guarantee that this freedom is fully exercised and that all territories are equipped with sound physical and social infrastructure, giving all – citizens, companies and social actors – the possibility to exert genuine freedom of choice on where to live, work and flourish in the EU. The lack of a structural approach to services of general interest (SGIs) results in turning to them only in the case of market failure or when facing a crisis and suddenly realising that some territories or entire sectors cannot perform because of decades of underinvestment and consequent brain and infrastructure drain.

For SGIs to play an organic and enabling role, we need, on top of the political will to develop SGIs, an alignment on the SGI Acquis between primary – Article 14 and Protocol 26 Treaty of the Functioning of the EU – and secondary legislation. We do not need new primary legislation; rather, we need to improve the reflection of the existing treaty provisions through improved transposition at EU, national, regional and local levels, and to prevent the unnecessary fragmentation of policies affecting SGIs.

DEMOCRATIC DESIGN AND GOVERNANCE OF INDUSTRIAL POLICY

Greater emphasis on **public ownership and democratic management** of critical sectors, such as energy and transport, must be explored to ensure the transition happens fairly and at the scale and speed required. Industrial policy of the past has too often engendered rent seeking. To prevent this, industrial policy should be informed by a wide range of stakeholders: academia; civil society; and regional and local authorities. This involvement should be arranged in a way that social partners get the capacity they need and have an impact on decisions about industrial policy, including in the operative management of companies. Too often, unionised workers are invited to comment on already established plans. From a similar perspective, social dialogue and collective bargaining must also be strengthened in new/clean industries that often have lower union density and poorer working conditions.

A **Just Transition Directive** is essential to ensure that the transformations brought about by both climate action and the rise of AI in the world of work are fair and equitable. Currently, one third of restructuring cases in Europe occur without trade union or worker representation. This directive would guarantee that trade unions and collective bargaining are central to the planning and management of these transitions. It would establish a legal framework that compels companies to engage in proactive planning, ensuring that workers' rights, jobs and communities are protected from the outset. While most existing legislation focuses on the EU and national governments, this directive would ensure that companies play a central role in managing the impact of climate and AI transitions on workers and communities.

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2.2 DIGITAL PUBLIC INFRASTRUCTURE TO CREATE EUROPE'S DIGITAL ECOSYSTEM

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CONTEXT

Back in 2020, European Commission President von der Leyen announced that the EU should achieve digital sovereignty by 2030, the Digital Decade, a pledge that was codified in several policy documents. In addition, the European Council's strategic agenda for the new mandate (2024-2029) also emphasises the urgent need for Europe to increase its sovereignty, including in digital technologies. The EU's heavy reliance on imported technologies across the stack exposes it to geo-political risks, undercuts its competitiveness, and threatens its social and democratic model.

It is imperative to address these vulnerabilities. The Draghi report underlines the need to catch up in the technological revolution and highlights the need for industrial capacity and resilience in supply chains. We need to be competitive in innovation, translating research into action. This will require the EU to move from being a global regulator to a global builder, which means investing in the creation and maintenance of digital infrastructure. Although there is an emerging consensus around the need to invest, it is crucial that this project is not just reduced to building a "European Google" and simply channelling public money to the biggest EU businesses. Going forward, Europe must offer alternatives to the monopolistic and extractive business models of Big Tech by developing a robust digital infrastructure that is public. This implies an ambition that goes significantly beyond the current digital programmes. The mission letter for the new Executive Vice-President for Tech Sovereignty, Security and Democracy includes a clear mandate for digital competitiveness and the deployment of digital public infrastructure (DPI), which can be a step in this direction.

A PROGRESSIVE VISION OF DPI

DPI is a relatively new and evolving concept. The term gained prominence during India's G20 presidency, which recognised DPI as an accelerator for global sustainability goals. At the EU level, there is not the same level of commitment or policy on DPI. Under the Digital Decade, a new instrument was made available to member states, the European Digital Infrastructure Consortium (EDIC), to speed up and simplify the setup and implementation of multi-country projects. So far, EDICs have been created on the specific topics of language technologies, networked local digital twins, blockchain partnership and service infrastructure, but no comprehensive programme exists to date.

