ERT

Securing Europe's place in a new world order

ERT Vision Paper 2024-2029

Contents

Gradually, then suddenly

Two decades into the 21st century, Europe's industrial decline over the past twenty years shows little sign of stopping. Over that period, the economic divergence between EU member states and US states is evident in an 82% gap in GDP per capita between the EU and the US. Against a backdrop of significant geopolitical change, our place in the new world order is no longer assured. Having been at the vanguard of industrial development and innovation in the last century, our continent's competitiveness has faded. The US, China and others have already overtaken the EU on many indicators, just as decarbonisation and digital transition are paving the way to the next era of prosperity.

How long before the gradual decline of Europe's competitiveness becomes the sudden hard landing of irrelevance? How long do we have before the window to be first to seize the opportunities of the twin transitions closes, gradually, then suddenly?

For the European Round Table for Industry (ERT), a forum of 60 Chief Executives and Chairs of leading European technology and industrial companies operating worldwide, these are pressing questions. This vision paper aims to articulate where the problems are while underscoring our belief that Europe can still catch up.

For the governments, companies, and wider society, the motivation is obvious: we must do the utmost to safeguard the future prosperity of Europe for future generations. We have to achieve this by galvanising our social market economy to provide more and better jobs for citizens embedded in carbon-neutral growth. For Europe to succeed in its pursuit to be an exemplary model of sustainable growth - decarbonisation without deindustrialisation - a lot must change.

The starting point of our focus should be what is in Europe's hands. If we deepen our Single Market and renew the dynamic of European integration, the EU will be better equipped to seize the unique opportunities of this time of step-change. At ERT, we are also impatient to see the European Commission live up to its ambition to simplify reporting

"**Our focus** should be on what is **in Europe's hands**"

requirements, reduce them by 25%, and ensure greater coherence of our policies and regulations – more Europe must first of all mean a better Europe.

Each new European Commission and European Parliament must walk a tightrope between agreeing and implementing an ambitious work programme guided by the European Council while dealing with external shocks and crises. Since 2019, the EU has had to contend with a series of extraordinary crises – and has responded with strength and solidarity in health, energy security, and strategic investments – all in parallel to developing and advancing ambitious flagship programmes such as the Green Deal and Digital Compass.

Some of the recommendations in this publication echo previous ERT papers – but this time, Europe is at an indisputable inflection point regarding its future. Arresting the decline of the past 20 years won't be easy. In the immediate years ahead, the rapid ascent of Artificial Intelligence will have a turbo-charging effect on many aspects of competitiveness, raising the stakes. But as long as the current transitions are happening, the opportunity is there to begin making incremental gains.

As the possibility of a fresh wave of EU enlargement gathers momentum, the incoming European Commissioners and Members of the European Parliament will have to move to the effective execution of EU flagship programmes, with the likelihood of having to respond to new emerging crises as well. For all these reasons, the EU will need to do much better both in 'what' policies it devises and 'how' it enacts them.

We hope this contribution from Europe's industrial leaders can inform how the EU moves from ambitious goal-setting to implementing the policies that can restore Europe's competitiveness.

Jean-François van Boxmeer

Chair, ERT
Chairman of Vodafone Group

Part 1:
A Shifting Landscape

Part 1: A Shifting Landscape

Geopolitics is reshaping the global economy

Our societies and businesses have to operate in an increasingly complex world characterised by extreme climate events, Russia's aggression, reduced international cooperation, and a deepening global divide. In the coming years tensions will likely increase further between the US and China.

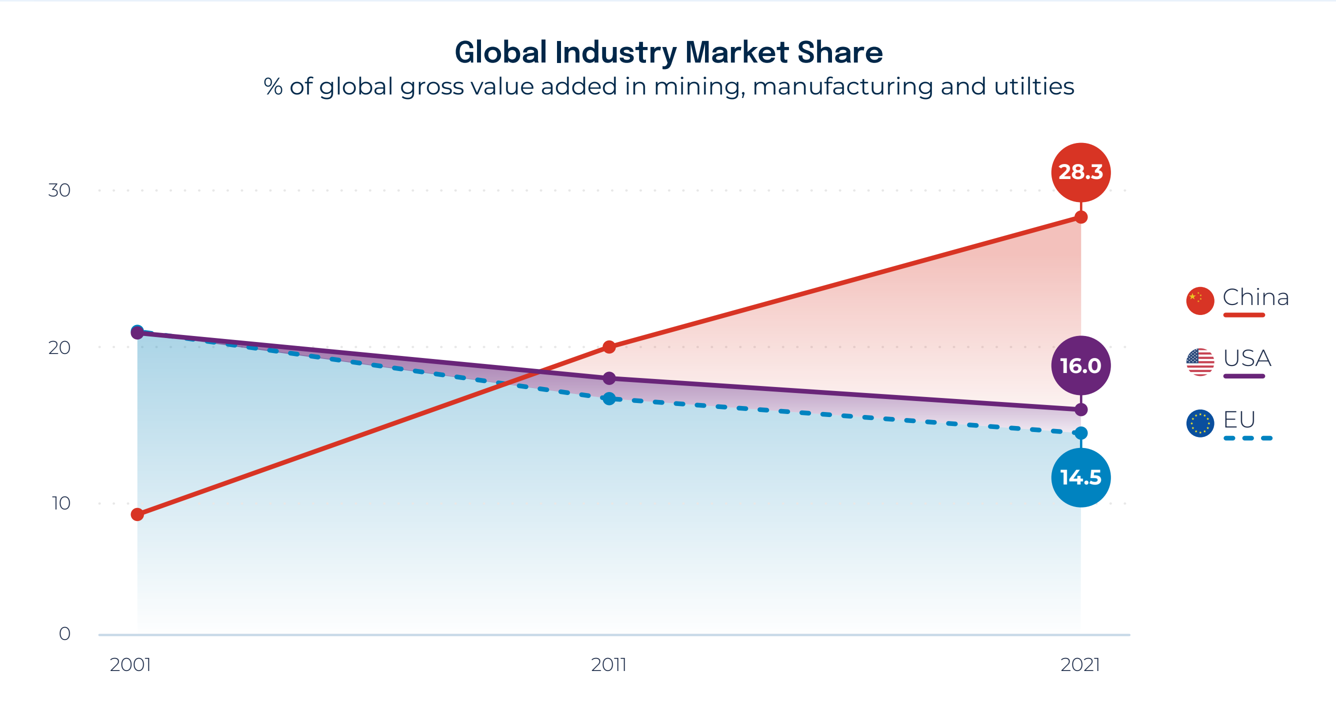
To the East, Russia's war in Ukraine threatens European and international security. The EU must be a reliable ally to Ukraine in its fight for survival and sovereignty. Rebuilding the country will require a formidable collective investment. With the revival of discussions around potential EU enlargement, we could potentially welcome nine more members from the East. To the South, North Africa remains a gateway for politically sensitive immigration. It also has the potential to become an essential partner in Europe's energy transition.

