

Joint Industry Statement on European Competitiveness

Ensuring favorable conditions for an innovative and long-term competitive European industry is key for the EU to meet its highly set political objectives. The innovations and technological advancements developed by European technology industries drive the transition to carbon neutrality and have proven essential to safeguard EU security and defense interests.

Pertaining to the current discussions on strengthening long-term competitiveness while addressing short-term challenges, organizations representing the technology industries of Austria (Metaltechnology Austria), Belgium (Agoria), Denmark (Danish Industry), Finland (Technology Industries of Finland), Germany (VDMA), Ireland (Engineering Industries Ireland and Technology Ireland – Ibec), Italy (Anima), and Sweden (Teknikföretagen) issue the following recommendations to the Swedish Presidency of the Council of the European Union ahead of the Competitiveness Council on May 22, 2023.

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The organizations co-signing this statement support the EU's ambition to boost long-term competitiveness and productivity, while addressing short-term challenges. European industry has in recent times faced several challenges, notably spiking energy costs, labor shortages, and supply chain disturbances. These immediate challenges require long-term solutions. Coupled with an increasing regulatory burden on European companies, these factors constitute comparative disadvantages for the European industry in relation to our global competitors.

To address these challenges, we recommend the following for the consideration of EU policymakers:

- *Safeguard competition and a well-functioning Single Market to drive technological advancements necessary for the twin transition*

The European Single Market remains today, 30 years since its foundation, a key competitive advantage for European industry in the global marketplace. By removing barriers to cross-border trade and establishing a level playing field among companies regardless of Member State of origin, the Single Market has created the foundation for a vibrant and dynamic European economy. The importance of the Single Market cannot be overstated.

While short-term support measures have been necessary to ensure that competitive enterprises were not eliminated by restrictions to control the pandemic or by the spiking energy costs, state aid does not foster an innovative and long-term competitive industry. To safeguard competition and a level playing field, the EU eventually needs to return to normalcy by phasing out temporary exceptions to the state aid framework and reinforcing EU competition policy, stimulating innovation, and driving down consumer prices. Excessive use of state aid may also threaten EU cohesion by creating divisions among Member States based on ability and inclination to subsidize domestic industry.

Rather than focusing on long-term subsidizing of the production stage, the EU should focus on building competencies and capabilities to become competitive through ambitious investments in industry-relevant research and development with grants based on excellence. If warranted to address market failures, the same open and transparent process should be followed later in the innovation process to avoid a distortion of competition among companies from different Member States. While the educational system is and shall remain a Member State competency, securing access to skilled labor is essential to enable industry to drive the transition. In this regard, the EU needs to ensure the free movement and mobility of labor on

the Single Market. Meanwhile, Member States should work towards matching skills with industry needs in close dialogue with the social partners on the labor market and allow for autonomous social partners to agree on solutions to the labor and skills shortages.

- *Ensure an innovation-friendly legislative framework in the EU to stimulate technological uptake*

An increasing regulatory burden that is also expected to rise in response to the ambitious legislative agenda during this European Commission is identified as one of the main challenges facing the competitiveness of European industry. As such, we strongly support the ambition to strengthen long-term competitiveness by addressing the regulatory environment in the EU, for example by enforcing the competitiveness check on EU legislation.

The EU needs to go beyond curing symptoms by taking bolder initiative to address regulatory barriers. Preferably, the EU should seek solutions on a systemic level rather than finding sector or technology specific exceptions. We encourage proposals to increase the speed and predictability of permitting procedures to strengthen security of supply and to enable the development of key technologies needed for the green transition. Technology specific solutions may lead to displacements effects that have a negative impact on other technologies necessary to achieve EU objectives. Rather, clear criteria should be set to enable favorable conditions to develop all fossil-free green technologies on equal terms. In the short-term, we call for a screening of all currently existing EU legislation, including national implementation, to ensure EU regulation is fit-for-purpose and to remove barriers to trade on the Single Market.

To facilitate technological uptake in the longer term, the EU needs a fit-for-purpose legislative framework that can easily adopt the most recent technological advancements. In this regard, we are concerned by the increasingly prescriptive character of EU legislation and management of the European Standardization System (ESS). Ultimately, this may hamper innovation and lead to diverging technical requirements in the EU and on global markets, limiting market access for European industry. To ensure a fit-for-purpose legislative framework, the principles of the New Approach must be upheld and bottlenecks in the ESS addressed on a systemic level.

