European Economic and Social Committee
Employers' Group

Newsletter

February 2024

Time to have a large-scale European defence industrial programme


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Last January, European Commissioner for Internal Market Thierry Breton reiterated the need to consolidate an internal defence market to ensure our security. 'We started with munitions for Ukraine', he stated. 'We now need to broaden this approach to include a large-scale European defence industrial programme capable of supporting the expansion of the European industrial base and developing the infrastructure needed to protect contested areas'.

The European Economic and Social Committee has had the opportunity to reiterate, on numerous occasions, the need to support the launch of a European Defence Industrial Development Programme (EDIDP) aimed at creating an interoperable and integrated common defence system.

This objective is all the more urgent given the current geopolitical situation, which urges us to strengthen Europe's strategic autonomy in defence and develop a solid common industrial and technological base.

At the same time, as representative of civil society, the European Economic and Social Committee is tasked with contributing towards developing a European culture of defence and security in order to give full meaning to European citizenship in terms of cohesion, solidarity and sharing.

In order to achieve defence objectives, the Lisbon Treaty calls on the Member States to 'take concrete measures to enhance the availability, interoperability, flexibility and deployability of their forces, in particular by identifying common objectives ... including possibly reviewing their national decision-making procedures'.

From a strategic perspective, if Europe is required to ensure adequate levels of security for its citizens and businesses, safeguard the territorial integrity of its borders and take on responsibility in the world, it must secure credible defence capabilities, ensuring an appropriate level of strategic autonomy and technological and industrial development, with a common European base. As the wise Latin saying goes, 'si vis pacem, para bellum' – if you want peace, prepare for war.

According to the latest European Defence Agency (EDA) report, in 2020, defence spending by the EDA's 26 Member States (all EU countries except Denmark) amounted to EUR 198 billion, the equivalent of 1.5 % of gross domestic product.

Developing a strong and technologically advanced defence industry is crucial for Europe to be able to achieve sufficient strategic autonomy. The ability to produce state-of-the-art weapons systems not only increases the efficiency of the armed forces, but also strengthens Europe's technological and economic bases in the current context of growing geopolitical competition.

The necessary process of overcoming a nationalistic view of defence – which is in contrast, inter alia, with the existence of strong politico-military groupings in the world and which has highlighted the fragility and political weakness of Europe in major world events – could opportunely build on the initiative of the Parliament and the Council. Through the action of the Commission, this initiative can influence the industry and the defence market and thus the development of military capabilities.

Between 2018 and 2022, the five largest exporters in Western Europe (France, Germany, Italy, the UK and Spain) produced around one quarter of the total weapons exports worldwide. Thanks to the Commission's impetus, the European defence market has also started an integration process by merging large industrial groups, which has fostered market integration.

The defence industrial sector is, unfortunately, overwhelmingly dependent on the public demands of individual states and on their national budgets.

Europe is required, however, to ensure adequate levels of security for its citizens and businesses, safeguard the territorial integrity of its borders and take on responsibility in the world. It must therefore ensure common and credible defence capabilities, ensuring an appropriate level of strategic autonomy and technological and industrial development, with a common European base.

As early as June 2017, the European Council agreed on 'the need to launch an inclusive and ambitious permanent structured cooperation (PESCO)', with a common list of criteria and binding commitments.

For its part, the European Parliament has repeatedly called for enhanced cooperation on defence between the EU Member States, as well as the full implementation of the Lisbon Treaty as regards security and defence.

The EESC has repeatedly supported the launch of an EDIDP, calling for a regulation to be adopted as a first step, together with other parallel initiatives, aimed at creating an interoperable and integrated common defence system.

The current geopolitical situation quite clearly requires a permanent structural cooperation, already provided for in the Lisbon Treaty, able to establish a list of criteria and binding commitments aimed at overcoming fragmentation of supply and demand and at gradually creating a transparent and open European defence market.

The EDIDP should be framed by a common strategic vision for the defence industry that can move towards the effective integration of European manufacturers and users, involving at least three Member States.

There is an emerging and growing need for structured dialogue at European level, in synergy and coordination with NATO, and a council of defence ministers that can provide ongoing political leadership and a forum for consultation and the adoption of genuinely European decisions.

The statutory provisions must ensure: a balance between large and small countries; that 20 % of participating businesses are smaller businesses; training for skilled staff and new job profiles; and retraining for staff whose skills have become redundant or obsolete.