Security and resilience are increasingly taking priority over economic efficiency, distorting the level playing field for international competition. This is already playing out today, to Europe's detriment: witness how the US is deploying various instruments to attract investment in strategic industries and to influence commercial behaviour of companies around the world. For its part, China is aggressively using its industrial policies to achieve a competitive advantage in nearly every sector of industry.[1]

1 Australian Strategic Policy Institute (ASPI), Critical Technology Tracker, AUKUS updates, March 2023, https://www.aspi.org.au/report/critical-technology-tracker: China's global lead extends to 37 of 44 technologies, covering a range of crucial fields spanning defence, space, robotics, energy, the environment, biotechnology, artificial intelligence, advanced materials and quantum technology.

This change in the geopolitical landscape is reshaping the global economy at a time when all sides must also execute massive transitions. That does not mean the end of globalisation, but fragmentation is already becoming apparent. A race is on to secure abundant renewable energy, reduce raw material dependencies, regulate technology, reach netzero and much more. Amid all of this, the weakening of international cooperation has disproportionately affected the EU.[2]

All these challenges require a consistent, whole-of-Europe approach. Strictly national responses will fall short and risk deepening divergence between EU Member States. Fragmentation, slow decision-making, short-termism and populism threaten to weaken Europe from within at a time when it needs to be strong, united and visionary if the EU is to assert its interests effectively in a more contested world. National governments will need to play their part in promoting European priorities to their citizens, communicating today's context of mutual interest within the EU and global competition beyond it.



2 Three trends in weakening international cooperation put pressure on Europe: first, the return of force, as the EU has little weight in defence matters; second, the increasing paralysis of major international bodies such as the UN Security Council, the WTO, the ILO, and the WHO; and third, the challenge to international institutions and global governance arrangements from rising states who question these bodies' representation of today's distribution of power.

Arresting a 20-year decline

Since 2000, the EU has fallen from joint first in industry gross value added as a global market share to third, behind China and the United States. Europe's share of companies in the Fortune 500 has also dropped to third place. As the continent grapples with the spectre of recession, deindustrialisation now looms as an imminent and grave threat.

The statistics over the last two decades spell it out:

Europe's share of global industry gross value added declined from almost 25% in 2000 to 16.3% in 2020. [3]

Between 2014 and 2019, large European companies were 20% less profitable than their US counterparts, grew revenue about 40% more slowly, invested 8% less, and spent about 40% less on R&D.[4]

The result of the economic divergence between EU Member States and US states is a growing wedge of GDP per capita between the EU and the US, which in 2021 was as large as 82 percent. If European countries were states in the United States, many of them would belong to the group of poorest states.[5]

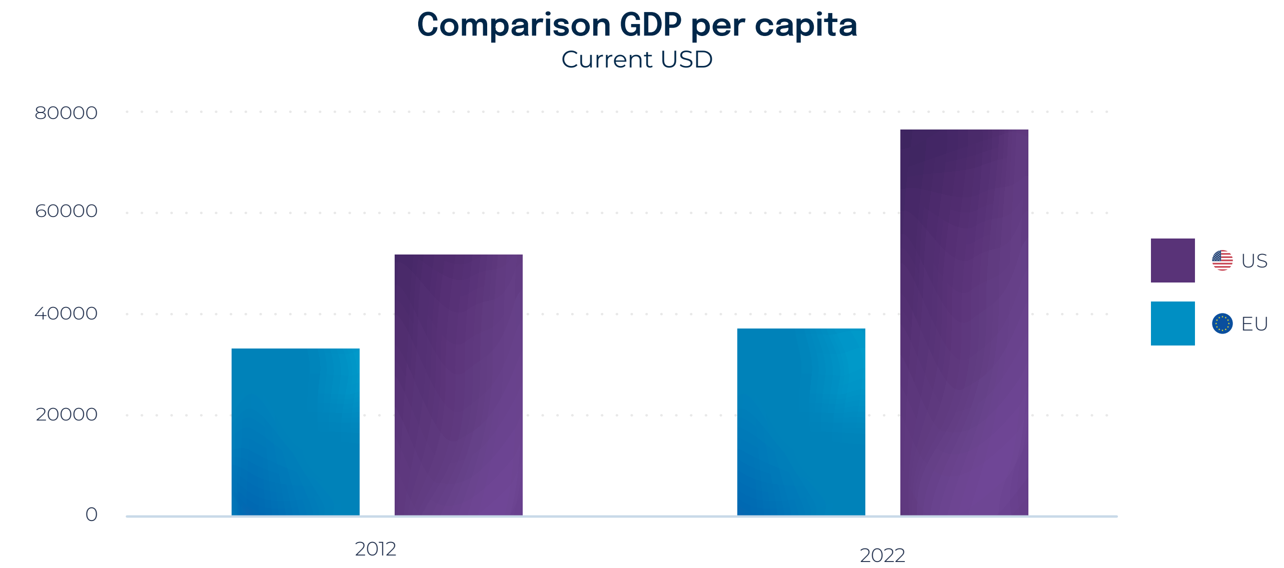
In addition, Europe's macroeconomic outlook for the next five to ten years is uncertain. Its export orientation, combined with the turbulent geopolitical environment, could constrain Europe's potential for growth. Inflationary pressures and higher interest rates cast a shadow on the investments needed to increase productivity. With slower growth, declining industrial competitiveness, and defence industries that have been neglected since the end of the Cold War, the EU risks failing to deliver the prosperity, opportunities and security its citizens expect. Therefore, a long-term joint strategy for Europe's competitiveness can create a revitalised business environment that addresses critical gaps in productivity, innovation, investment, capital formation and security & resilience.

