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Opinion of the European Economic and Social Committee on competitiveness and Industry

(Exploratory opinion)

(C/2024/875)

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1. **Conclusions and recommendations**

1.1. Improving the competitiveness and productivity of industry is a key lever for the EU to support economic growth, deliver on the green and digital transition to a net-zero economy, promoting quality jobs and keeping the European social model.

1.2. Europe's response to the many unprecedented challenges and megatrends affecting industrial competitiveness must be built on the historical success of social dialogue, in order to ensure the commitment and ownership of policies of all stakeholders.

1.3. Establish coordinated and pro-active governance of industrial policies across Member States. The quality of public administration and a growth-enhancing regulatory framework (cutting red tape, simplified procedures, fighting corruption, setting standards for new products/markets) are crucial for industrial competitiveness, avoiding market distortions and unfair competition.

1.4. Further deepening of the single market. The single market must remain the greatest asset for European industry. This also means avoiding the risk of being broken up by diverging State aid initiatives. A sound State aid regulation must be kept. European Industrial policy and related funding should be coordinated at EU level.

1.5. Turning the challenges of decarbonisation into opportunities for the development and market introduction of new sustainable products and services.

1.6. Promoting open, rules-based trade while reducing strategic dependencies. The EU must preserve the principles of free but fair trade which are now being challenged by different actors. At the same time, it also has to preserve its open strategic autonomy.

1.7. Addressing the skills and ageing challenge. The EU needs a competent industrial 4.0 workforce, which means dealing with labour market shortages and developing overall and digital skills at all levels of the workforce.

1.8. Boosting RDI and more support for the introduction of new industrial applications on European markets.

1.9. Ensure secure access to decarbonised energy at stable and competitive prices in support of climate-proof energy-intensive industries, which are still the backbone of Europe's industry.

1.10. Unleashing the full potential of the digital revolution which can improve the comparative advantages of Europe's industry while helping to solve societal challenges.

1.11. Developing modern, interoperable and strategic European infrastructure is key for building a smart, competitive, green and resilient industry.

2. **General comments**

2.1. The Spanish Presidency has identified four priorities for the second half of 2023:

— reindustrialise the EU;

— advance the green transition;

— promote social and economic justice;

— strengthen European unity.

2.2. The Spanish Presidency has asked the European Economic and Social Committee (EESC) to draw up an exploratory opinion on 'competitiveness and European industry'.

2.3. So far, the European Union has built its economic power on being the world's largest single market area and one of the most outward-oriented economies in the world ([1]). With its Green Deal, the EU has also taken the lead in decarbonising its economy, which in the absence of appropriate transition policies could bring significant costs for industries and workers.

2.4. The EESC recently adopted an opinion on *The Single Market at 30*. It highlights its concerns about the relaxation of State aid rules that could create further asymmetries between Member States jeopardising the resilience of the single market. The Commission has adopted a Temporary Crisis and Transition Framework to further support the transition towards the net-zero economy but the aid is skewed towards only two Member States. So far, 77 % of the grants approved by the Commission have been requested by countries representing only 44 % of the Union's GDP.

2.5. Beyond the chronic situation of the WTO, the past three years have seen a number of extremely severe events that have shaken the international landscape and also the national policy agendas of the world's biggest countries. The COVID-19 pandemic, the subsequent supply chain crisis, the American cold economic war with China, Russia's invasion of Ukraine and its use of energy as a war instrument have all shown that the *current status* quo cannot be taken for granted and that active policies are needed. Indeed, the established post-war multilateral rules-based order which brought security and prosperity to Europe is gradually unravelling (with the WTO in deep crisis). Consequently, globalisation of supply chains is declining, protectionism and unfair competition are on the rise and international trade is slowing down. This also means that the concepts of free trade and competitiveness not only have to integrate sustainability challenges (climate change and human rights) but now also concerns regarding open strategic autonomy and security.

2.6. In fact, global economic power is shifting and the process of globalisation is increasingly driven by new actors (e.g. BRICS) with different economic models and values (and accompanied by increased political and state interference). The world's main economic powers have strived to improve circumstances, and the EU has realised the growing imbalances underlying its relationship with trade and technology partners like China, India, the USA and South Korea. These imbalances occur regardless of whether or not common political or environmental values are shared.

2.7. Regarding China, there is a growing view that it should be considered a systemic competitor. The Chinese state, far from loosening its grip over the business environment, is strengthening the lack of reciprocity in market access and an unlevel playing field in some sectors. The European Commission has declared that China is becoming more and more assertive and is pursuing increasingly vigorous competition ([2]). The 20th Congress of the Chinese Communist Party has largely confirmed what we already knew: a stronger hold of the party on the state, and on public enterprises; the growing ideological nature of the Chinese political system, and a hyper nationalistic rhetoric.

