Improving competitiveness – an European answer to the US IRA

Briefing slides for virtual meeting with President von der Leyen
Summary of main messages

2022 has been a very difficult year for large parts of Europe’s industry & society

1. EU industry is facing an existential crisis due to the cost of energy, which is expected to remain high and is already leading to de-industrialisation in Europe.
2. In addition, the US Inflation Reduction Act (IRA) functions as a magnet that is attracting green investment from European companies towards the US.

2023 will have to be a year of action by European policy makers to avoid things getting even worse

3. A new encompassing programme is needed to restore competitiveness. EU policymakers need to take action to improve the EU’s digital and energy infrastructure and to strengthen the business case for innovation.
4. Simplified & accelerated State aid & a joint European investment scheme would be a welcome relief for re-industrialisation and energy-intensive companies.
5. The level-playing field in the Single Market should be maintained as much as possible, as there is no endless fiscal space in the EU, and some EU Member States are able to spend less aid/fiscal support than others.

Focussing on the key themes and on execution

6. Europe needs determination and a battle-plan for removing the many remaining intra-EU barriers.
7. Further deepening the Single Market in Digital, Energy, Environment and Capital market is essential to counter-balance an increased use of subsidies and to stimulate competition as well as economic growth.
8. The EU’s digital transformation needs a booster (5G, data sharing, cybersecurity).
9. The growing skills gap in Europe’s labour force has to be addressed with greater urgency.
IRA: a wake-up call to solve Europe home-made problems

To become more attractive for investments, Europe has to put its house in order

**A joint European plan: boost investments** that help re-industrialise Europe:
- Drive public-private partnerships
- Focus on generating investment and growth opportunities for companies
- Find the right mix of subsidies and tax incentives
- Much faster, predictable and transparent clearance of State aid and IPCEIs

**Stick to our principles:**
- Open Strategic Autonomy
- Adherence to WTO rules

**Put Europe’s house in order:**
- Tackle Single Market barriers & fragmentation for goods and services
- Realise Europe’s innovation potential
- Catch-up on long neglected investments in digital infrastructures
- Drive the Single Market for Energy
- Help close the skills gap

**Avoid temptation:**
- No subsidies race with the US
- Avoid all-absorbing EU-fund battle
US IRA – Europe’s challenges & need for broader action
Context I: We are in a global race for competitiveness through technological leadership

**Enormous economic pressure:** declining competitiveness, upcoming recession, energy prices, deindustrialisation fears

**Problem:** Europe fails in turning innovation into economic success

**Purpose:** Secure our industries’ competitiveness tomorrow and beyond

**Priority:** Re-build the business case for investing in Europe

**Response to IRA:** NOT just about money. Realise our strengths

**Europe’s Single Market:** a strong customer base with untapped potential – removing last barriers: a €700 billion boost!

**European Companies’ DNA:** huge innovation potential, dedication to green and digital transition, incorporation of social cohesion
Context II: Europe was already in a position of weakness

In 20 years, the global landscape has shifted *

From leader to laggard: EU industry has lost 30% of global market share

EU companies are being pushed out of the Fortune Global 500 by their Chinese peers

### Competing narratives on ‘competitiveness’: different measures are beyond increasing State aid

<table>
<thead>
<tr>
<th>Political &amp; policy-makers perspectives</th>
<th>(versus)</th>
<th>Business community perspectives</th>
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<tbody>
<tr>
<td>1. More State aid will make the EU more attractive for companies: make current rules more flexible &amp; create new funds.</td>
<td></td>
<td>1. Attract more private investment to the EU by removing red tape, making less complex legislation and above all 'better regulation'. This will ensure that companies invest in decarbonisation projects in the EU and will <em>boost innovation and R&amp;D in the EU</em>. Perform “Competitiveness Checks” on new legislative initiatives as well as the existing regulatory framework. Public funds could be used to upgrade infrastructure (grids, pipelines, rail, ports, etc.)</td>
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<td>2. Map strategic dependencies and control the supply chain of critical goods – through the Single Market Emergency Instrument (SMEI) – to strengthen the EU’s resilience and improve ‘strategic autonomy’.</td>
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<td>2. <strong>Deepen the Single Market</strong> by harmonising rules in the EU and increasing the free circulation (goods, services, people, capital &amp; data) in various policy areas (Digital, Energy, Capital, Environment, Defense, etc.). This will enable companies to gain sufficient scale and not face a fragmented patchwork of national requirements.</td>
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<td>3. Legislate, for instance through the Chips Act and Raw Materials Act, and potentially an “EU Chips Act” to upgrade the EU’s capacities.</td>
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<td>3. <strong>Measure and track competitiveness via Key Performance Indicators (KPIs)</strong> - in particular benchmarked to the main competitors internationally – and use the facts &amp; figures as evidence for policy-making and investment decisions.</td>
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<td>4. Lower the cost of energy by intervening in the market (such as capping the price).</td>
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<td>4. <strong>Lower the cost of energy</strong> by improving cross-border infrastructure in the EU (interconnectors, grids &amp; pipelines), making energy markets more liquid, and upholding market principles as well as a stable legal framework that doesn’t dissuade companies from doing the necessary investments in renewable energy projects.</td>
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<td>5. Improving ‘productivity’ is often perceived as keeping salaries of workers low. When companies call for improving competitiveness it is generally understood as a call for deregulation and weakening climate targets or environmental protections.</td>
<td></td>
<td>5. <strong>Improving ‘productivity’ means making the bureaucracy more efficient &amp; accelerating procedures</strong> (including for renewable energy projects). The purpose is not to lower standards or weaken protections but to ensure a level playing field for business whilst improving the EU’s competitiveness in global comparison.</td>
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ERT recommendations – restoring Europe’s industrial competitiveness
I. State aid, new EU Instruments & deepening Single Market should go hand-in-hand (I)