Successful manufacturers are the lifeblood of a healthy economy. Industry makes up 16 per cent of the EU's GDP. It provides a quarter of European jobs directly and millions more indirectly. Beyond generating wealth and employment, it is pivotal in upskilling the workforce and driving innovation. Provided the right conditions are in place, industry's potential to stimulate growth and prosperity is phenomenal. For these reasons, the need to make Europe more attractive for private investment is self-evident.

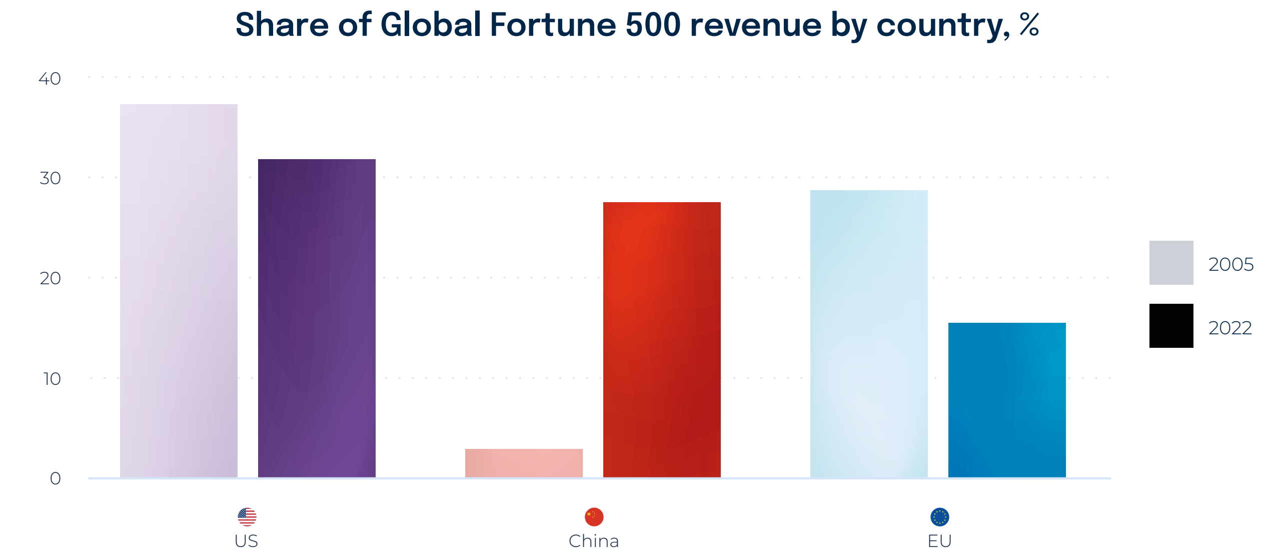
3 ERT: European Competitiveness and Industry. *Benchmarking Report 2022.* https://ert.eu/2022bmr/

4 McKinsey Global Institute: *Securing Europe's competitiveness. Addressing its technology gap.* https://mck.co/3BDo2bS

5 ECIPE Policy Brief, *If the EU was a State in the United States: Comparing Economic Growth between EU and US States*, July 2023. By Fredrik Erixon Oscar Guinea Oscar du Roy https://ecipe.org/publications/comparing-economic-growth-between-eu-and-us-states/#:~:text=Such%20a%20sustained%20difference%20matters,gap%20increased%20to%2082%20percent.



Source: World Bank, World Development Indicators



Source: Global Fortune 500 List (2023)


Japan
India
France

Futureproofing: resetting the EU's competitiveness

Consider the EU's core mission: to make Europe more prosperous and safer based on our shared values of freedom, tolerance, free markets, the rule of law and social cohesion.

To achieve these objectives, the EU Member States and the European Commission must together rise to the challenge of redressing its global competitiveness, define a united strategy to address the shifting global dynamics and get our own house in order.

Only then can we secure the European way of life and prosperity for decades to come, address the erosion of household savings and purchasing power, and build more equal societies where radicalism and populism fail to find a foothold. Only then can we ensure that Europe remains the best place in the world to grow up, study, work and live – for the many, not just the few.

Turning the trend on competitiveness in defence

Since the end of the Cold War, Europe's military defence capabilities have been largely neglected. We have seen our stake in critical innovations eroding our ability to gain a competitive edge for the future both within Europe and in global markets. This weakness further compounds Europe's predicament – a fractious new world order in which critical dependencies are exploited for economic and geopolitical leverage. Without adequate European investment in the defence and security sectors, the EU and its citizens will face an expanding array of significant security risks and lose out on the dual-use innovation driven by military research and development.

It is key that demand for European cooperation programmes drives investment across the continent, supported by EU defence policy on research, development and manufacturing of European capabilities. Moreover, EU institutions and Member States need to send clear and strong signals recognising the strategic importance of the defence and security industry for a safe and sustainable society. Why? To ensure that access to finance for Europe's defence industry is neither discouraged nor disincentivised.


EU
SNGLMKT
DELORS' EU
2030 DIGITAL COMPASS
GREEN DEAL
NEXT GEN EU

“If we **deepen our Single Market** and renew the dynamic of **European integration,** the **EU will be better equipped** for the future”

EU policies & decision-making: fit for purpose for a competitive economy?

The European political leadership has committed to maintaining a credible enlargement process. Admitting its neighbours in the Western Balkans, Moldova and Ukraine once they meet the accession requirements adds complexity to the EU's decision-making. Internal structures will need to adapt. Considering the challenges the EU faces, it is high time for the European political leadership – not least the heads of national governments in the European Council - to reflect upon whether its decision-making mechanisms are still fit for purpose in a geopolitical landscape in which agility and ability to compete count more than ever.

To be able to compete globally, the EU must strengthen its ability to enact simple, homogenous policies that swiftly respond to external shocks. Stronger interdepartmental coordination within the European Commission is a must. The EU must also shape a competitive framework that ensures fair and strategic support across all 27 Member States. While the US can implement nationwide tax incentives (e.g., the Inflation Reduction Act) and China can spend massive amounts of state aid on strategic industries, changes to EU tax legislation require unanimity between national governments. EU State aid is dispersed unevenly across Member States and subject to bureaucratic hurdles. Business taxation and state aid are largely Member State competences, leading to the current fragmented approach.

