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The EU’s move to become a regulatory powerhouse will impact business around the world

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Introducing the first in a series of Spotlight articles on the Brussels Effect, we provide an initial overview of the key drivers and the impact emerging policies will have in Europe and beyond.

As the world seeks to recover from the impact of the Covid-19 pandemic and tries to define a balance with the urgent need to address the climate crisis and social justice, Europe has been nurturing a global role as a regulatory powerhouse on a diverse range of issues from data protection, fairer taxation, sustainability, chemicals and competition rules to developing a circular economy. Whether it’s the much lauded GDPR or its latest commitment to a 55% reduction in greenhouse gas emissions by 2030, putting it on track to be the first climate neutral continent by 2050, Europe is a first mover. It has established itself as an international standard bearer for regulatory practices around the world. The scale of EU ambitions is unprecedented, with 44 legislatives initiatives planned for 2021 alone. Termed the ‘*Brussels effect*,’ we look at how this policy agenda impacts business around the world. It’s a trend set to continue.

The world is in in the middle of systemic change and political upheaval. The post Cold War consensus is long gone with China rapidly developing to challenge the economic status quo, whilst the United States and Europe grapple with the consequences of rising populism. The European Union has had its own problems. Brexit, the vaccine program, and truculent Member States ensure it can’t be complacent. However, amid all this turbulence, EU institutions have been busy and are now taking a firm leadership role in a swathe of issues that have become front and centre globally. Whether you do business in Europe or not, what happens in Brussels is more likely to impact business elsewhere than ever before. Companies are advised to pay close attention. Here’s why.

Defining the "Brussels Effect"

Globalization takes many forms. Similar to how the U.S. has dominated consumer goods and the entertainment industry through global market capitalism, the **EU is exporting its main policy frameworks and objectives, with many foreign governments showing a keen interestto align. This has created a Brussels Effect in global policy.**

In a nutshell, the **Brussels Effect is the EU's ability to influence global governments, third parties and corporations – as well as the interactions between them – through its policy institutions.** As the EU regulates the single market –the world's largest– global businesses are increasingly pre-empting emerging regulatory requirements by aligning their practices across the board to novel European standards. In a world increasingly driven by reputation and investor and NGO activism, companies are monitoring emerging European regulation as a means to future proof their business strategies to accommodate to more stringent stakeholder expectations. In turn, these stakeholder expectations are increasingly affected by the Brussels policy discussion.

The EU's role as a regulatory powerhouse has led governments around the world to implement EU-inspired policies in their own jurisdictions. This Europeanization trend is encouraged by the European single market's dominant policies –particularly on sustainability and environmental issues– and its important market position. **EU Institutions have not shied away from their intentions of actively exporting regulatory initiatives. Consequently, Brussels has become more receptive to global businesses, albeit in an environment that is increasingly oriented towards "Europe First." Today, businesses can help drive and influence this process to ensure local realities are taken into account.**

Where can we see the Brussels Effect?

The Brussels Effect is perhaps best illustrated around the EU's flagship Green Deal for a more sustainable future, and the 'green diplomacy' that comes with it. The need to adapt to 2030 emissions targets has generated thirteen pieces of legislation in the European Commission's "Fit for 55 Package" alone. Sectors like transport and construction are being particularly targeted for a sustainability overhaul. Elsewhere, REACH has become a standard bearer for regulating the global chemicals industry; the Circular Economy Action Plan seeks to address international waste; and a mix of the new Batteries Regulation and Mandatory Due Diligence requirements is set to govern how lithium and cobalt are extracted in markets like Latin America – through carbon intensity disclosures for minerals extraction – before they are used by EU manufacturers in the electric vehicles value chain.

The widespread trend towards an EU-aligned regulation of businesses can also help markets outside of Europe catch up in a global race to a net zero, 'build back better' recovery. Despite the current economic crisis, efforts have doubled down, and expectations have only risen.

The costs associated with the green transition and the need for public funds to help facilitate it, makes it challenging for many countries who are still paying for the pandemic. The need to access international capital therefore becomes essential. However, investment conditions are increasingly linked to how aligned local business conditions and policy standards are to EU sustainability criteria or broader ESG guidelines.