Now is the time to expand and strengthen this approach to include a large-scale European defence industrial programme, capable of supporting the expansion of the European industrial base, by developing 'dual-use' items. These are items, including software and technology, which can be used for both civil and military purposes and include items that can be used for the design, development, production or use of chemical or biological weapons and their means of delivery.

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SME Relief Package

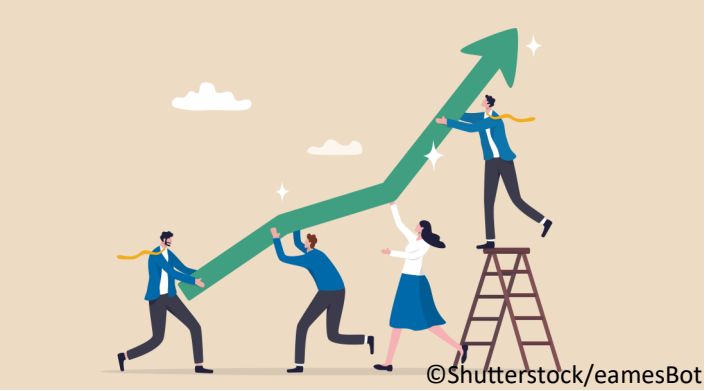
CREATING A BETTER BUSINESS ENVIRONMENT FOR EUROPE'S SMES

The SME community were listening when President Ursula von der Leyen acknowledged the severe challenges that SMEs face in her State of the Union speech on 13 September 2023. This highlighted the sincere intentions of the European Commission communication on the SME Relief Package, which had just been published the day before. Now half a year later, we need to follow up these words with actions.

The SME Relief Package is an attempt to put SMEs at the heart of European legislation, strategies, discussions and actions in support of competitiveness, by putting forward 19 actions together with concrete proposals, such as a regulation on late payments or a directive on tax simplification for SMEs.

Factoring in SMEs contributions to the real economy goes hand in hand with endorsing the better regulation principles. SMEs have to be put at the centre of every legislative action, as they represent the most important component of the European industry and economy. The 24 million European SMEs represent 99% of all businesses in the EU (most of these being micro enterprises), and provide two-thirds of jobs in the private sector in the EU. For this reason, European co-legislators should further develop and tailor their legislation to the needs of SMEs. Ensuring business-friendly legislation that fully reflects the difficulties and differences between challenges faced by SMEs and large companies is key, and only through good legislation can we help businesses. Here, the SME Relief Package takes a positive step forward with a renewed commitment to "think small first", with long-term reductions in the regulatory area and with the announcement of the new EU SME Envoy.

Appointing the new EU SME Envoy is a first step towards giving SMEs a way to voice their needs. To make the necessary impact the EU SME Envoy needs to be involved in the EU Competitiveness Council and in meetings with national SME Envoys or the Regulatory Scrutiny Board. The Commission must ensure that the position will be accompanied with adequate resources in terms of staff and financial support. To really bring the needs of SMEs from all over Europe to the EU level, the communication channels between the national SME Envoys and SME community in every Member State should be strengthened. Regular and structured dialogues with business organisations should be promoted to reinforce synergies and to ensure a more coherent implementation of policies.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The communication is also characterised by the increasing relevance attached to the digitalisation process to simplify procedures. While there is a clear benefit in digitalising means and procedures, SMEs often struggle to take up such processes due to limited financial resources and incentives. Digitalisation should be promoted, but not imposed.

According to the 2024 Eurochambres Economic Survey, based on responses from over 43 000 entrepreneurs across Europe (95% of whom are SME owners), the main challenges SMEs are set to face in 2024 are problems in sourcing energy and raw materials, labour costs and a shortage of a skilled workforce. These results clearly call for political action to reduce uncertainty among the business community and improve the predictability and resilience of Europe's economy.

In its opinion INT/1048 on the SME Relief Package to be discussed at its February plenary, the EESC comments on the actions proposed and stresses that measures must be tangible and proportionate. It highlights the need for better access to financing and a better regulatory environment.

European Commission President Ursula von der Leyen's new found focus on SMEs is a good start to the end of the current mandate. Only time will tell whether or not these resolutions will bring relief to Europe's SMEs, as the next Commission has to translate the package into tangible actions. SME welfare is now finally on the agenda, and it is here to stay.