• IRA is a wake-up call that Europe’s State aid framework has to become more fit-for-purpose.
  • We need greater openness to public-private partnerships in key investments and more pragmatism in implementing them.
  • The EU response should not turn into a subsidy race. We should make better use of tools that we have already.
  • The ‘size of the pot’ is important – but so is the quality of access rules & their implementation: Improvements are needed fast on the EU State-aid framework to address complexity – bureaucracy – uncertainty – delays.

• It is key to preserve the Single Market and political unity as Member States have different fiscal firepower:
  • An EU-wide joint investment programme/fund may be necessary to preserve the Single Market:
    • Money should be designated to support companies’ decarbonisation & infrastructure investments
    • Politics of an additional EU fund should not eclipse / derail / delay other necessary reforms
  • Any additional EU fund has to be accompanied by Single Market reform to decrease barriers

• Stay in close cooperation with the US, retaliation via a “Buy European Act” should be avoided as Europe benefits from its Open Strategic Autonomy agenda. There is no cause to increase protectionism.
I. State aid, new EU Instruments & deepening Single Market should go hand-in-hand (II)

- ERT is concerned about the integrity of the Single Market and distortions to the EU’s competitiveness given that 75% of the €672 billion of State aid approved under the Temporary Crisis Framework was notified by just 2 EU Member States. This risks to push competitive companies in smaller EUMS out of business by those who receive more aid.

- The EU’s competitiveness can not be sustainably improved through State aid.

- ERT welcomes the reflection initiated by EVP Vestager regarding a “Temporary Crisis and Transition Framework”:
  - The top priority is to “work hard to eliminate the existing barriers within the Single Market”. It is therefore very urgent that the Commission comes forward with an encompassing plan to deepen integration in the Single Market.
  - ERT welcomes more investment (State aid) for decarbonisation projects to be financed at EU-level to ensure equal and fair access for all companies in the EU-27.
  - Rather than cumbersome and lengthy procedures for upfront applications, it would be more beneficial if the fund could finance tax incentives (similar to the IRA) for which companies can qualify (at national level).

- A new EU-wide fund should do better than the Next Generation EU / Recovery and Resilience Facility:
  - All national recovery plans were elaborated by EU Member States and no money was earmarked for cross-border projects. New EU-level funding for decarbonisation should also be spent on improving EU-wide infrastructure.
  - It is unclear how much of the 37% that was intended for ‘green’ purposes has actually benefitted decarbonisation projects by companies. We fear this amount has been rather limited.
II. Single Market - renew the dynamics

- **Removing intra-EU barriers will spearhead economic recovery**, as the European Commission did in the 1980s to overcome the economic malaise after the shock to energy prices in the 1970s.

- More than **€700 billion can be unleashed** in the coming decade by removing national barriers to the Single Market.\(^1\) This equals the NextGenEU recovery package of €750 billion, with the huge advantage that this would be budget-neutral for taxpayers.

*Single Market – take ownership & set a plan to “Renew the dynamic of European integration”*

1. The Single Market is a priority for everyone but making progress on removing barriers requires political vision, a strategic framework as well as administrative action. The upcoming Presidencies provide excellent opportunities.

2. The **upcoming Communication on the 30th Anniversary of the Single Market should not just be ‘celebratory’ about past achievements but breathe a lot of ambition.** It should lay the foundation to improve the governance of the Single Market and strengthen the toolbox for removing intra-EU barriers.