Building and maintaining a DPI will support the creation of a digital public space – an open and sustainable ecosystem offering alternatives to existing commercial platforms. Like any other essential service, digital (public) infrastructure should be considered as critical. Critical infrastructure in private hands naturally tends to lead to market power concentrations of the monopolistic kind. Based on free open-source technology, data portability, privacy-preserving technologies and standards, DPI can facilitate innovative solutions and efficient functioning of essential services, by redistributing power over the internet. The European Council strategic agenda for the new mandate paves the way for new, EU-wide, high-quality e-services, building on the EU digital identity.

– **The EU should bring forward a governance structure of DPI involving collective actors like trade unions and civil society organisations.**

– **Not only developing the infrastructure but also adopting it is a responsibility for public institutions like the Commission and others,** which are still running on Microsoft.

– **Private data centres have highly extractive, carbon-intensive business models.** The EU must aim for green computing and could make a first-class example of sustainable data centres.

– **New digital legislation should not increase existing regional inequalities but ensure that no one is left behind.**

AN EU FUND TO BUILD THE EUROPEAN TECH STACK

The EU has a high level of dependency on every layer of the tech stack, but the availability of investments caps the mandate for digital sovereignty and the short-term EU funding programmes are not well suited for infrastructure purposes. Building and maintaining DPI requires significant investments. Already in 2023, a coalition of 40 civil society organisations, including EDRi and Wikimedia, called for the creation of such a European DPI fund, combining grants and equity investments, that can fill the funding gap often faced by basic digital technologies. The fund needs to address the development and maintenance of DPI. The EIB and the proposed EU Competitiveness Fund have to play a role in reaching digital sovereignty, and their funding should also be devoted to building the euro stack.

The aim of this funding is to create a robust DPI and digital commons, offering alternatives to current monopolistic digital platform models, and supporting the deployment of open AI models and decentralised applications, sovereign data spaces, open knowledge tools and content, privacy-preserving digital IDs, and digital payment systems. These tools represent the foundational common stack essential for creating public options for pan-European digital services and applications that effectively create open-source and interoperable marketplaces in smart mobility, urban development, healthcare, civic participation, education and culture designed to plug into local tax, labour and licensing rules.

More broadly, funding the creation and sustainability of public goods can serve more goals than ensuring the financial sustainability of critical elements of the tech stack. It can help ensure that DPI is optimised for societal values.

– **A new digital tax system is needed to fund a robust DPI.** Big Tech companies make huge profits by extracting data, which, in turn, are used to buy up competitors. Big Tech needs to be taxed where data is extracted and profits are made. This tax revenue can be strategically reinvested in a European DPI.

– **For the governance of the fund, a commons approach is proposed.** This approach allows multiple actors (public sector, commercial providers, civil society, across borders) to work together and can contribute to increasing the benefits of technology while safeguarding digital sovereignty. It ensures a common good for the many, not a profit maximisation for the few, and promotes decentralisation.

– **The European Parliament could launch a report on the strengths and weaknesses in the tech stack to identify funding priorities.** The EU has invested heavily through the Next Generation Internet and other funding programmes, but we need to know where this money went and to what effect.