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The future of the EU's telecommunications sector

The scale of the challenge for European telecoms operators

Telecommunications companies in Europe played a critical role at the height of the pandemic in enabling businesses to continue to operate despite local lockdowns. The strong demand for broadband and connectivity solutions during and after the pandemic has resulted in a need for greater investment in the accelerated deployment of 5G networks. Moreover, there has been growing pressure on telecoms companies to provide affordable, high-speed digital connectivity and reduce energy consumption. At the same time, the European network has required modernisation and the roll-out of a multi-layered security strategy to respond to constantly evolving cyber threats. The telecommunications sector also has an important role to play in making sure that the Digital Decade targets are met, including covering all European households by a gigabit network by 2030.

Implementation of such an ambitious agenda requires investing huge amounts to build networks that benefit the general public and businesses in Europe. There is still an investment gap of €174 billion – as estimated by the European Commission – in order to meet the Digital Decade goals.

How can we secure a better future for the telecommunications market, when the challenges that companies are facing are so complex?

The answer is twofold.

The future of connectivity is closely linked to investment. Finding new, reasonable methods of incentivising investment in new networks has become a central task for market experts and telco policy-makers. Simultaneously, telecoms operators must experiment with, and embark on, new technologies and offer new types of products and services. In the ever-evolving telecommunications industry landscape, technologies such as cloud computing and AI help the industry to meet the demands of a digitally-driven world.

New approach to investment in telecommunications infrastructures

Several proposals holding out the promise of an overhaul of the telecommunications market have been considered so far. In the EU, one scenario being considered seriously by the European Commission is known as the "fair share" initiative. The idea is to support the telecommunications sector in its efforts to make the largest traffic generators contribute to IT infrastructure. An equally interesting idea, building on a fair contribution to network cost, has been debated in the US. The proposed 2023 "Lowering Broadband Costs for Consumers Act" allows the telco regulator to make both content and


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service providers contribute to a fund called the Universal Service Fund.

The idea behind these proposals is that large traffic generators should contributing to the funding and maintenance of telecommunications infrastructure. The proposals are not without pitfalls – putting them into practice could violate the principle of net neutrality or harm transatlantic relations. However, these are plausible proposals, attempting to address the responsibility for driving internet traffic growth of those parties who rely on the networks for delivering their services.

Going beyond connectivity

The telecoms sector is exploring new ways of reviving, growing and establishing new businesses that reach beyond connectivity. The traditional business model no longer holds up and some serious changes are inevitable. Thus the adoption of edge computing is yet another priority for the telecommunications industry. It is of paramount importance for these companies to make sure that AI components, streaming, virtual machines and many more workloads are optimised and that maximum flexibility is ensured. Edge computing is the best way for the telecoms sector to delve more deeply into the world of computing and connectivity infrastructure and it helps move the sector higher up the value chain. Moving away from private data centres and migrating essential infrastructure to the cloud can without a doubt support telecoms companies in responding more effectively to market demands.

AI is a technology that redefines the capabilities of telecommunications networks. Telco is eager to use artificial intelligence to take advantage of new opportunities to optimise network infrastructure, as well as to identify new revenue opportunities. The sector is only just beginning to make use of AI opportunities. The technology helps to manage the deployment of employees in stores and call centre use: it also supports measures to predict network congestion and proactively reroute traffic to avoid outages.

Conclusions

There is no doubt, given the pressures that companies in the telecoms sector are facing, that current levels of investment are not enough for them to make a breakthrough in the European market. It would appear necessary to consider new ways of supporting the sector, aimed at increasing network capacity and improving the quality of internet access. The future of the sector, once investment is secured, should be centred around developing new technologies. Only telecoms providers that embrace AI and edge computing have a chance to improve their bottom line and stay ahead of the competition.


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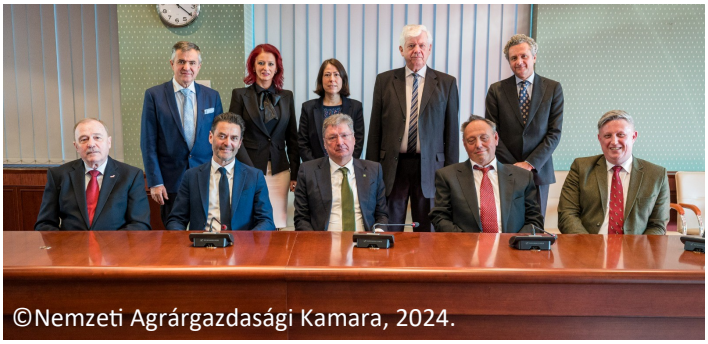
Employers' Group President Stefano Mallia meets main Hungarian business organisations