A pertinent example is in the digital space, where the availability of spectrum is crucial for the roll-out of 5G connectivity across Europe. The auctioning of spectrum licences with a lack of a harmonised framework has complicated the allocation of spectrum across the EU. This has led to delays, uncertainty and high costs for telecom operators and citizens. 5G is the bedrock of the current wave of digital innovation. And in lagging behind, the EU is missing out on the transformative turbo-charging implications it can deliver for industry 4.0, security, tech entrepreneurship and innovation.

The EU's recovery plan, *NextGenerationEU*, has not triggered or funded genuine pan-European cross-border investments. The plan's financial resources are only slowly being absorbed by EU Member States, owing, amongst others, to complex procedures.

The EU needs to diversify its supply chains and enable greater access to critical raw materials to enhance its economic security and open strategic autonomy. However, the lengthy negotiation of free trade agreements can hinder progress, with national or regional parliaments in one Member State potentially delaying ratification processes. Such delays are not to our advantage – and compromise our ability to move as efficiently as other global players.

The European Commission's competences and responsibilities have grown over the years. However, the EU's budget has not kept pace with these increased demands. The European Commission has had to take a more political approach to address challenges ranging from climate change to migration, the COVID pandemic, and Russia's war in Ukraine. Despite the European Commission's pivotal role as the guardian of the Treaties, and the only body that can enforce EU law uniformly, it has increasingly shied away from confronting EU Member States precisely because of political considerations.

For the Single Market to thrive, rigorous enforcement of European law and an assertive European Commission that acts in the common EU interest are essential. Policymakers in Brussels and national capitals have often resorted to introducing new legislation, inadvertently making the business environment more complex and fragmented.

How can the EU better respond to the competitiveness challenges at the global level and shape a more conducive climate for investment in Europe?

To respond adequately, does the EU need to play a more significant role in taxation, industrial and defence policies? Should the unanimity vote in the Council be replaced more often by Qualified Majority Voting (QMV)? When will the European Commission spearhead a new programme to simplify the regulatory framework in the EU, harmonise legislation and renew economic integration between Member States? Should the European Parliament have a greater role in initiating legislation and co-deciding on Delegated Acts?

How should the EU institutions adapt to accommodate future enlargement?

How will the distribution of the EU's budget among Member States change? Should the Union's overall budget be increased to spend more on pan-European initiatives, such as modernising energy infrastructure, boosting innovation and supporting strategic industries? Would an even larger College of Commissioners be workable? Or given that the number of portfolios cannot keep growing, would it be better to devise a rotation-based system for Member States' representation in the College of Commissioners?

Also here we should be optimistic that better EU decision-making is within our reach. In the 1980s, Europe faced similar challenges to our global competitiveness. The political leaders' response was Jacques Delors' visionary Single Market programme, which abolished barriers to internal trade and paved the way for enlargement (Finland, Sweden and Austria in 1995) and ultimately, the dawn of the Euro. The result was a transformational surge in Europe's competitiveness and a subsequent rise in incomes and general welfare. These were highly ambitious deliverables. Just as we overcame challenges to European competitiveness and unlocked a wave of progress and prosperity then, we can overcome them now.

Part 2:

From here to 2030

Fixing the basics 'at home'

A deeper Single Market & improved business climate

The Single Market is the backbone of the EU's prosperity and industrial competitiveness. However, in recent years growth in intra-EU trade in goods has nearly stagnated. For its part, the services sector is far from reaching its full potential.[6] This has knock-on implications on the EU's capacity to support start-ups and enable a thriving entrepreneurial climate - witness how it lags far behind the US and China.[7] A proliferation of new legislation and reporting requirements have further complicated the EU's regulatory framework, making the EU less attractive for businesses wanting to invest or scale up rapidly. Thirty years on, the Single Market needs a fresh wave of political investment. Removing existing internal barriers and fully enforcing the EU's harmonised rules would lead to economically transformative growth, generating new opportunities for all.[8]

6 See KPIs 11 & 12 of the *ERT Benchmarking Report 2022* https://ert.eu/2022bmr/

7 See KPIs 21 & 22 of the *ERT Benchmarking Report 2022* https://ert.eu/2022bmr/

8 See this European Commission factsheet on *A European Industrial Strategy – A Single Market that delivers for businesses and consumers* (March 2020): https://ec.europa.eu/commission/presscorner/detail/en/fs_20_427.

“Enhancing the **EU’s competitiveness** needs to be **at the core** of each European policy initiative...

... The complexity of operating in the EU has increased in recent years. Reducing the reporting burden, administrative costs and the overall regulatory compliance costs on companies would be key in stimulating the EU’s competitiveness and effectively steering capital flows towards decarbonisation purposes.”

Oliver Zipse

Chair of ERT’s CFO Platform
CEO of BMW Group

Recommendations

01 Remove Single Market barriers.

The European Commission must spearhead an 'encompassing programme' to shape a common market across all policy areas, including energy, digital, capital, environment and defence.[9] It should proactively compel EU Member States to promptly remove unlawful or unreasonable barriers and burdens via mechanisms like the European Semester, guaranteeing the free circulation of goods, services, people, capital and data. There should also be a concerted effort to harmonise and simplify the implementation of EU Regulations, Directives and Delegated Acts, as fragmentation makes it difficult for businesses to compete fairly across the Single Market.

02 Embrace a holistic approach to competitiveness.

There should be a reinforced 'competitiveness check' on all EU rules, accompanied by a reduction in reporting requirements, administrative burden and compliance costs. This means radically enhancing the Better Regulation agenda to reduce and consolidate EU regulation, going far beyond token measures like the 'one in, one out' rule, which lacked practical application.

03 Foster pro-business regulation to enhance Europe's appeal.

Striking a balance between robust rules and a business-friendly environment is paramount. European policy objectives should be achieved not only by sticks – setting targets or increasing reporting requirements – but also by carrots – creating a business case for innovation and incentivising companies to invest in Europe. EU rules should be systematically checked for internal consistency and Delegated Acts should only be used in exceptional circumstances.