3

GLOBAL AND SUSTAINABLE EUROPE: TRADE AND PARTNERSHIPS

3.1 TRADE POLICY TO STRENGTHEN EU COMPETITIVENESS, WELL-BEING, RESILIENCE AND SUSTAINABILITY

Anna Kolesnichenko (FEPS) and Daniela Iller (FES), with contributions from Elena Crasta (ETUC)

CONTEXT

The predominance of the neo-liberal agenda in the last three decades gave rise to a peculiar kind of trade policy – trade for trade's sake. It seemed the more exports and imports a country had, the more successful its trade regime was considered. As it became apparent, some stakeholders did win from this regime (rich and super-rich people who are business owners and shareholders), but the overwhelming majority of the population appeared to be on the losing side, especially the poor and the most vulnerable people. The relocation of low-skilled jobs to the Global South and the weakening of trade unions led to wage stagnation and a reduction in the real incomes of workers. This, coupled with the erosion of welfare benefits, has fuelled the ascent of right-wing populism and authoritarian nationalism globally, including in Europe. Moreover, the heavy skewness of the economic policy and trade towards profit and efficiency considerations led to a build-up of systemic vulnerabilities, which became apparent during the COVID pandemic.

The emerging vision of trade policy can generally be framed as **"trade for purpose**". Trade is now increasingly seen as a tool (and not an end in itself) to promote important goals of the EU, such as strategic autonomy, resilience, green transition and sustainability. In pursuit of all this, we should not forget that the ultimate goal of all these policies is the well-being of people; therefore, this priority should be an overarching thread for all policies, including trade.

The recent emergence of **competitiveness** as a prominent goal on the European policy agenda makes it necessary to define what is meant by this word, as an elaboration of suitable policies requires making the right diagnosis first. Traditionally, a lack of competitiveness means a country living beyond its means, marked by excessive imports and a current account deficit. But this does not apply to the EU's situation – as energy prices normalised, the EU's external position returned to a hefty current account surplus: €329.2 billion in 2023 (1.9% FDP). In general, the concept of competitiveness is barely applicable to a state; rather, it is a business phenomenon. The policy discussion should elaborate what exactly is meant by "competitiveness" – this would help to have a constructive discussion and devise appropriate solutions. In his famous article, "Competitiveness: A dangerous obsession" from 30 years ago, Paul Krugman argues that politicians use the "competitiveness" word when they want to implement something unpopular.

What does seem to be a problem in the EU is productivity. In particular, Europe has a widening productivity and per-capita income gap with the USA. The question of productivity has been on policymakers' and researchers' minds for decades and by now it is generally understood that its main defining factors are innovation, especially learning-by-doing (know-how), and skills. Therefore, the priorities for policy are clear – the promotion of know-how and skills.

TRADE FOR PURPOSE(S)

Trade should be a tool to promote important goals of the EU, such as strategic autonomy, resilience, green transition and sustainability. We see a shift in the priorities of the new Commission towards economic security and competitiveness. Trade will serve this new agenda. Progressives need to engage in the debate about the definition and meaning of these new priorities.

EU trade policy should deliver a **truly level playing field**, in particular on social and environmental standards and human and trade union rights. This means that the EU keeps its commitment to free trade, but the definition of freedom is expanded to include the freedom of people to lead a decent life, to get a fair income and the freedom to live on a healthy planet.

EU trade policy should be **in line with EU industrial policy** objectives and prevent violations resulting in unfair competitive advantages for global competitors. For sectors defined as priority in the European industrial policy strategy, the European Commission should be allowed to use specific trade instruments, such as emergency tariffs and quotas, if the industrial policy actions or trade policies of the other players make such a deployment necessary to reach the European industrial policy goals. The work the EU has done recently is laudable (Anti-Coercion Instrument, Foreign Subsidy Regulation). The Economic Security Strategy (adopted in June 2023 and upgraded in January 2024) improves the investment screening system; tries to prevent the transfer of technology to certain countries; articulates export controls and outbound investment screening mechanisms; and, in general, promotes a more assertive attitude in external economic policy.

However, despite these efforts, the EU remains vulnerable if other players want to use trade to achieve their geo-political objectives. The problem is that the EU is institutionally set up for a rules-based world. While trade, single market, competition, investment and financial policies are largely EU competencies, foreign policy and hard security questions reside largely in the hands of member states. Defining geo-political priorities and translating them into economic policies is therefore institutionally difficult for the EU, which has rarely used economic tools to advance foreign policy goals. The answer to this challenge is **deeper European integration**: designing common EU industrial and defence policies; creating EU fiscal and investment capacity; and completing the Economic and Monetary Union.