In view of the upcoming II/2024 Hungarian Presidency of the Council of the EU, on 11 January 2024 President Mallia visited Budapest to discuss the priorities for European businesses with main business organisations. A shared need voiced by all parties was that EU competitiveness must be enhanced to allow businesses to excel at a global level. This is a common goal which the business community wishes to focus on during the Hungarian Council presidency.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During his mission to Budapest, President Mallia met with László Parragh, President of the Hungarian Chamber of Commerce and Industry (MKIK), Dr Zoltán Zs. Szőke, President of the Hungarian National Federation of Consumer Co-operative Societies and Trade Associations (ÁFEOSZ-COOP), Balázs Győrffy, President of the National Chamber of Agriculture (NAK) and Péter Lakatos, Co-President of the Confederation of Hungarian Employers and Industrialists (MGYOSZ-BuisnessHungary). A further meeting took place with Mr Balázs Molnár, Hungarian Deputy Secretary of State at the Ministry of European Affairs.

Business organisation representatives provided some insight into Hungary's economic situation. In general, Hungary's economy is just starting to emerge out of a recession, with real GDP having contracted 0.7% in 2023. Inflation, after double digit increases in 2022 and most of 2023, decreaseed to single-digity by end 2023, while remaining high. In any case, Hungary clearly profits from the Single Market, as it exports 78% of its goods to other EU member states and 71% of its imports come from other EU countries. Hungary's economic situation gives even more reason to use its turn at the Council Presidency to work together for a competitive European business landscape.

During his mission, President Mallia was also interviewed by the Hungarian Online Financial Journal "Portfolio" on how to enhance Europe's business environment. Read the full interview here: https://www.portfolio.hu/unios-forrasok/20240122/unios-alapelvnek-kellene-lennie-hogy-eltavolodjunk-az-allami-tamogatasoktol-664023

EU Single Market: The next generation

Since the European single market was established, harmonisation and mutual recognition of standards have enabled companies to sell their products in a market of over 450 million people. It accounts for 61% of intra-EU trade by companies, and is the basis of Europe's economic prosperity, thus benefitting its citizens, consumers, workers and companies. The European Commission estimates that 25% of the EU's gross domestic product is generated by the internal market.

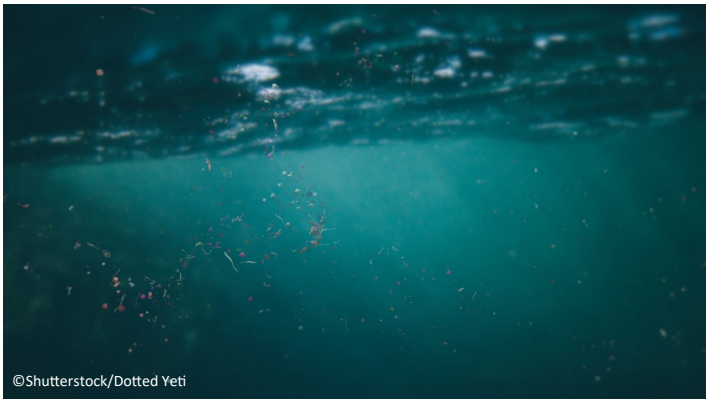
However, new developments, such as the digital transformation and the transition to a less carbon-intensive and more sustainable economy, require new adjustments, as do the changing needs of consumers, employees and companies and new geopolitical conditions.

The EESC's Employers Group has summarised its key messages for the successful future of the EU's internal market in its One Pager "EU Single Market: the next generation".

Read the new publication here: https://europa.eu/!TVmdYg

Microplastics
THE ROLE OF EU INDUSTRY IN PREVENTING PLASTIC PELLET LOSSES TO REDUCE POLLUTION

Since 2018, the EU has launched a series of initiatives to try to tackle the environmental and health risks posed by microplastics emissions, starting with the EU Strategy for Plastics in a Circular Economy. In 2021, in its action plan *Towards zero pollution for air, water and soil*, the Commission proposed that, by 2030, the EU should reduce (intentional and unintentional) microplastic releases into the environment by 30%.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Last September, the European Commission adopted a Regulation laying down restrictions in relation to *intentionally added* primary microplastics in products. In October, it published this proposal on preventing and reducing *unintentional losses to the environment* of primary plastic pellets. This proposal and its accompanying Impact Assessment (IA) stems from the Commission's commitments on unintentional releases of microplastics.

Plastic pellet losses to the environment are the third most significant source of all unintentional microplastic releases. The other main (secondary) sources include paint, tyres, textiles, geotextiles and, to a lesser degree, detergent capsules. Preventing microplastic releases from these sources may require major material substitutions or changes to and trade-offs among product characteristics. There are many more, by orders of magnitude, dispersed sources of emissions, which also originate from less-informed actors.