Finally, the emergence of a multitude of sustainability reporting requirements emphasizes the need for uniform one-level reporting to limit the administrative burden on European industry and avoid double regulation.

- *Reinvigorate the EU's open trade agenda and limit trade barriers to strengthen security of supply*

A prominent feature of EU industrial policy has become addressing strategic import dependencies. It is important to note that reliance on imports is in itself not problematic, as imports increase the efficiency of industrial production in Europe and globally. Cost-efficient and reliable sourcing through international trade is key for European industry to be at the forefront of technological advancements.

A means of substituting imports has become subsidizing domestic production capacity in politically identified sectors and technologies. A risk with import substitution is that it can lead to displacement effects through a reallocation of resources (such as funding, labor, and energy) from areas that are competitive to those that are not, resulting in a less vibrant and dynamic European economy. It can also lead to centralized supply chains that are less resilient, which risks compounding existing challenges.

In parallel, several legislative files will set new documentation requirements on industrial supply chains. European industry wants to uphold high sustainability requirements and being a global

rules setter in this regard can strengthen European competitiveness. However, it is of critical importance that legislative requirements are fit-for-purpose to address the issue, while not imposing an undue administrative burden that can lead to a competitive disadvantage for European industry and push industry to locate outside of the EU. Documentation requirements can also lead to more rigid supply chains, restricting the agility of industry to adapt to disturbances to international trade while compliance considerations may result in less diversification, limiting resilience.

A process of limiting overreliance should focus on broadening the base of available suppliers for industry to source from, to be able to manage risk and adapt to disturbances to global trade. This requires both internal and external diversification. Internally by strengthening framework conditions for a well-functioning Single Market as outlined above; and externally by reinvigorating the EU's trade liberalization agenda. The EU should work towards ratifying concluded free trade agreements and strive to negotiate new agreements with strategic partners and growth markets. Building competencies to become competitive will also generate mutual and reverse dependencies that reduce the risk of being subject to economic coercion.

- *Avoid a race to the bottom with excessive use of state aid in the EU in response to global competition*

The Green Deal Industrial Plan has been presented partly as the EU's response to the US Inflation Reduction Act (IRA). While the discriminatory elements in the IRA are problematic from a trade perspective, some studies conducted on its potential effects suggest that calls for a potential de-industrialization of Europe may be exaggerated, citing existing use of state aid in the EU compared on an annual basis¹. However, accessing funding can be more complicated and unpredictable than in the US. The EU should focus on making optimal use of existing funds, including rationalizing the use of existing instruments by allocating funding for projects based on competitive excellence criteria and ensuring equal access for all companies to safeguard a level playing field, before considering additional funding from the Member States. For example, only a minor part of the funds in the Recovery and Resilience Facility have been disbursed so far. The use of matching clauses should be avoided as it can lead to a fragmentation of the Single Market. Most urgently, measures should aim at reducing significantly higher energy prices than competing markets which is currently limiting the attractiveness of investing in Europe.

Exacerbating a politically driven global decoupling process through import substitution policies and political management of supply chains can be especially harmful to Europe. By the European Commission's estimate, by 2024, 85 percent of global growth will occur outside the EU. In addition, 60 percent of all EU imports are inputs needed for industrial production in Europe. As such, European industry is fundamentally contingent upon access to global markets to develop the technologies needed to achieve the EU's political and economic objectives, and for the prosperity of its citizens.

A long-term strategy to drive growth and productivity must focus on removing barriers and strengthening framework conditions for a well-functioning Single Market, with access to global markets. Competition and international trade drive innovation and technological advancements. As such, they must remain the guiding principles for EU industrial policy.

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¹ [The effects of the US Inflation Reduction Act \(IRA\) on EU competitiveness \(svensktnaringsliv.se\)](https://www.svensktnaringsliv.se/en/the-effects-of-the-us-inflation-reduction-act-ira-on-eu-competitiveness)

The recommendations in this joint industry statement are the result of an EU Industry Dialogue hosted by the Association of Swedish Engineering Industries (Teknikföretagen), through a set of roundtable discussions taking place on April 12th and April 26th in Brussels. The participating organizations include Agoria (BE), Danish Industry (DK), VDMA (DE), Ibec (IE), Anima (IT), and Teknikföretagen (SE). Subsequently, Metaltechnology Austria (AT) and Technology Industries of Finland (FI) have endorsed the statement.

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