In the competitiveness debate, we see proposals to promote EU champions (Draghi and Letta reports). This is a questionable proposition, both from the point of view of competition inside the EU but also strengthening the position with respect to global players. The EU has many more exporters than the USA and many of them are small and medium-sized enterprises (SMEs). Instead of promoting national champions, we need to have **a fabric of agile companies**. Here, the EU has a good chance in services, in which EU has a substantial trade share. Moreover, services can have high value added and can help us deliver on high-skilled jobs.

RESHAPING TRADE RELATIONS WITH MAJOR GLOBAL PLAYERS

The EU should become more assertive in its relationships with major global players, but keep cooperation and openness as its main principles. To begin with, the EU has to define a common understanding of assertiveness and economic security. Secondly, it has to find the right balance between economic security, on one hand, and a dialogue and cooperative approach, on the other hand.

The **transatlantic partnership** is vitally important for Europe's security and prosperity. It is in Europe's interest to develop a deeper and wider partnership. However, for the partnership to be viable in the long term, it has to become a more balanced one. A more sovereign and assertive Europe will not only be a stronger partner to the USA, but also a more resilient actor should the USA take a unilateralist or isolationist turn. In particular, the EU should insist on closer early consultation and coordination on the mutual implications of respective policies, such as industrial and trade policies. The Trade and Technology Council should be designed in this way.

In its **relationship with China**, the EU should refine its de-risking strategy and contemplate the strategic use of the recently created, more assertive, economic tools, but always maintaining dialogue with the goal of ensuring a level playing field and avoiding a trade war. However, even more important is that member states, in cooperation with EU institutions, develop a common understanding of how to deal with China and endorse such a common strategy. This would enable the European Commission to pursue a coherent approach towards China.

Development of industrial capacity in strategic sectors may require the exclusion of these sectors from free trade agreements (FTAs). It could be worth exploring more actively the possibilities of **narrower sectoral agreements**, as opposed to comprehensive FTAs. Also, the EU should consider the possible exclusion of critical sectors of the economy from FTAs when the conclusion of such agreements would be detrimental for workers and other vulnerable actors.

In general, the trade policy should not go to extremes (no trade or completely free trade) and should be based on careful case-by-case analysis. All-encompassing FTAs seem to be a thing of the past, also given how long they take to conclude and ratify. **Mini-deals** are probably the most promising instrument now, in goods and in services and raw materials. Given how difficult multilateral frameworks (World Trade Organization, WTO) and FTAs are, policymakers need to be more creative and try innovative solutions.

WORKER-CENTRED TRADE POLICY

People, and in particular workers, should be a priority of trade policy to increase productivity, innovativeness and well-being in the economy.

Enhancement of productivity requires **support to know-how and skills**. For that, countries and regions need to create a diversified economy that includes a wide spectrum of skills and inter-industry connections. The implication for trade is that the EU (as well as member states and regions) should move away from specialisation in trade (based on comparative advantage) and instead adopt a **diversification strategy for trade**: calibrating exports and imports in a way that fosters the development of desired sectors and capacities. This may also require calibration of foreign capital flows, as capital and current accounts are tightly interlinked.

Trade and sustainable development (TSD) chapters in the EU's trade agreements. The new EU policy to incorporate sanctions on labour and environmental standards is welcome. However, agreements already concluded do not contain such clauses: new TSD chapters should be included in FTAs that are yet to be finalised and in existing FTAs when they are reviewed. It is in the enforcement of our trade agreements and TSD chapters where assertiveness is needed. There should be provisions for the violation of collective bargaining, and authorities should make sure that companies comply.

