Businesses need speedy action to restore competitiveness

As the dust settles on the last State of the Union address by European Commission President Ursula von der Leyen before the end of her mandate, one thing is clear: Competitiveness is back on the agenda after years of neglect. The Commission has finally realised that the Europe framed by our founding fathers must answer the new call of history.

This call features a successful industrial green and digital transition that allows EU companies to compete and lead in the world, and deliver prosperity at home and abroad. I agree with President von der Leyen, it’s time to make business easier in Europe. We need to do #Whateverittakes to allow European companies to do business. Asking Mario Draghi to prepare a report on the future of European competitiveness is indeed good news.
But it will take more than a report to regain a competitive edge. Europe's share of the global economy has been declining for quite some time - from 25% in 1990 to 15% in 2020 and in 2050 it is predicted to be less than 10%. We are falling behind on eight of ten transversal technologies, putting Europe at a clear disadvantage.

For instance, the top ten major companies investing in quantum computing are in the United States or China, not in Europe. In artificial intelligence (AI), investment by US corporations is six times that of their European counterparts.

From the top 10 countries which have published the most impactful AI research, we only find 2 EU member states, Germany in 4th and France in 8th place. Of the top 100 cited papers on AI, we find that in 2022, Germany was the source of 4 papers whilst France was the source of 2 such research papers. Compare this with 68 in the US and 27 in China.

Europe has a lot of catching up to do.

Speaking in the European Parliament, von der Leyen promised to launch an anti-subsidy investigation into electric vehicles coming from China. Of the estimated 10 million all-electric cars sold worldwide last year, 6 million were manufactured by Chinese producers. This is an industry where traditionally it was China that was looking towards us a leader in the field. Von der Leyen's promise is therefore a welcome step, but it's too little, too late.

Europe has become a champion of regulation which is hindering our indigenous enterprises whilst at the same time discouraging inward investment. Von der Leyen cited that the number of clean steel factories in the EU has grown from zero to 38. Yes, but just taking into account recently enacted legislation and legislation which is in the pipeline, the EU steel industry will have to deal with 148 new legislative initiatives, 89 of which come from the Green Deal. That's a Herculean task!

This trend is unmistakably mirrored in the reality that European companies underperform in comparison to their counterparts in other major regions: they are growing more slowly, creating lower returns, and investing less in R&D.

In the coming days, EU employers will ask for clarifications on many of the initiatives mentioned by President von der Leyen. Many are at the core of our work, such as the delivery of a competitiveness check by an independent board, the fast-track permitting on wind energy, the sectorial dialogues in view of supporting business models for transition, the Social Partners Summit at Val Duchesse, and last but not least the Draghi's report on competitiveness, which must also integrate a look at the Single Market, totally missing from von der Leyen's speech.

But considering this legislature will switch to campaign mode at the beginning of 2024 for the European elections, allow me to be a bit pessimistic, despite the positive tone of this landmark speech. Time is short.

To regain competitiveness we need political will, now. We urgently need to bridge the gap between rhetoric and reality. Time is not on our side.

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Late payments: Designation of an enforcement authority in Member States is an important improvement

The Commission proposes that in the future, all businesses should pay their bills within 30 days and should not be allowed to agree longer payment periods. Each Member State should also set up an authority to ensure compliance with the rules, launch investigations and impose sanctions and handle complaints from SMEs.

For SMEs, stricter payment rules only matter if they are respected. Therefore, for entrepreneurs, a key element of this reform is an effective enforcement. The revision foresees that each Member states designate a responsible authority to monitor and enforce the compliance to the rules and to whom businesses can turn to if the rules are not respected. This is an excellent step towards stronger enforcement.

Business transfers on the agenda

The Commission also included in the Relief package other topics important for SMEs, such as SME business transfers. As described in EESC opinion INT/982, SME business owners are ageing and we need to find new owners for our businesses, all around Europe. Otherwise, we will lose jobs, tax revenue and consumer choice. The inclusion of SME business transfers in the Relief package is therefore an important recognition of the work that we as the organized European civil society have done to promote business transfers at European level.

Relieving the administrative burden of taxation

The Relief package also included a proposal to simplify SMEs’ tax procedures. In the future, SMEs would submit a single tax return to the national tax administration of their head office, which would then share this return with other Member States where the SME operates. The Member State of the head office would also transfer any tax revenue to the countries where the permanent establishments are located.