9 In 2021, ERT released a flagship publication entitled: *Renewing the dynamic of European integration – Single Market Stories by Business Leaders* and featured 30 stories from ERT CEOs and Chairs on cross-border barriers which companies are facing in the Single Market. The forthcoming independent High-Level Report on the Single Market, to be presented at the March 2024 European Council, is welcome step but should result into a comprehensive programme into a comprehensive programme to remove all barriers to the free circulation of people, goods, services, capital and data, and deepen the Single Market.

"The **best defence** against uncertainty is **competitiveness...**

... Securing Europe's place in the new world order starts with improving the business environment within the EU. Removing national obstacles will enable companies, consumers and all citizens to reap the full benefits of the Single Market."

Jean-François van Boxmeer
Chair, ERT
Chairman of Vodafone Group

Innovation

Laying the foundation for future competitiveness

In 2021, the EU's R&D intensity (R&D expenditure as a percentage of GDP) was estimated at just 2.27%, significantly below its global peers.[10] The EU Industrial R&D Investment Scoreboard also warns that Europe's status as a global innovation leader is at risk. Staying at the forefront of technological change is essential for Europe to be a frontrunner in innovation. To get back on track, we need to reverse the low-investment trend. ERT firmly believes that a key remedy is urgently improving the business case for 'innovation made in Europe'.[11]

10 According to OECD data for 2020, the US stood at 3.45%, China at 2.40%, and South Korea at 4.81%.

11 Set out in more detail in our ERT Report on *Innovation made in Europe*, March 2023: https://ert.eu/innovation/

"We have to bring back **Europe's innovation spirit** and **hunger** to try new things...

... For that to happen, we need policies that promote innovation and technological openness, pragmatism in deployment and collaboration across all the value chains."

Martin Brudermüller
Chair of ERT's Committee on Competitiveness & Innovation
CEO of BASF SE

Recommendations

01

Rethink regulation.

The business case for innovating and investing in Europe needs to be put at the core of EU regulation. Achieving this requires a regulatory framework that aligns with political goals and swiftly adapts to accommodate the timely commercialisation of innovations. A coherent framework also includes fast approval processes and facilitating real-life testing conditions. A more pragmatic approach to Important Projects of Common European Interest (IPCEIs) is needed.

02

Re-focus on robust IP rights and international standardisation.

Solid, globally competitive intellectual property (IP) rights are essential for the business case of innovation. Europe must also increase its involvement in international standardisation processes to avoid delays in innovation and product commercialisation and safeguard its role and value in global standards.

03

Realise the scale-up of investment-intensive innovation.

Pioneering new technologies – for example, in the green and digital transitions – carry significant uncertainty and financial risk for companies. Beyond scientific success, the question is whether and how fast these new solutions can be brought to the market. To propel Europe as not only an R&D hotspot - but also a hub for deploying new ideas. We must step up on public-private partnerships, targeted public procurement and innovation-oriented public funding for this to happen.

Competition policy

Safeguarding Global Competitiveness

The EU's competition policy is an essential pillar of a comprehensive industrial strategy for the Union. The Commission should assertively deliver a competition policy that reinforces the role of open markets and incentivises European firms to compete effectively, both across the internal market and on the global stage. This approach will benefit the European economy, investments, jobs and consumers in particular, now and in the future.

“Fast and efficient procedures are what’s needed…

… with more emphasis on pragmatism in antitrust and merger assessments – not least in promoting innovation that truly enables the EU’s sustainability objectives to be met. These will be key for businesses to spearhead the European green and digital transitions to successful completion.”

Nils S. Andersen

Chair of ERT’s Committee on Competition Policy
Chairman of Unilever

Recommendations

01

Merger and market assessments better aligned with market realities and more consistent with other EU policies.

EU competition policies, especially its merger control, should make a broader, more dynamic and more forward-looking market assessment, reflecting the changes in market realities and EU's competitive position with rest of the world. Proper consideration should be given to real and future competition, investments, innovation, sustainability and efficiencies – in alignment with overarching EU priorities and agreed policies – rather than focussing on theoretical modelling around alleged short-term pricing effects. Merger decisions should further the benefits for the entire Single Market, not only the markets of individual Member States.

02

Reinforce the European Commission's role as guardian of the Single Market.

The Commission must amplify its role as guardian of the Single Market by ensuring full alignment in decisions by national competition authorities (NCAs) – this is crucial when companies are expanding and scaling up operations across Europe. Ensuring coherent decisions across NCAs is vital to the Commission's ongoing review of its procedural regulation. State aid can be indispensable for early-stage innovations for the digital and green transitions as well as for key strategic sectors when market forces alone are insufficient. The EU must offer faster and more efficient procedures to entice European companies to invest at home rather than being lured away by attractive and unbureaucratic incentives in the US and elsewhere.

03

Ensure faster legal proceedings and increase legal certainty.

In cases of cartel activity, cooperation and abuse of dominance, European companies need swift proceedings to operate with legal certainty and make informed investment decisions. The Commission must prioritise allocating sufficient internal resources for all cases to be dealt with efficiently, including its new powers under the Digital Markets Act and the Foreign Subsidies Regulation. Particularly for sustainability initiatives when scale is needed to drive innovation and that will benefit future generations, the Commission must ensure that game-changing industry initiatives delivering the Green Deal are not impeded.

Green transition & energy security

Decarbonising while re-industrialising Europe

Europe's climate leadership can potentially create one of the biggest opportunities for its future security and prosperity. However, Europe's decarbonisation is currently accelerating due to deindustrialisation. This is neither economically sustainable nor climate-friendly, as certain industries are relocating and shipping the same products back to the EU over a longer distance, potentially even increasing the carbon footprint. Energy prices in the EU remain above pre-crisis levels and are higher than in other regions, primarily due to the rising share of taxes and levies in the total cost price.[12] Volatile fossil energy prices arising from low domestic production, import dependence, and geopolitical uncertainty exacerbate the situation. All of which only serve to feed discord in society. To achieve a sustainable future, a comprehensive vision for 2030 must ensure that the costs of the green transition do not disadvantage EU-based companies.

