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Towards a more resilient, competitive and sustainable Europe

(COM(2023) 558 final)

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1. Conclusions and recommendations

1.1. The European Economic and Social Committee (EESC) wishes to put forward its views on the European Commission communication COM(2023) 558 final, adopted in connection with the Granada summit, so that its position can be taken into account during preparations for the next European legislative mandate. Given the range of issues addressed in this document, the opinion focuses on four key sectors for the future of European strategic autonomy: the energy sector, the digital sector, the defence sector and the space sector. It makes concrete proposals to highlight the need for a European economic and political power.

1.2. The EESC is extremely concerned by how much ground has been lost to the US and China in strategic sectors such as those addressed in this opinion. This further undermines our independence, our sovereignty and our model of society. Due to this massive underinvestment compared to our competitors, the European Union (EU) has very little control over any of the industrial sectors. It also lacks geo-strategic leadership. The EU's desire to put public spending back under strict control will further weaken its economic and social model in the long term.

1.3. The EU's future energy system will be highly electrified and dominated by variable renewable energy sources. It will need to cover varying demand and absolutely must ensure its independence and energy security. Balancing supply and demand today relies largely on hydroelectric, nuclear, thermal and fossil-fuel power plants. Ensuring this balance in the future will be even more complex. In parallel, the aim will be to increase the EU's energy security, with massive investment within a favourable regulatory framework.

1.4. Securing Europe's energy transition means maintaining large numbers of decent jobs and having new skills available. In addition, the EU will need to set up education pathways for its people to enable them to better identify and thus counter disinformation patterns.

1.5. Europe's digital independence will be based on a number of elements: its ability to develop supercomputers, to store data within the EU and to encourage the development of real industrial players.

1.6. Our space industry will need to overcome numerous challenges in terms of sustainability and sovereignty. Fragmentation, duplication and the small size of our core institutional markets are weakening the EU at a time when the funding gap with the US and China is widening and when the EU is facing giant private actors who are optimising their internal supply chains. The crisis in the European launcher industry highlights these vulnerabilities and is now affecting satellites. Our capacities are still mostly evaluated from the narrow perspective of national policies and are unable to respond to the European dimension of the main space challenges, resulting in lower production volumes for all actors and higher unit costs for clients.

1.7. In the coming years, our defence industry will not only need to provide Member States and their armed forces with high-quality defence equipment and capabilities that are adapted to the new strategic environment, but also continued military assistance to Ukraine and other partners. Beyond this, we need to ensure the adaptability, sustainability, capacity, resilience and competitiveness of the European defence technological and industrial base.

2. **General comments**

2.1. *Ensuring the EU's energy security*

2.1.1. The EU is a net importer: in 2020, 58 % of the energy resources available in the EU came from a third country. It is clear that Europe has shifted from being largely dependent on Russia as a supplier to now being dependent on the US for gas purchases. China maintains a dominant position in a large part of energy industry value chains.

2.1.2. In order to address the risks posed by climate change, the EU is committed to reaching carbon neutrality by 2050. The European Commission has proposed reducing greenhouse gas emissions by 85-95 % by 2040, by reducing demand, decarbonising end-uses through a significant increase in electrification, and energy renovating buildings – the latter of which is currently proceeding far too slowly.

2.1.3. Electrification has to develop very quickly in future. Production must increase from 2 901 TWh in 2021 to 3 362 TWh by 2030. In order to do so, production will need to rely on significant developments in decarbonised electricity production, along with faster authorisation procedures for production permits.

2.1.4. Heating, cooling, mobility and industry are the three main energy-consuming sectors. The EU has decided to move to direct electrification (heat pumps, batteries, etc.), indirect electrification (via electrolytic hydrogen), and renewable and low-carbon fuels while not forgetting carbon capture.

2.1.5. The EESC questions the Commission's reference scenarios, which do not allow industry to plan their investments strategically. In 2009, making headway in carbon capture by 2030 was of key importance, before being pushed back to 2035 in 2013, and then again to beyond 2040 in 2016, only to disappear entirely in 2020 and become of key importance again in 2024. The same can be said for the 2030 hydrogen targets. The Fit for 55 package set out a target of 233 TWh, REPowerEU of 670 TWh, and now in 2024 we are back down to 105 TWh.

2.1.6. Europe's future electricity system will be dominated by variable renewables and will need to meet varying demand. Balancing supply and demand today relies on nuclear, fossil-fuel thermal and hydroelectric power plants, the latter of which should be given particular attention in the principles and actions of the Blue Deal proposed by the EESC. Ensuring this balance in the future will be more complex, given the new flexibilities (elasticity of demand, storage).

2.1.7. The EU's energy security requires massive investments, and a largely private investment-friendly framework, even though Member States can still provide support.