3. The European **Commission should spearhead a new encompassing programme to fundamentally deepen the Single Market** in all policy fields (ranging from Energy, Digital, Environment to Capital), working together across various DGs and with EU Member States.

4. **Create a new DG INTEGRATION** to continuously deepen the Single Market and mainstream the removal of barriers across all DGs. Make a detailed Action Plan with a list of actions & actors to remove all barriers.

5. **Integrate into the European Semester instructions for EU Member States** to remove barriers to intra-EU trade.

*More info: [Joint Statement](#) by business associations calls for a new encompassing programme by the European Commission*
III. Innovation – Rethink, Refocus & Realise

*Europe’s place in the world depends on our companies’ continued leadership in innovation. To maintain it policy makers and governments need to:*

1. **Rethink regulation: make innovation a business case to achieve political goals**
   - Put the business case for innovating and investing in Europe at the centre of EU regulation
   - Dynamically adapt regulation to keep track of technical innovation
   - Promote testing under real life conditions (sandbox approach)
   - Speed up funding processes (i.e. IPCEIs)
   - Adjust the Taxonomy approach to foster investment in R&D driving transformation

2. **Refocus on robust IP rights and international standardisation**
   - Ensure strong European IP protection and a global level-playing field
   - Provide robust IP protection in the digital space
   - Prioritise and strengthen Europe’s interests in international standard setting

3. **Realise scale-up of investment intensive innovation**
   - De-risk technology development through public-private partnerships and innovation oriented public funding
   - Deliver a strong answer to the US Inflation Reduction Act (IRA)
   - Free up private sector resources by providing tax-based incentives for R&D activities
   - Speed up market penetration of innovations by enabling faster scaling and replication (e.g. build up of green hydrogen market)
IV. Energy – Foster private investments & high-capacity networks

1. Short-term
   • The adjusted Temporary Crisis Framework in October has not been very helpful for several energy-intensive companies. The criteria should be adapted. The focus should not be on EBITDA as this only benefits companies for which it’s almost too late. The focus should also be at the level of installations and not at a company level, to ensure the support is efficient and targeted.
   • Taxes on energy-intensive companies should be reduced. Tax incentives to invest in low-carbon energy production in Europe should be created, possibly linked to the (temporary windfall) profit taxes.

2. Mid- to long-term
   • The EU should focus less on devising a complex regulatory system with burdensome regulation, be more pragmatic in the decarbonisation transition and spend more attention on generating (private) investment and creating growth opportunities for companies. The EU should improve competitiveness across a wide range of Key Performance Indicators (KPIs).
   • Industry needs:
     • A fully functioning liquid Single Market for Energy with a larger scale and faster deployment of renewable energy
     • Long-term and multi-country contracts. So, removing administrative and system-barriers to Power Purchase Agreements (PPAs).
   • There is no way the EU Green Deal can become a reality without strong investments in infrastructure, such as grids, capacity mechanisms and interconnections and much faster permitting procedures. It will be vital to boost the production of clean electricity.
   • Investment in digital infrastructure is a useful enabler of the Green Deal. The “Fit for 55” package should foster private investment and accelerate the deployment of high-capacity networks.
V. Digital transformation needs a booster

European leadership in the industrial internet: what’s needed to make it happen?

1. **Increased focus is needed on how digitalisation can enable the green transition.**
   European industry is essential in delivering digital innovation that drives both Europe’s sustainability ambitions and competitiveness (see recent ERT Expert Paper).

2. **A single EU regulatory framework, based on common rules and standards, should foster B2B data sharing.**
   But ERT is concerned about mandatory data sharing as proposed in the Data Act. In principle, data sharing should be voluntary. Catena-X shows that companies are willing to share data if it adds business value.

3. **Europe can leverage its technological capacity & strong industrial base to become a global leader in AI.**
   It is vital to ensure legal certainty in the proposed AI Act and prevent unnecessary burdensome obligations that could hamper AI adoption and innovation.

4. **Governments and industry must work together to respond to increasing cybersecurity threats.**
   Cyber resilience is a prerequisite for the EU’s digital sovereignty. We support initiatives to increase the security and resilience of critical infrastructure. ERT’s Chief Cybersecurity Officer Group is available for close collaboration with the Commission and Member States.

5. **We must boost investment in 5G and broadband networks, which are key enablers for the digital transition.**
   Europe still lags behind other regions in the rollout of 5G networks. Providing regulatory incentives for private investments in connectivity infrastructure is key.
VI. Trade – set global standards & secure access to raw materials

To be globally competitive, European industry needs **fair, free and rules-based global trade & a level playing field** with international markets truly open to European trade and investment and no unfair disadvantage for European companies.