12 See KPI 41 of the *ERT Benchmarking Report 2022* https://ert.eu/2022bmr/

“The **competitiveness lens** should be added to the **green transition...**

... European industry is committed to netzero and is acting at scale to achieve the Green Deal’s objectives. However, it is time for the EU institutions to face up to the crisis confronting big parts of European industry.

A mindset shift is needed: towards enabling and incentivising decarbonisation by companies, rather than just adding further legislation and new targets. Otherwise, both the environment and the economy will end up losers.”

Dimitri Papalexopoulos

Vice-Chair, ERT
Chair of ERT’s Committee on Energy Transition & Climate Change
Chair, TITAN Cement

Recommendations

01

Accelerate decarbonisation by boosting public investment and incentivising private investment. [13]

This means reducing energy costs for companies (particularly in energy-intensive industries), incentivising demand for decarbonised solutions, and creating a compelling business case for massive scale-up of existing technologies and innovation instead of just setting targets and increasing reporting requirements. The EU should establish a single Energy Union with a common market, harmonised permitting and tax systems, and a simple, stable and predictable regulatory framework to facilitate investment.

02

Upgrade EU-wide energy infrastructure to stimulate the deployment of renewable energy sources and ensure the security of supply through climate resilience measures.

Europe should enhance its interconnectivity through modern electricity grids, pipelines (for gas, hydrogen, and CO2), ports and railways, energy storage and charging infrastructure, and Carbon Capture Storage and Utilisation (CCUS). Streamlining the coordination and planning processes across the Union will enable the transition towards a decentralised and digitalised grid predominantly based on renewables such as wind, hydro and solar. State aid in the form of incentives should be a short-term, targeted measure during transitions and market failures. To prevent business relocation outside the EU, state aid should focus on energy-intensive companies to incentivise decarbonisation and compensate for high energy costs (compared to non-EU countries).

03

Strive for an international, green, level playing field by pricing fairly the carbon footprint of products to provide an incentive for decarbonisation, in parallel to ensuring the competitiveness of European industry at a global level.

To that end, the piloted Carbon Border Adjustment Mechanism (CBAM) as part of the evolution of the EU ETS, could conceptually provide such incentives, but in its current form it has important drawbacks that would need to be addressed before it can be made into an effective policy for sectors currently in scope. For other sectors, a product-by-product approach would be needed regarding the evolution of EU ETS, including adopting CO2 cost-compensation measures for the electro-intensive industry.

13 See KPIs 35 & 36 of the *ERT Benchmarking Report 2022* https://ert.eu/2022bmr/

Digital transformation

Catching up and closing the gaps

At present, the EU risks missing its 2030 Digital Decade targets for connectivity, digital skills, digital business, and digital public services. Rising global competition on AI will worsen the situation.[14] The ascent of world-beating trillion-dollar tech companies (outside Europe) is a testament to how innovative digitalised enterprises grow far more quickly than traditional businesses.

The EU does not lead the consumer internet, but all is not lost. It can still seize the opportunity to become a global leader in the emerging industrial internet. However, digital success relies on speed more than any other policy area. AI and supercomputer capacity are the next frontier in competitiveness. Embraced responsibly, digital technologies will play an essential role in establishing resilient and sustainable supply chains – and given the disruptive nature of the technology, this will happen quickly. To avoid being left behind, the EU must get serious about stimulating speed in connectivity, policymaking and implementation.

14 Europe's Digital Decade: digital targets for 2030
https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/europes-digital-decade-digital-targets-2030_en

“The EU has an **exciting opportunity** to pioneer the **digital transformation** of industry and B2B data-driven business models…

… To do this, however, it is imperative that Europe not only catches up but leads the way in the global digital economy. This requires a strengthened EU Digital Single Market and investment in digitisation, innovation and entrepreneurship.”

Christian Klein

Chair of ERT’s Committee on Digital Transformation
CEO of SAP

Recommendations

01 Invest in digital infrastructure.

Secure, reliable, and high-performing connectivity is a precondition for the digital transformation of the European industry. The EU must do much more to incentivise private investment in 5G and very high-capacity networks, including through modernising the current regulatory environment, embracing scale, reducing barriers and harmonising spectrum license renewal.

02 Support tech uptake and innovation.

The EU must craft legislation that provides legal certainty. However, it must avoid unnecessary, burdensome obligations that limit the chance for Europe's technological capacity and industrial base to lead the global development and deployment of innovative technologies. World-leading conditions are needed to drive private investment in general-purpose digital technologies, including a comprehensive and ambitious Capital Markets Union (CMU).

03 Enhance cybersecurity.

In the face of a rapidly evolving and complex cyber threat landscape, all stakeholders across the digital ecosystem have an important role in managing cybersecurity risks and building the required capabilities. The EU should foster increased cybersecurity cooperation between governments, international institutions, industry and other stakeholders.


17
9
74%

Trade & market access

Pursuing trade agreements in the EU's geo-economic interest

Europe has long been a beacon of open trade - deeply integrated into global markets, with the ability to freely trade and invest globally. Free & fair trade continues to benefit economic exchange and development for all countries. However, growing geo-economic fragmentation has led to a volatile trading environment. The COVID-19 pandemic, Russia's invasion of Ukraine and the subsequent energy crises exposed the risks of overdependence on single countries or companies. Businesses remain best placed to navigate the balance between supply chains' resilience and efficiency and to implement the necessary diversification strategies.

Close EU-US ties are fundamental for strengthening Europe's competitiveness. Strong economic relations with China are also critically important for European businesses. National governments in the EU need to pursue a consistent and balanced approach to the EU-China relationship. Above all, Europe must retain its ability to defend its values and interests, act independently and exert influence globally.

"The **competitiveness** of the EU and the US relies on a **strong transatlantic relationship...**

... Together, they form a transatlantic economy that is the largest and wealthiest market in the world. It is vital to deepen the transatlantic partnership and to advance a united trade and technology agenda based on our shared values."

Nancy McKinstry
Vice-Chair of ERT
Chair & CEO of Wolters Kluwer


MAERSK LINE

"Safeguarding open trade **is a must...**

... It is what allows the EU to build, expand and preserve the strong global commercial relationships essential for its global competitiveness and economic growth. Trade enables resilience in global supply chains and stronger international cooperation."