In contrast, plastic pellet losses are due to a lack of awareness and poor handling and therefore can be abated by swift measures to prevent and mitigate such pollution. This makes plastic pellets a primary candidate for policy intervention.

The plastic industry is well aware of these issues and launched the Ocean Clean Sweep (OCS) voluntary programme thirty years ago to prevent discharge into waters by developing a toolbox and certification system. A similar non-binding programme is the "OSPAR" Convention for the Protection of the Marine Environment of the North-East Atlantic for maritime transport.

Considering the growing production of virgin plastic, and especially of recycled plastic, and therefore of pellets, it is necessary to transform and adapt the voluntary initiatives to achieve an estimated 54% to 74% decrease compared to the baseline and strive to achieve the 30% overall reduction target for microplastics released.

Industry supports this new central goal of reducing losses of plastic pellets and the development of a standardised methodology for tracking and properly estimating microplastic pellet losses along the whole supply chain. However, some regulatory elements of the proposal should be carefully assessed in line with the "competitiveness check" and "think small first" principles to avoid imposing excessive administrative burdens on smaller players.

Losses caused by technology cannot simply be avoided through regulatory means like documentation and reporting obligations. A certain amount of material loss is technically unavoidable. All stakeholders have to contribute to the efforts and investments devoted to reach the targeted yields.

It goes without saying that awareness and training levels across the whole workforce will have to be increased.

Compliance should be monitored by the responsible competent authority instead of over-multiplying cost-intensive third-party certification.

Last but not least, the international aspects of the regulation should be taken into consideration to ensure a level playing field in the competitive environment between EU operators that are complying with the regulation and third-country operators.

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Long-term competitiveness
MAPPING FACTORS AND ACTORS TO CHART A WAY FORWARD

In the past year, competitiveness has moved up the ladder of EU priorities and European politics, and no one can ignore its importance for the EU's future.

European companies are struggling to recruit skilled labour; regulation of key sectors is stricter than in the other competing countries, namely the United States and China, investment in research and development is lower and physical and digital infrastructure inhibits trade and economic growth. These challenges are well known and have been documented in multiple studies.

The EU has set itself the goal to strengthen its resilience and influence in the world, but is losing the competitiveness needed to achieve this goal. The EU's share of the world economy is predicted to steadily decrease from nearly 15% to only 9% by 2050.

Therefore, it is imperative to improve the EU's productivity and competitiveness. To do so, the EU must adopt a competitiveness agenda, which, in line with the principles of the single market and the social market economy, is forward-looking, well-defined and coordinated and promotes the prosperity of businesses and workers, improving their ability to innovate, invest, trade and compete in the global marketplace for the common good and drive our transition to climate neutrality. This is essential not only to ensure future prosperity, innovation, investment, trade and growth, but also to create quality jobs and raise living standards.

This is why EU companies have clear expectations from this new momentum and demand to re-position competitiveness into a broader economic and societal long-term framework.

The EESC has been working on identifying the factors and actors that influence long-term competitiveness and productivity during the development of the opinion INT/1028 "Long-term competitiveness strategy", which will be discussed during the EESC's March Plenary and which must be considered in an integrated vision. We have worked on competitiveness ecosystems with the ambition of clarifying for the Commission what indicators they should further enhance or complement.

Assessing the issues and potential solutions from a regional perspective, seems to be a crucial angle which the Commission has not dealt with sufficiently in its two communications on long-term competitiveness.

More generally, the Commission draws up a list of 17 performance factors to be assessed annually on the nine dimensions of competitiveness it identifies. However, the Member States need to also fully respect them, and the


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Commission must have the proper means of enforcement to oblige them to do so. This is what we are asking for.

On the indicators, the following are topping the list:

1. Access to finance, at a reasonable cost but without penalising future generations.
2. On public services and critical infrastructure, we need to invest and better measure these investments. We propose six evaluation parameters in this sense.
3. On Research and innovation: increasing cooperation, whether public/private, regional or global, is vital.
4. On data networks and energy: security, price and climate neutrality are the key words.
5. In terms of circularity, the role of the EU doesn't need to be demonstrated anymore, but we need to pay attention to balancing competition between operators.
6. The EU's legislative framework on digitalisation is a precursor: connectivity, AI, data etc. In this framework, we must take on the challenge to balance the human aspects with the promises of digital technology.
7. Education and training must be able to respond to demographic and sociological challenges.
8. And, finally, in terms of strategic autonomy and trade, our dependencies are our weaknesses. Businesses need to reorganise themselves and the EU needs to provide an enabling framework for this challenge.