The proposed system, if implemented, could ease the administrative burden on SMEs in relation to taxation, which is perceived as burdensome by SMEs. However, one must be realistic; EU tax proposals have traditionally had a long and rocky road in the EU legislative machinery. It will require a great trust from Member States and their tax authorities to adopt such a system.

EU’s SME support should not be diluted

The European Commission also wants to review the EU’s SME definition and offer support to mid-cap companies employing more than 250 people or more. While there is a case for supporting the growth of mid-cap companies, the support for midcaps should not eat away the support meant for SMEs.

More than 93% of European enterprises are micro-enterprises, employing fewer than 10 people. Their challenges and needs are different from those of a small mid-cap company with 250-499 employees. The cake of support measures for small entrepreneurs should not be cut into smaller slices. The Commission could create its own small business strategy to ensure that micro-enterprises and self-entrepreneurs receive adequate attention in EU decision-making and support measures.
“We can eliminate CO2 emissions from the iron and steelmaking value chains by replacing coal with fossil-free electricity and hydrogen.” This is what Anders Lindberg from Swedish mining company LKAB told members of the EESC 0.5 km below the ground when we visited the country’s biggest iron mine in Kiruna, north of the polar circle, in early May 2023.

The visit was part of the preparatory work for the information report The Arctic — how to ensure a peaceful, sustainable and prosperous future for a geostrategic region (REX/568), which will be discussed at the EESC’s September 2023 plenary.

But Mr Lindberg stresses that the transition to fossil-free iron and steel production will not happen just like that: "In order to scale up, we need much more locally produced renewable energy. The amount of hydropower currently generated in the region is not enough. We also need more wind power."

The good news from Kiruna and LKAB does not stop there, however. They have even more to contribute to the green transition. In January 2023, a report was published stating that significant deposits of rare earth elements had been identified in the Kiruna area, raw materials that are necessary for manufacturing electric vehicles and wind turbines, for example. This recent find is the largest deposit of rare earth elements in our part of the world (with significant reserves of raw materials also to be found in Finland, Norway and Greenland) and could in itself help make Europe less dependent on imports of rare earth elements, thus strengthening it in economic and geo-strategic terms.

LKAB is just one example of the enormous potential of the Arctic and the businesses based there, which are working hard to realise this potential, be it in mining, steel production, renewable energy production or ocean economy projects.

However, companies in the Arctic, whether in Sweden, Finland, Norway or Greenland, are facing huge challenges that urgently need to be addressed. In both Tromsø (Norway) and Kiruna, our delegation heard from many stakeholders that there needs to be a significant increase in labour if the potential of the Arctic region is to be developed. This aspect is further discussed in our report.

And more labour alone will not be enough. There is also a real need for investment in all kinds of infrastructure (transport, schools, housing etc.) and for research and business development. There are also serious problems with slow and unpredictable environmental permit processes. In Kiruna we heard it takes 10-15 years to get approval for extracting raw materials, but also that the process does not even necessarily need to be lengthy, as long as it is inclusive and knowledge-based.

The fact-finding mission and hearing (April 2023) also brought to light other challenges linked to the development of the Arctic. There is now a broad and growing consensus, at least in Europe, that new projects for energy and raw materials should be developed without sacrificing the climate or the environment – and this includes protecting Arctic ecosystems and biodiversity.

There is also a clear awareness of the fact that there are different, legitimate interests and viewpoints in the region, which is why the EU's Arctic policy stipulates that the development of the Arctic must apply the principle of “free, prior and informed consent”, not least when dealing with indigenous peoples (12.5% of the Arctic population) who have been living in the Arctic for thousands of years.

When dealing with the Arctic, as part of the EESC, it has not only been important for me to focus on how the development of the region is seen by the people who live and work there, it has also been important to focus on where the EU can actually make a difference in a complex region where nation states still call most of the shots. Here both a rules-based institutional framework (for instance the EEA and, for Greenland, the OCT-EU Association) and EU funding and investment programmes are important. The EU's Interreg, Horizon Europe, InvestEU programmes, the European Investment Bank and (for the northernmost regions of Finland and Sweden) the EU's Just Transition Fund and regional funding are all important tools.