**EU actions needed:**

1. Set global standards through regulatory cooperation (including digital and sustainability).
3. Set a supportive policy framework at home and a take leadership role globally to strengthen the multilateral trading system via WTO reform.
4. Ensure the EU-US Trade & Technology Council (TTC) delivers results in terms of addressing emerging bilateral trade irritants (above all IRA), building a stronger transatlantic economy and pursuing joint trade, economic and technology leadership objectives.
5. Establish a common and coherent European strategy on China. Take an assertive approach in deploying offensive and defensive trade instruments and addressing strategic dependencies and imbalances but avoid protectionism (‘derisking but not decoupling’).
6. Make sure that the Global Gateway strategy has a clear focus on strategic infrastructure projects and involves a close dialogue with the private sector.
VII. Skills - step up support for re-skilling

- Europe’s educated labour force is (still) one of the main reasons to invest and operate in Europe.
- However, Europe is already facing a mismatch of skills in the labour force: 5 million unfilled vacancies and yet over 11 million people unemployed.
- The twin transition accelerates this mismatch:
  - Technology adoption and AI will require 20 million employees to shift occupation by 2030.
  - We will require an additional 12 million ICT specialists + 2 million green jobs + €55 billion funding for adult education
- Unless we counter-steer, a lack of skilled labor will become a threat to Europe’s competitiveness for individual companies and our society.

**Europe needs to take action**

- ERT welcomes that 2023 will be the European Year of Skills – this is a very important signal.
- The EU could step up support for re-skilling at scale of Europe’s workforce, including private sector initiatives.
- ERT experience with its Reskilling4Employment programme shows that access to funding is a hurdle for training programmes for non-employees (e.g. unemployed or at-risk workers).
- We recommend revisiting the rules of the European Social Fund:
  - To increase accessibility for new private sector-led training programmes & entrepreneurial training providers.
  - More strongly link funding with training outcomes.
Annexes

I. Examples of Single Market fragmentation
II. Benchmarking European Competitiveness
III. Reskilling4Employment – an ERT initiative
I. Examples of Single Market Fragmentation

Deepen the Single Market fundamentally because there is slow progress on addressing problems in the 30 stories of the ERT Flagship Paper “Renewing the Dynamic of European integration” (link)

1. AB Volvo
2. BASF
3. Engie
4. Ericsson
5. Iberdrola
6. Michelin
7. Mol
8. Roche
9. SAP
10. Solvay
11. Telefónica
12. TotalEnergies
13. Vodafone
14. Airbus
15. AkzoNobel
16. Deutsche Telekom
17. Investor AB
18. KONE
19. Leonardo
20. L’Oréal
21. Nestlé
22. Nokia
23. Orange
24. Philips
25. Rolls Royce
26. Siemens
27. thyssenkrupp
28. Barilla
29. Lenzing
30. Sonae
31. Air Liquide
32. Holcim
33. Inditex

Traffic light symbols:
- Red = problem not addressed
- Yellow = problem being addressed
- Green = problem addressed
- Black = unclear / still analysing
- Blue = new problem
II. Benchmarking European Competitiveness

Published on 15 June 2022 (link)

64 KPIs & Observations and analysis & Targeted policy messages

Single Market & industrial performance
Innovation
Critical infrastructure & technology
Twin transitions
Global presence & influence
III. Reskilling4Employment - an ERT Initiative

Accelerating progress in existing countries and expanding to new countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Champions</th>
<th>Details</th>
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<tbody>
<tr>
<td>Portugal</td>
<td>Sonae, SAP</td>
<td>33 companies, 7 sectorial labs, 8 occupational programs</td>
</tr>
<tr>
<td>Spain</td>
<td>Telefónica, SAP</td>
<td>~5k unemployed reskilled by corporate-led initiatives, ~4k reskilled through self-serve solutions, ~18k employees proactively reskilled by Champions</td>
</tr>
<tr>
<td>Sweden</td>
<td>AstraZeneca, Volvo</td>
<td>Proactive Reskilling Platform under way, Alignment with Public Employment Service on funding Reskilling programs launched</td>
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Map showing different countries and their status:
- **Live**
- **Building up**
- **Discussions ongoing**
17 January 2023

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The European Round Table for Industry (ERT) is a forum that brings together around 60 Chief Executives and Chairs of major multinational companies of European parentage, covering a wide range of industrial and technological sectors. ERT strives for a strong, open and competitive Europe as a driver for inclusive growth and sustainable prosperity.

Companies of ERT Members are situated throughout Europe, with combined revenues exceeding €2 trillion, providing around 5 million direct jobs worldwide — of which half are in Europe — and sustaining millions of indirect jobs. They invest more than €80 billion annually in R&D, largely in Europe.

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