On the single market, we firmly reiterate the need for Member States to follow the rules of the acquis communautaire and the principles of the Treaties. More barriers and real control are needed. The political will of EU governments to implement what they negotiate in Brussels and the capacity of the Commission to work in interdepartmental and not silo services, which contributes to increasing inconsistencies – That's what we need. We cannot repeat this enough.

And in this context, let us rely on Brussels for the results of the competitiveness checks and use regional industrial clusters at national level. Tools exist, let's use them.

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Return to Davos to "rebuild trust"

This second time that I attended the World Economic Forum (WEF), I was still full of enthusiasm. The venue is, in fact, idyllic – even for someone who does not like the cold, draughts or mountain roads! The sheer beauty of the place – with its snow, ski slopes, farms and chalets dotted here and there, and alpine trains – makes you realise how lucky you are to start the year in such a well-preserved, timeless world. The friendliness of the hotel staff, shuttle drivers, security personnel and all the other staff on duty further contributes to the excellent atmosphere prevailing at this event, conducive to both discussions and work.

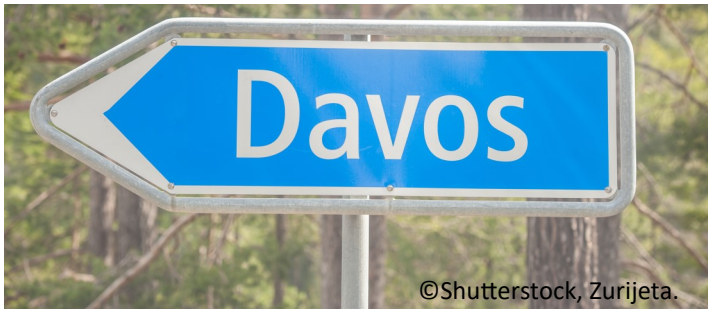
"Rebuilding trust" was one of the main themes for 2024. Indeed, even the well-informed, well-educated young people attending the forum thought on the whole that they would be worse off than previous generations... As Klaus Schwab says, we have to give the lie to that feeling they have... And that's a big task!

The Forum always has the same kind of vegetarian meals at its official dinners, which irritate everybody and just mean that we all rush out to eat a second, more copious, meal at a restaurant off-site ... or gobble up the contents of the box of Swiss chocolates that the WEF has kindly provided for us in our rooms.

The diversity of businesspeople, researchers, academics and "start-uppers" that we chat to during the twice-daily, half-hour trip to and from the forum is an opportunity to make contacts outside our usual networks. Many of them work with data and promote data interpretation tools, all of which contain AI somewhere in the mix. "How to work with AI tools without losing your soul" could be a title typical of one of the hundreds of round tables that punctuate our week. A discussion around the idea of "Yes In My Back Yard" reveals the worrying side, intellectually speaking, of many of the round tables. It makes for good mental gymnastics.

What stuck in my mind after a lively debate on green energy was:

- hydrogen is nothing more than a non-solution, given our current state of knowledge;



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- big companies are working hard to criss-cross the world with aluminium cables to transport solar energy;
- biofuels and e-fuels will account for 50 % of energy sources in the future, alongside 50 % from electricity;
- putting a price on carbon is probably the best way to stop global warming; and
- Germany, Spain, Italy and the United Kingdom have between them spent EUR 1 500 billion on renewable energy, while China, investing just EUR 3 billion in six solar panel factories, has secured a strategic place on the market ... Which one has invested its money wisely?

For farmers, whom I represent, the "True value of food" – the topic of a debate led by ABN AMRO – provided even more food for thought. I was also able to listen to everything that some of the industrial groups (AB InBev, Cargill, PepsiCo, Nestlé, Coca-Cola, Yara, etc.) were promoting for the move towards regenerative agriculture, which has the most climate-neutral approach. The problem is that these solutions require investment in order to be scaled up, or they entail additional costs which, if not recouped on the market, are prohibitive. The distribution and out-of-home food sectors are still largely missing from this forum. It will not be possible to achieve our global goals without them. And the food chain is nothing without them either. A word to the wise ...

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Print:
QE-AH-24-002-EN-C
ISSN 2467-4478

Online:
QE-AH-24-002-EN-N
ISSN 2467-4494

EESC-2024-12-EN

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