2.1.8. The energy transition will require decent jobs at all levels and the availability of the necessary skills for all the activities involved. With the Pact for Skills, the Commission is encouraging all stakeholders to take action to promote upskilling and reskilling among the workforce. Local and/or regional coordination between businesses, trade unions, local authorities, universities and schools will be essential.

2.1.9. Finally, the EESC draws attention to the natural, albeit low, risk of solar flares, the consequences of which are currently underestimated: they would be catastrophic, and are likely to interfere with the operation of satellites, electricity grids and digital systems.

2.1.10. The EESC calls on the Commission to:

— take stock of, and strengthen, Europe's control of the value chains of the various decarbonisation technologies;

— evaluate dependence risks and propose corrective measures where the risks are high, or even where there are monopolies or quasi-monopolies at global level;

— promote the uptake of decarbonised products by means of incentives (taxes, subsidies, standards, labels), while maintaining technology neutrality;

— understand why the electrification of energy uses has stalled and take measures to address it;

— ensure funding via an appropriate framework and support Member States, in order to achieve quick and effective success in meeting energy building renovation needs;

— verify, through the 2024 national energy and climate plans, how the Member States' projections are consistent with European targets and draw subsequent conclusions;

— develop electricity market models that reward flexibility in an amount relative to the growing value of the service provided;

— take account of the EESC's proposals on the Blue Deal; and

— assess the consequences of and propose plans in case of solar flares.

2.2. *Ensuring the EU's digital security*

2.2.1. Digital technologies revolutionise our lives and bring many undeniable advantages, such as instant communication and immediate access to information, making many of our daily tasks easier. In order for everyone to benefit from this, we need to step up efforts to educate citizens in digital literacy. This is also crucial in order to address disinformation and labour market challenges. The EESC also welcomes recent advances in AI.

2.2.2. Digital technologies can also be misused to facilitate the dissemination of misleading information, with serious consequences for our societies. The EESC welcomes European measures such as the Digital Services Act and the Code of Practice on Disinformation. The latter, a self-regulatory instrument, is based on a voluntary commitment by signatories. The EESC insists that this be monitored as planned by the Commission.

2.2.3. Safeguarding democratic institutions requires education and continuous learning pathways for all Europeans, enabling them to better identify and thus counter disinformation patterns. This training should provide them with the necessary skills to participate constructively in social conversations and to recognise and counter disinformation.

2.2.4. European data is hosted in different countries. The fact that the US accounted for 35 % of data centres in the world in 2021 ([1]) should alarm us. Even though EU rules allow a choice as to where data is stored, the dominance of foreign digital players means that the EU is *de facto* dependent on non-European countries in this respect. The EESC is concerned about the extra-territoriality of the US Cloud Act, which conflicts with the General Data Protection Regulation (GDPR). The EESC highlights the importance of the Gaia-X project, which aims to create a European cloud ecosystem based on a common approach.

2.2.5. The main risks to cybersecurity are threats that can compromise the security, confidentiality, integrity and availability of data and IT systems. This can have serious consequences. The health sector is facing a worrying surge in cyberattacks, as described in the European Union Agency for Cybersecurity (ENISA) report *Threat Landscape: Healthcare*. The EESC is paying attention to the rollout of the Cybersecurity Act and welcomes the new European cybersecurity certification scheme.

2.2.6. When it comes to the digital industry, a distinction must be made between the production of devices and IT applications. While it is true that almost all of our devices come from Asia, Europe has strong industrial sectors that control key links in the chain, such as ultraviolet lithography equipment. The EESC supports the European Chips Act, which is essential for Europe's digital reindustrialisation, and stresses the importance of having global market leaders in Europe.

2.2.7. The EU's digital independence hinges on its computing capacity and its cybersecurity. At the end of December, MareNostrum ([2]) was inaugurated. It is one of the 10 most powerful supercomputers in the world and 50 % of its funding came from European funds. This initiative must continue under the next mandate.

2.2.8. The EESC calls on the Commission to:

— continue to monitor Europeans' computer literacy and encourage Member States to raise public awareness of the risks associated with the use of digital technology;

— assess the actual application of self-regulation provided for in the Code of Practice on Disinformation, especially in this European election year;

— identify where European data is stored, keeping in mind that sensitive data must be stored within the EU;

— propose solutions to the conflicts between the US Cloud Act and the European GDPR;

— monitor Europeans' knowledge of cybersecurity;

— learn from the industrial success of certain EU companies, and draw conclusions from it in terms of global competition; and

— continue to invest in developing supercomputers in Europe.

2.3. *Securing a future for the European space industry*

2.3.1. Space services have become strategic for European societies and economies. Space is essential to the EU's freedom of action and autonomous decision-making. The number of economies and public policies that depend on space are vast: transport, positioning, telecommunications, meteorology, environmental monitoring, understanding climate change and Earth observation for defence and security purposes.