Jacob Wallenberg

Chair of ERT's Committee on Trade & Market Access
Chair of Investor AB

Recommendations

01 Strengthen alliances.

The EU must forge alliances with like-minded partners, particularly the US and Asia-Pacific countries, and accelerate free trade agreements, strategic partnerships, and a broader European engagement globally, such as the Global Gateway initiative. Transatlantic market integration and joint global standard-setting and regulatory cooperation are of the utmost importance. The EU and US must ensure that the EU-US Trade & Technology Council delivers concrete results and they should ultimately pursue a transatlantic free trade agreement. Waiting and procrastinating on new regional trade negotiations is not to our advantage as the relative size and attractiveness of the European market will diminish.

02 Restore a global level playing field.

The EU and the US should together redouble efforts to revitalise the WTO. The EU needs to intensify dialogue with third countries, notably China, to create economic opportunities and address unfair practices. It should deploy trade-defensive measures where necessary to level the playing field between trading partners.

03 Pursue economic security.

Economic security risks must be carefully assessed and clearly defined, with policy measures remaining transparent, targeted and proportionate to the risks. Well-crafted domestic measures to stimulate the growth of key sectors remain crucial and the EU must favour a risk-based diversification of its supply chains from outside the Union rather than resorting to forced 're-' or 'friend-shoring'.

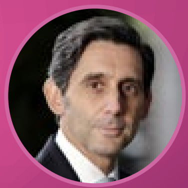
Skills

Adapting to change and preserving equality

As business evolves with new technologies and the speed of change continues to accelerate, there is an evident impact on the skills needed for our workforce and how the EU approaches building a culture of lifelong learning. Consider this mismatch: 4 million vacancies versus 11 million unemployed. Projections suggest that within a decade, as many as 100 million people may need upskilling or reskilling, while as many as 20 million workers could face displacement. Beyond the enormous implications for our competitiveness as an industrial base, this will have severe repercussions for equality, prospects and quality of life.

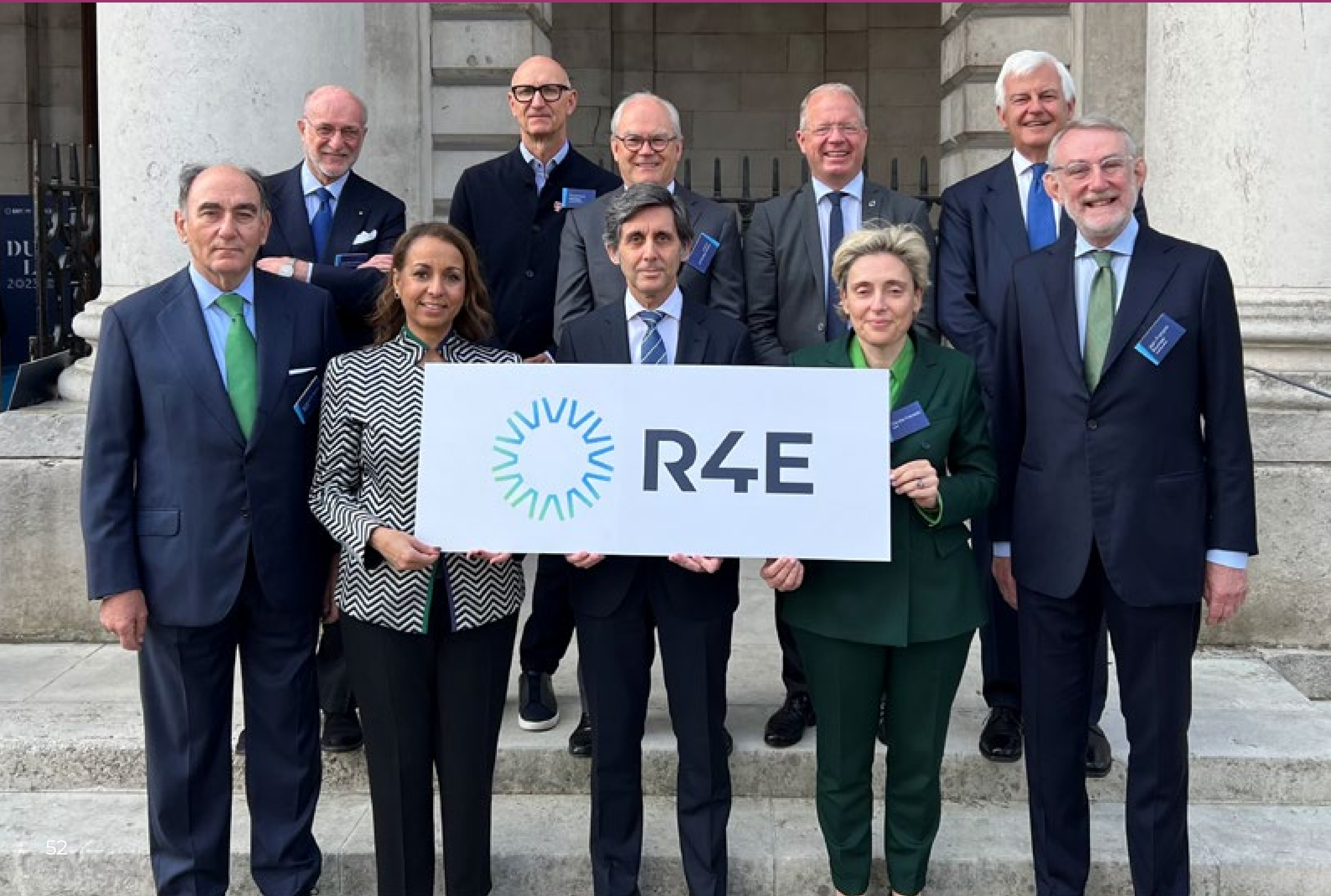
“Europe’s workforce is our **greatest asset…**

… To maintain it, our culture of education and training must evolve with emerging technologies. We must work together, through investment and collaboration, by companies, national governments and the EU.”



José María Álvarez-Pallete
Chair of ERT’s Committee on Jobs, Skills & Impact
Chairman & CEO of Telefónica

Recommendations



01

Strengthen our education system.