([1]) https://european-union.europa.eu/priorities-and-actions/actions-topic/trade_en
([2]) https://www.eeas.europa.eu/eeas/china-speech-high-representativevice-president-josep-borrell-ep-debate-eu-china-relations_en

2.8. In the USA, the recent Inflation Reduction Act (IRA) is a major breakthrough on industrial policy and state intervention, which goes well beyond inflation and rolls out a huge package of stimuli aimed at attracting investment to the country. It will deploy nearly USD 400 billion over the coming decade as a comprehensive, and heavily protectionist legislative package, which will substantially lower energy prices for US energy intensive industries. The shifts in international competitive conditions arising from the IRA pose major challenges for the EU as an industrial location.

2.9. The EESC asks the European authorities to reach a balanced approach between the necessary fight against inflation and the escalation of interest rates, which negatively affects investments and citizens.

2.10. The EU Green Deal was declared the new long-term strategy for growth by making the EU economy net-zero by 2050 and addressing climate change. A core question is how to ensure the competitiveness of industry throughout these transitions. How can European companies remain global market players while shifting to carbon-neutral and circular products if their international competitors do not have the same ambitions? Competitive imbalances must be identified and addressed in a timely manner, in such a way that competitiveness and employment are improved and the Green Deal is not compromised.

2.11. The digitalisation of both production processes and final products has triggered a new industrial revolution across sectors and, with the help of artificial intelligence, is overhauling the way we develop, design and manufacture our products and how we organise work.

2.12. Growing competition for natural resources is intensifying due to digitalisation and the overarching objective of combating climate change. The exponential growth in demand for scarce natural, non-renewable resources is already reflected in supply risks and price volatility. Guaranteeing access to the supply of critical raw materials/components has become a core concern for Europe’s industry, and must be properly managed, with pragmatism and realism.

2.13. Ending dependence on coal and oil, which have historically brought unprecedented wealth to our societies, represents the greatest transformation that industry will experience since the industrial revolution. The transition to a net-zero economy will lead to major changes in most existing industrial sectors, especially the energy-intensive industries, the production and distribution of energy and the transport ecosystem. It will dramatically overhaul consumption patterns and foster the emergence of new business models such as the sharing or circular economy.

2.14. Ageing societies are currently resulting in a shrinking workforce and labour shortages across all sectors of the economy, undermining Europe’s economic growth potential. At the same time, internal migration flows can create labour market imbalances. Moreover, Europe’s population lacks STEM-skills while almost half of the EU population has low or no digital skills at all. However, the demand for STEM skills, data literacy as well as a mix of cognitive and social-emotional skills (such as problem solving, creativity, communication, collaboration and active learning) will only rise in the future. The EU needs to raise the digital competences of its workforce, plan for long-life education and assess how to include more skilled, legal immigration.

2.15. All these megatrends will bring about a systemic transformation of our economies/societies which cannot be addressed by the policy prescriptions of the past but will require bold policies by the EU, with more proactive measures to create the necessary enabling conditions to guarantee a long-term future for Europe’s industry.

3. **Specific comments**

3.1. European industry has traditionally enjoyed a significant productivity advantage. Otherwise, we would have never reached the level of industrialisation and prosperity that we now have. In order to preserve social cohesion and wealth, we need to maintain industrial activity, including by preventing any form of social and fiscal distortions at EU level.

3.2. However, several indicators in recent decades have pointed to a deterioration in the EU’s industrial base. Energy prices are considerably higher in the EU than in other parts of the world. The EU invests only 2,2 % of its GDP in R & D as opposed to 2,8 % in the US and 3,3 % in Japan. Only six European companies are in the top 25 global R & D leaders of which four are in the automotive industry. The EU is increasingly at risk of being left behind in the digital economy: among the top 20 largest tech companies globally just one (SAP) is European. The venture capital market which allows scaling-up of innovative companies is many times larger in the US than in the EU. While in 1999 only 5 % of the world's gross investment took place in China; in 2020 it was 29 % — more than anywhere else.

3.3. There is no one single factor that could exclusively take the blame for this decline, but a combination of accumulated conditions has been pulling the EU's industrial competitiveness more towards the lower than the upper side of the international scale.

3.4. Regulatory excess is a drag on the competitiveness of European industrial firms. In the past five years, more than 5 000 pages of legislation have been adopted at EU level. This 'inflation' of regulations is often mixed with the initiatives of the Member States which, in many cases, transpose the directives with additional requirements of their own. The European Commission is aware of the friction that regulation generates for European industry since, when drafting the ambitious Net Zero Industry Act (NZIA), the first pillar of its plan was 'a predictable and simplified regulatory environment'. In this respect, the EESC welcomes the proposals in the NZIA to shorten permitting procedures for industrial operations and to introduce regulatory sandboxes, as well as the proposal for a competitiveness check on all European policies and legislation.

3.5. Energy prices have also affected the cost base of European industry. On the one hand, there are the energy intensive sectors which have suffered as was widely expected. On the other, common industries where energy is not the main input have also experienced higher costs. Inflation figures in Europe are evidence of this, as underlying core inflation has risen after the headline CPI. Economists expected prices to stop being a problem when energy inflation abated. However, since energy prices are still higher than before the crisis, most goods are still catching up and trying to incorporate these additional costs.