([1]) https://en.statista.com/.
([2]) https://en.wikipedia.org/wiki/MareNostrum.

2.3.2. The main clients and operators of space infrastructure are public authorities with public service mandates. The entities that provide the infrastructure necessary to provide such data and services are private industrial companies. The space industry has a strategic role.

2.3.3. The space industry has positively contributed to the European trade balance with an average net surplus of USD 900 million annually over the last decade from exports of satellite systems and launch services. The European space industry's dependence on its ability to win contracts in (very small) open markets is one of its key characteristics compared with other space powers (30 % to 50 % of turnover is generated in these open markets).

2.3.4. The European space sector is facing an increasing number of threats.

— The funding gap with the US and China is widening. European space budgets are six times lower than those in the US, and the budgets available within the EU are mostly uncoordinated, while American space doctrine has made space a key instrument for its supremacy and independence in this domain. China's exponential rise cannot be ignored. Other actors such as Russia and India are also stepping up their game. Finally, the European space industry is now competing with giant players outside Europe, which have optimised their internal supply chains and are massively disrupting the markets (SpaceX in particular).

— The crisis in the European launcher industry highlights the vulnerabilities in this segment and is now affecting the satellite segment in the same way. Current figures show that the space industry's profitability rate is rarely positive at a time when crucial investments are becoming more vital than ever.

— The European Space Agency's (ESA) geographical return principle has proven to be an effective way of securing most of the funding for the programmes, but it is not without fault. This principle could lead to fragmentation in the supply chain due to the participation of very small contributors. Preserving national capacities at all costs increases duplication and fragmentation in a very narrow market. This leads to a lower production volume for all, and higher unit costs for customers.

The EESC calls on the Commission to:

— design and implement a European industrial space strategy, taking into account fragmentation, duplication and the small size of our core European institutional markets, which threaten the sustainability and sovereignty of our industry;

— ensure that public authorities have unhindered access to the space capabilities necessary to implement public policies, with the required level of independence (i.e. capabilities that can be obtained in a unified way across Europe and must be under the control of European entities);

— support the competitiveness of the European space industry, given the industry's dependence on open markets – and therefore also the essential need to be competitive; and

— integrate the strategic nature of the space sector, its characteristics (long-term, high-risk, capital-intensive) and the policies of other powers to implement this space industrial strategy. European authorities could rely on a number of tools (public procurement rules, R&D funding, legislation and diplomacy).

2.4. *Securing a future for European defence*

2.4.1. The European defence industry is essential for:

— providing the EU Member States and their armed forces the defence equipment and capacity they need to defend Europe and its people against an array of complex threats;

— preserving Europe's sovereignty and ensuring that Europe's democracy and stability are protected in the long term, with an adequate level of strategic autonomy; and

— directly supporting the stability, peace and security of the NATO and EU Member States and their allies.

2.4.2. The challenges our defence industry is facing are twofold and have been further accentuated by Russia's aggression against Ukraine. In the years to come, Member States and their armed forces will need to be provided with cost-effective and high-quality defence equipment and capabilities that are adapted to the new strategic environment, and at the same time enabled to provide continued military assistance to Ukraine and other partners. In the longer term, the adaptability, sustainability, capacity, resilience and competitiveness of the European defence technological and industrial base should be ensured.

2.4.3. Furthermore, there can be no solid European NATO pillar without a credible, autonomous and sustainable industrial base. NATO has recognised that the alliance needs a strong and high-performing defence industry with increased European cooperation.

The EESC calls on the Commission to:

— ensure that the European defence industry is better coordinated (in particular by encouraging joint public procurement) and has the capacity to deliver the equipment that our armed forces need, at all times and under all circumstances; it must therefore be able to rapidly increase production to better respond to the urgent needs of the moment and maintain an appropriate level of preparation;

— invest heavily in R&D to strengthen Europe's technological sovereignty in critical areas and ensure its operational superiority against would-be opponents. The EU should substantially increase the budget for a European Defence Fund, which will need to be more strategic;

— ensure that under the next Multiannual Financial Framework the EU and its Member States significantly increase their contributions to the defence budget line in order to adapt European defence to the new strategic environment;

— facilitate access to private and public investments and financing through policies and regulatory measures aimed at ensuring that sustainability considerations and criteria do not discriminate against our defence enterprises; and

— stimulate and support Member States' efforts to reverse the current situation, by devoting most of their budgets to equipment and systems from European suppliers – this is an absolute requirement for supporting a viable European defence industry.

Brussels, 24 April 2024.

The President
of the European Economic and Social Committee
Oliver RÖPKE