The EU should also advocate for a **greater role of the International Labour Organization in the WTO** to ensure that fundamental rights at work are an integral part of the global trade agenda. As companies are the beneficiaries of trade agreements, they have to follow the rules by respecting fundamental labour and environmental provisions of trade agreements. Therefore, in addition to sanctions-based TSD chapters, agreements should include an instrument that targets the workplace where the violation of these provisions take place. This would make it possible to react more quickly to such violations and target the company without jeopardising the entire trade relationship. While mini-deals in certain sectors or goods, such as raw materials, seem a pragmatic solution to strike a deal with partner countries, the EU must ensure that these agreements also contain proper provisions on labour and environmental standards. Otherwise, the EU will lose its leverage with regard to TSDs.

We see a proliferation of digital trade agreements that often violate people's digital rights. This new area should receive more attention and policy action to ensure the protection of consumer and digital rights. UNCTAD could, for example, be used for digital trade regulation.

A democratic process for trade deals. Trade deals are notorious for their secrecy – EU trade deals are no exception. Despite some steps towards improvement in recent years, there is still room for further improvement. All EU trade agreements should be negotiated through transparent, democratic and inclusive processes, in particular strengthening the role for trade unions in the EU and partner countries, from negotiation to monitoring and evaluation of the agreement. The same needs to be done with regard to trading partners – to listen to their workers and social partners. This would help counter the excessive influence of big business and make trade beneficial for society as a whole.

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3.2 GLOBAL PARTNERSHIPS FOR SOCIO-ECOLOGICAL SUSTAINABILITY

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CONTEXT

Global trade and value chains are in a phase of upheaval after the recent crises, rising geopolitical tensions, the rise of autocratic nationalism, and the growing power and self-confidence of emerging economies – all in the midst of an escalating climate crisis and an urgent need to sustainably transform the global economy. The European Commission has responded with measures for economic security and strategic autonomy, as well as an industrial policy turn to transform and secure or bring back strategic sectors and foster future industries. These efforts include attempts to secure critical raw materials, green hydrogen and to promote international partnerships for the energy transition, such as just energy transition partnerships.

However, the perspectives of partner countries on these offers and on the impact of unilateral European legislation (supply-chain laws, carbon border adjustment mechanism (CBAM), deforestation directive) have been relatively neglected in the EU's reform efforts. There is much prominent language and high-level diplomatic efforts promising to move beyond neo-colonial relations towards so-called mutually beneficial partnerships, including greater local value creation and uplifting human and environmental rights, not least in contrast to China and the USA as geo-economic competitors. However, compared to these ambitious goals, the concrete partnership instruments are often legally non-binding, underfunded or dominated by economic interests. **A central question for the next legislature is therefore: how can the EU institutions and member states fulfil their promises with secure, durable and resilient mutually beneficial international partnerships for the socio-ecological transformation?**

INVEST IN A GLOBAL EU INDUSTRIAL POLICY FEATURING GREATER LOCAL VALUE CREATION IN PARTNER COUNTRIES

Increased EU investments in partner countries and new tools to strengthen local value creation must be recognised as a key part of the EU's future external economic policy agenda, rather than a well-intentioned development effort. International partnerships for strategic sectors, including raw materials and energy, are a key pillar to successfully implement the Net Zero Industry Act and the Critical Raw Materials Act (CRMA). A smart mix of flexible instruments, ranging from, for example, funding and exchange of know-how to capacity building, can help to meet the individual needs of partner countries instead of offering a one-size-fits-all approach. Such instruments not only help to address historical asymmetries, but they can also contribute to an enabling environment to implement universal standards, such as human and workers' rights, that need to be the bedrock of any economic activity. Progressives therefore agree to the following:

– **Significantly increase funding of Global Gateway and Team Europe, as well as public guarantees and incentives for concessional EIB finance within international partnerships.** Together, these sources to properly fund international partnerships in strategic sectors can bring the means to significantly develop production capabilities and infrastructure needed to move up value chains (e. g., from resource extraction to processing and input production). Without it, all the rhetoric about a new form of international partnership will ring hollow to partners who otherwise risk remaining dependent on suppliers of resources to companies and states in the Global North. To fund international partnerships, they should receive priority in the revenues of CBAM and other external taxes the EU develops and imposes on partner countries, strengthening acceptance of them around the globe. In addition, member states' contributions to Team Europe should be increased relative to national programmes. A share of potential new EU own resources from taxing global actors like multinationals, finance and billionaires should be reserved as revenues for investments in the global partnerships upon which the EU depends for its own transformation and resilience.

– **Integrate industrial policy into international partnerships to spur greater local value creation in partner countries.** Just like in Europe, many partner countries and regions seek to strategically use industrial policy to speed up structural change in their economies towards sustainable and future-oriented sectors. The EU should support such efforts in its negotiations, for example, industrial policy clauses on local content and employment rules, joint ventures and domestic equity shares within partnerships and trade agreements. Public procurement is a key tool of such industrial policy. Public procurement liberalisation clauses in FTAs, therefore, cause opposition, especially from progressive partners. The EU should instead offer to cooperate on how to best use public procurement for sustainable local industrial production.

– **Defend regulation of multinational companies and support developing partners in their implementation.** Partner countries and trade unions around the world support EU regulation of companies and attempts to uplift labour or environmental standards in the global economy, as long as they do not disadvantage them without appropriate support. Rather than using growing accusations of neo-colonialism and green protectionism to weaken such EU efforts, EU legislation to ensure corporate due diligence should be implemented without further dilution of its scope. In addition, partner countries and their companies should be supported in the implementation of this legislation, including financially.

– **Develop incentives to align private capital and firms with the goal to sustainably transform partner economies, improve local value creation and promote the creation of decent jobs.** European companies should be further incentivised (also) to invest in partner countries' transformations, including through guarantees and access to concessional finance, as well as the simplification of bureaucratic procedures across several funding sources (Global Gateway, EU Chips Act and national raw materials funds), without lowering standards. Any such efforts, as well as strategic partnerships and strategic projects under the CRMA and Global Gateway, should include binding conditionalities for support to companies based on the principles of decent work; environmental protection and guarantees for local production, training and technology transfer.

EVOLVE THE GOVERNANCE OF EU EXTERNAL ECONOMIC POLICY TO A TRUE PARTNERSHIP APPROACH

International partnerships not only need more funding and better rules to become credible and reliable, but they also require an overhaul of the EU's external economic policy governance to ensure that the partnership principle and promises of a relationship of equals are put into practice. Better coordinated internal processes are also needed to enable the EU to act effectively as a global player and to contribute to its strategic objectives. The gap between narrative and the reality of EU external economic policy is large and has widened with lofty new rhetoric, threatening to undermine its credibility in the eyes of partners and open it to up to charges of hypocrisy. Accordingly, for progressives, the following points are key:

– **Integrate the partnership approach into the areas of external economic policy where the EU has competencies and effective instruments available to make promises to partners credible.** DG INTPA is promoting a new vision of economic relations that can bring about more durable and resilient partnerships, which are much needed in a world of geo-economic competition. However, these partnerships are limited to soft law diplomatic instruments and voluntary coordination of member state contributions under the EU's development policy and are not pursued to the same extent by DG TRADE. To overcome these inconsistencies, the EU must integrate the partnership principles promoted by DG INTPA into the hard law instruments wielded by DG TRADE, as well as into the Global Gateway's governance and investment practices. The new "Clean Trade and Investment Partnerships" under Trade Commissioner-designate Maroš Šefčovič could be particularly important and promising for this integration of the partnership approach with effective trade instruments.