The EU's demand to regulate ESG data rating providers under the second Sustainable Finance Package aims to harmonize the financial sector's currently disjointed transformation. A push for comprehensible, aligned sustainable finance standards driven by the EU Taxonomy brings opportunities for corporations to build trust with their local stakeholders across numerous jurisdictions. This impacts many industries – energy, mining, industrials, construction and consumer goods.

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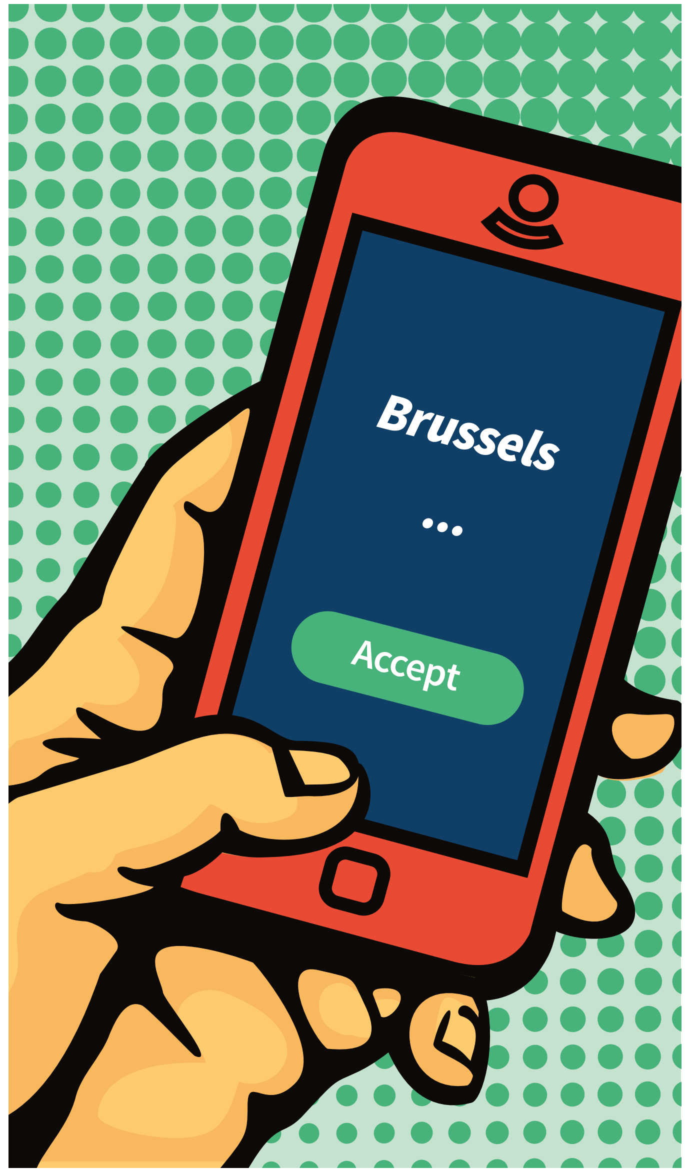
By influencing Brussels, you influence the world

Global policy discussions are becoming increasingly Europeanized. Businesses operating in Europe will also have to pay more attention to their business practices outside of Europe. As will businesses with no European presence. This is a more harmonized and holistic approach than we have seen before.

Brussels policymakers are increasingly looking at sustainability and climate adaption efforts abroad during the implementation of trade and investment agreements, for example with China, Mercosur, Chile and Australia. The EU's **increased scrutiny over business practices in foreign countries represents a window of opportunity for global businesses to stay engaged with stakeholders across geographies and properly advocate for improved conditions.**

As similar standards are rapidly adopted across emerging markets, the role of public affairs in helping businesses understand and successfully adapt to new European policy frameworks will be essential. **Incoming EU regulations must be contextualized locally to be successful, otherwise businesses risk hastened regulatory copying and unfitting business environments.**

To conclude, the Brussels Effect is building in momentum. And it is not just about EU policies, it's a global phenomenon across industries and types of organizations. Proactive engagement at an early stage in any conversation is better than being too late. Given the Brussels Effect's importance and potential impact, sooner is also going to be better than later.



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