3.6. There are structural reasons for higher energy costs in Europe. The EU is still dependent on fossil fuels which largely need to be imported and expose us to the restrictions of foreign actors. Oil producers control their output in order to manage international prices, and Russia has weaponised the supply of natural gas in a very aggressive way.

3.7. There are other reasons that are not structural but contingent on decisions made internally, such as the formation of electricity prices. The electricity market is heavily regulated and has worked well for around 20 years, but has reacted badly to recent stress. The price of electricity internalises the price of CO_2 emissions rights regardless of whether or not it is generated by emitting CO_2. It requires a thoughtful revision geared towards competitive prices which foster electrification and decarbonisation, while assuring future supply security.

3.8. In general, 'decarbonised products' (battery electric vehicles (BEVs), green steel, heat pumps, biochemicals, etc.) are more expensive than the products they replace, especially until a critical mass is achieved. In order to avoid inflationary effects, in the drive to promote the uptake of carbon-neutral products and to make them affordable for all, it is important that regulators develop a supportive framework — with due respect for the principle of technological neutrality — and, at an initial stage, cover the price difference by means of grants and tax incentives, and/or compensate for the extra capital and operating costs involved in decarbonised processes. To support workers and industries, full use should be made of the financial resources available under the Just Transition Fund, the Innovation Fund, the Modernisation Fund and the new Social Climate Fund (as of 2026).

4. **Building blocks for competitive European industry**

4.1. A competitiveness agenda should build on the European social market economy. Fostering social dialogue and ensuring collective bargaining become crucial in order to strike a balance between economic and social aspirations, to deal with the impact on jobs and provide the right skillsets, for a smooth transition towards new sustainable and competitive industrial processes.

4.2. The Green Deal and the Digital Decade provide unique opportunities to achieve the twin green and digital transition, stimulate economic growth, modernise Europe's industry and gain competitive advantages on global markets. These initiatives will support Europe's industry in developing world-class industrial capabilities in strategic value chains and position the EU at the forefront globally in the transition to the net-zero economy. These transitions need to be achieved in a cost-effective way, while ensuring that industry maintains its capacity to generate the necessary cash-flows for investment in its transformation.

4.3. Increasing public and private investment in industrial RDI is key for competitiveness as knowledge has become the most important factor of production, and the industry of tomorrow will be shaped by the knowledge generation of today. The EU has a long tradition of excellence in scientific research but is less good in bringing the results to the marketplace. Better support for the final stages of the innovation process is needed, especially for breakthrough innovations in strategic sectors (demonstration projects, pilots) and it has to be ensured that the first industrial application of the results of European funded R & D takes place in the EU.

4.4. The EU must preserve the rules-based trading order based on the principles of free but fair trade. In addition, it will have to develop the new dimension of economic security in trade relations. This means further ratification of trade and investment agreements and enhanced cooperation with like-minded nations, addressing unfair competition and guaranteeing access to critical raw materials and components.

4.5. Energy-intensive industries face a disruptive rather than an evolutionary transformation. Its decarbonisation while increasing its competitiveness requires strong economic and political commitment and huge investments. This means secure access to renewable energy at competitive prices, R & D support to increase the Technology Readiness Level of the many low-carbon technologies, creation of markets for low-carbon products including public procurement, avoiding carbon leakage, introduction of Contracts for Difference to deal with high production costs for sustainable products, and ensuring a 'just transition' for workers affected by restructuring,

4.6. The single market allows European industries to access a market of 440m people, to attract investments from outside the EU, to access external markets and to scale up. But there is a risk of distorting it because of some internal barriers and the increased levels of national State aid. A level playing field between Member States has to be maintained as large differences between State aid create a subsidy race which ultimately leads to less efficient use of scarce resources. Therefore, the preference should be for European coordinated/funded State aid schemes.

4.7. Digitalisation has the potential to significantly improve the comparative advantages of Europe's industry and to develop activities in new industrial sectors. In this respect, it is important to swiftly deliver on the Digital Single Market, upgrade digital infrastructure (5G, high-speed broadband), to invest in the new digital markets (AI, IoT, advanced manufacturing, Cloud Computing, Big data), and to set up data spaces for industrial ecosystems to stimulate data sharing.

4.8. Innovative new companies must be able to obtain resources to thrive. SMEs rely mainly on banks which often do not provide the risk capital that they need. In recent years, progress has been made on enhancing access to capital but the lack of growth capital in particular impedes the scale-up of young innovative firms. Private investments should be incentivised by further developing a European market for venture capital, de-risking instruments (guarantees, tax credits, financial incentives) for strategic investments and developing alternatives to public markets (including business angels, seed public funds, public investment funds, cooperatives).

4.9. It is important to ensure that Europe's infrastructure (transport, energy and digital) is interconnected and interoperable, that energy supply infrastructure takes into account the deployment of renewables, hydrogen and CCS/U, and that infrastructure for energy management is built (demand-response, smart grids, bidirectional connections, energy storage). Infrastructure to support the circular economy (collection, sorting, process and transport) also need to be developed.

Brussels, 25 October 2023.

The President
of the European Economic and Social Committee

Oliver RÖPKE