– **Overcome contradictions between EU trade policy and its international partnership approach.** Despite all rhetoric on new international partnerships with the goal of greater local value creation, current EU trade policy deprives partners of industrial policy space (e. g., through WTO lawsuits against countries' raw material export restrictions or prohibitions on export taxes in its FTA with Vietnam). Other FTAs currently under negotiation (with Australia, Indonesia and Tunisia) or already negotiated (Chile, Mexico and New Zealand) contain new energy and raw materials chapters that also constrain industrial policy space (e. g., by limiting meaningful dual pricing).

– **International partnerships are more resilient if they are negotiated and institutionalised together with key domestic partners outside the government on both sides.** Domestic social partners and civil society on both sides must be continuously informed and consulted from the stage of formulating negotiation mandates onwards, with parliaments allowed to act as a legitimising check on government decisions with their input already at this stage. To that end, the EU can build on and improve its existing Domestic Advisory Group system, by empowering them to monitor international agreements from the mandate formulation stage onwards and strengthening their voice within parliaments and with respect to governments. There is also a need to strengthen meaningful trade union participation in the governance of the Global Gateway and the institutions that monitor and develop the CRMA (especially the CRMA Board).

– **International partnerships must effectively address the role of multinational companies and their due diligence.** Thus, we need an instrument that goes beyond the EU Corporate Sustainability Due Diligence Directive, such as the UN binding Treaty on Business and Human Rights. The EU should therefore start fulfilling its negotiating mandate.

– **Work towards more coordinated EU external economic policy across fragmented portfolios within the Commission, Parliament and Council to become geo-economically competitive and secure resilient partnerships.** This requires a "whole-of-government" approach, with better coordination across DGs, parliamentary committees and national ministries. Progressives should therefore push for greater and more strategic coordination between different portfolios in the European Parliament and COM – in particular in trade and development policy – to ensure the EU has its full toolbox and expertise at its disposal when negotiating with external partners.

– **Prioritise multilateral or bi-regional agreements over bilateral deals.** Multilateral frameworks provide fairer negotiating terms and create larger, unified markets that benefit both sides and allow especially SMEs greater access. Bi-regional cooperation, such as with the African Union, should be pursued to level the playing field and avoid power imbalances in bilateral partnerships.

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In addition to the above-mentioned authors, the Progressive Economic Policy Conference was organised at FEPS by Thainá Leite (Project Management Coordinator) and Vanessa Zwisele (Project Officer) and at FES by Katharina Lepper (Project Officer).

More information on the event can be found here:
https://brussels.fes.de/e/progressive-economic-policy-conference-discusses-the-new-eu-agenda.html

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FORGING THE NEW EU AGENDA

Progressive Inputs for European Economic Policy

As we enter a new EU legislative term, the stakes are high for Europe to step up and secure a strong and resilient economy that is able to deliver an inclusive and sustainable future. This publication, born out of a collaboration between progressive organisations, trade unions and the social-democratic movement, lays out essential policy insights to inform and inspire the emerging EU agenda for socio-economic development. It builds on background briefings to the Progressive Economic Policy Conference that FEPS and FES, in cooperation with the ETUC and the S&D Group, organised in Brussels on 25 and 26 September 2024.

We identify and discuss progressive policy recommendations for three priority areas: (1) strengthening Europe's socio-economic model, focusing on the European Social Agenda and the future of the EU's finances; (2) industrial policy for full-capacity Europe, focusing on the tools to deliver on the climate and digital transition and the need to foster territorial cohesion; and (3) global and sustainable Europe, focusing on new role of trade policy and international partnerships for sustainable supply chains and competitiveness.

The challenge will be to translate of progressives' priorities into real policy change as possible, by making the most of the limited but nonetheless considerable resources and opportunities available to progressives in the new legislature. We encourage policymakers, stakeholders and citizens interested in a progressive Europe to engage with the ideas presented herein and find ways of turning them into reality in the challenging policymaking context we face over the next years.

Further information on the topic can be found here:
https://www.fes.de/politik-fuer-europa

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