To maintain competitiveness, European governments need to set new goals: 1) Use education policy and cooperation with industry to stimulate curiosity in science, technology, engineering and mathematics (STEM) subjects from an early age, 2) Foster a more entrepreneurial mindset among students, 3) Make education more dynamic by integrating new disruptive technologies and more specialised courses into academic and vocational curricula without delay.

02

Make reskilling into new, sustainable careers the norm rather than the exception.

ERT Members fully appreciate the enormity of the reskilling challenge Europe's companies and people face. ERT launched the Reskilling4Employment (R4E) initiative,[15] aimed at creating targeted reskilling programmes for workers at risk or already unemployed. R4E has successfully launched in several European countries and taught us that public-private partnerships are essential for scaling up such programmes. To meet the reskilling challenge, it is key that European institutions, national governments and corporates join forces.

03

Ensure an immigration policy that meets the EU's skills needs.

Europe needs to take a more strategic approach to immigration to help compensate for the demographics of an ageing society and to support employers in filling open vacancies. Without treading on Member States' competences, the Commission could explore making the EU Blue Card system less restrictive and extending it to mainstream skills profiles.

15 Reskilling 4 Employment, Helping Europe answer the reskilling challenges of the 21st century: https://reskilling4employment.eu/en/.

ERT Members leading companies involved in R4E, pictured in May 2023.

Back L to R: Gianfelice Rocca (Techint Group of Companies) Timotheus Höttges (Deutsche Telekom), Michel Demaré (AstraZeneca), Martin Lundstedt (Volvo Group), Alessandro Profumo (formerly of Leonardo).

Front L to R – front: Ignacio Galán (Iberdrola), Dr Ilham Kadri (Solvay), José-María Álvarez-Pallette (Telefónica), Claudia Azevedo (Sonae), Jean-François van Boxmeer (Vodafone and ERT Chair).

Conclusion: From here to 2030

Institutional transition to the next phase of the green & digital transitions

A new European Parliament will be elected in 2024, and a new European Commission will take office and national elections across the EU will continue to influence the European Council's ability to achieve consensus and build cooperation. It is an alarmingly short road from here to 2030, the milestone for many of the current European Commission's climate, digital and energy targets. Arresting the slide in Europe's competitiveness and its potential repercussions on the European way of life will not be easy.

ERT Members stand ready to support EU and national authorities by sharing best practices and solutions to maximise productivity gains and allow innovation to flourish.

Companies led by ERT Members are increasing investment in innovation, providing quality employment opportunities and promoting inclusion and diversity. They are committed to lifelong learning, training the next generation in digitalisation, automation and artificial intelligence. Thriving businesses, like those led by our Members, are a strategic asset that allows the EU to strengthen its trade and industrial policies with data, expertise and experience from the front line. They are delivering the energy transition on the ground with low-carbon investments at scale. In partnership with the EU and Member States, they can go even further, faster.

The public sector needs to create the right conditions for businesses to stem the twin transition, compete on

EU 2030 Checklist

By 2030, the EU should achieve the following:

- Deeper integration between Member State economies, leading to a closer Union, with remaining barriers to internal trade abolished
- Less burdensome and more coherent regulation for businesses
- Globally competitive prices for (and reliable access to) lower-carbon energy
- Diversified sourcing of critical raw materials
- Increased R&D investment to secure innovation leadership
- A vibrant scene of deep-tech start-ups in key sectors that stay and grow in Europe
- Greater uptake of advanced technologies by public sector, industry and SMEs
- Global leadership in the Industrial Internet of Things and Industry 4.0.
- A secured skills base via firmly established lifelong learning and more Science, Technology, Engineering, and Mathematics (STEM) graduates
- A faster-moving competition regime that takes account of global markets
- A high and stable market share as an exporter of high-technology manufactured goods
- Lower barriers for exports to Europe's trade partners

Progress should be tracked via dedicated KPIs.

a global stage and invest in Europe. And companies must invest responsibly and with foresight and strive to create lasting prosperity for European citizens.

We can learn from past successes in revitalising a lagging Europe to improve the EU's governance and shape an 'ever closer union among the peoples of Europe'.[16] Deeper economic integration and better policymaking will remove barriers to trade within the Single Market and put us on course to achieve the twin transitions.

ERT has long been a proponent of close collaboration between European industry and governments to secure Europe's success. The CEOs and Chairs of Europe's global companies stand ready to play their part in investing in the future of Europe. Together, it is incumbent upon us to help deliver what everyone living and working in Europe wants: a social market economy with full employment where we can have confidence in a future of enduring prosperity for all. We want a Europe that stands as a shining example of what free democratic societies can achieve and where the EU is the master of its own destiny.

A future worth striving for.

16 Consolidated version of the Treaty on European Union, Title I, Article 1.

List of ERT Members

Chair

Jean-François van Boxmeer
Vodafone Group

Vice-Chairs

Nancy McKinstry
Wolters Kluwer

Dimitri Papalexopoulos
TITAN Cement

Secretary General

Frank Heemskerk
ERT

Members

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Heubach Group

Belgium

Ilham Kadri
Solvay

Mathias Miedreich
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Vincent Clerc
A.P. Møller-Mærsk

Finland

Henrik Ehrnrooth
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Pekka Lundmark
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BASF SE

Belén Garijo
Merck Group

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Jim Hagemann Snabe
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Oliver Zipse
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Ireland

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Smurfit Kappa Group

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Holcim

Björn Rosengren
ABB

Mark Schneider
Nestlé

Severin Schwan
Roche

The Netherlands

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HEINEKEN

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dsm-firmenich

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Wael Sawan
Shell

Jakob Stausholm
Rio Tinto

Jonathan Symonds
GSK

Notes

ERT

The European Round Table for Industry (ERT) has a long history of promoting competitiveness and prosperity in Europe. In April 1983, 17 leading European business leaders came together to launch ERT. They were then, as we are now, united by a belief that European co-operation between industry, policymakers and all stakeholders is essential to ensure Europe continues to thrive.

Today, ERT Members include CEOs and Chairs from around 60 of Europe's largest companies in the industrial and technological sectors. By facilitating cross-sectoral dialogue at the highest level, we build consensus informed by the realites faced by European companies operating worldwide. We are committed to creating a strong, open and competitive Europe through which we promote sustainable growth, jobs and prosperity for all.

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Released on 26 October 2023.