Going forward, the EU probably needs to think even bigger in the Arctic, and the EESC can help by boosting civil society dialogue on the opportunities and dilemmas linked to the development of this geostrategic region.

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The mid-term revision of the multiannual financial framework (MFF) comes at a crucial point for the EU. Since EU leaders decided on the budget in 2020, a lot has changed. Europe has been experiencing successive crises linked to COVID-19, the war in Ukraine and the subsequent energy crisis. European leaders have demonstrated a remarkable ability to make use of existing resources to meet the unexpected challenges that Europe has faced. However, it is becoming clear that the ability of the current EU budget to meet the challenges facing us has reached its limits, especially when one considers that high inflation is significantly reducing the budget in real terms.

Against this backdrop, the EESC had high expectations concerning the revision of the multiannual financial framework. Announced on 20 July 2023, the European Commission’s proposal aims to provide targeted enhancements in priority areas to enable the EU budget to continue supporting key objectives. More specifically, the European Commission is proposing:

1) an increase in support to Ukraine of EUR 50 billion, comprising grants, guarantees and loans, in order to safeguard the country’s financial stability and promote its recovery, while it implements reforms on its path to EU membership;

2) additional funding of EUR 15 billion to enable the EU to cope with the growing pressures from external migration;

3) a special instrument to cover the increased cost of servicing the NextGenerationEU loans, as well as EUR 1.9 billion that will enable the EU administration to meet its enhanced obligations assigned by the co-legislators; and

4) the creation of the Strategic Technologies for Europe Platform (STEP), which, based on existing instruments and an additional allocation of EUR 10 billion, is expected to mobilise investments of up to EUR 160 billion of private investment in Europe.

While the upcoming opinion ECO/625 “Mid-term revision of the Multiannual Financial Framework” welcomes the revision of the MFF as a necessary step forward, it nevertheless considers it an inadequate response to the challenges facing the EU.

European businesses and the EESC have collectively, from the very start, stood by Ukraine and its European aspirations. As such, we welcome the European Commission’s intention to provide Ukraine with a stable financial framework for the period 2024-2027 that will enable the country to continue dealing with the unprovoked Russian aggression and gradually align with the EU acquis. To ensure that the EU funds for Ukraine are used in a transparent and inclusive manner, the EESC calls in its upcoming opinion for the active participation of organised civil society in their roll-out. At the same time, we call for a pragmatic approach to conditionality that incentivises reforms and promotes fundamental rights and the rule of law while acknowledging the realities on the ground.

In a similar fashion, we acknowledge that the EU needs additional support in order to manage the growing pressures from external migration in a more effective manner. That being said, we must seek a more sustainable solution to the issue of external migration that includes the sustainable economic development of countries in the EU’s periphery.

Third, the upcoming opinion fully supports the Commission’s proposal to increase the budget for administration given that all staff in the European institutions have been doing more with less for many years now and there comes a point where optimisation within existing means is no longer possible.

Last but not least, the MFF revision does not focus sufficiently on competitiveness. While the EU economy was, according to IMF data, 10% bigger than the US economy in 2008, it is now 50% smaller or 33% smaller if the UK is included. In this context, the Commission’s proposal on STEP, while a positive step in principle, is not ambitious enough, first because of the lack of financial ambition in terms of new money, and second because it is based on highly debatable multipliers, which overall casts significant doubt on its claim that this new instrument will mobilise EUR 160 billion in investment. As such, it is highly doubtful that the proposed scheme will act as a sufficient pull factor for new investments in the green and digital transitions, especially when one takes into account the fact that EU companies face much higher energy costs and a heavier regulatory burden compared to their main competitors.

To conclude, while the MFF revision is a step in the right direction, much more ambition is needed.

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In an ever-changing landscape marked by economic shifts, technological advancements, and demographic transitions, the EESC will put forth a comprehensive set of recommendations aimed at revitalising cohesion policy. The upcoming EESC opinion underscores the enduring importance of the policy’s core principle: “no one should be left behind.” Despite the policy’s imperfections, it remains a valuable tool for bolstering regional convergence and addressing disparities.

In a dynamic landscape marked by economic shifts, inequalities of opportunity can stifle long-term growth and hinder competitiveness not only at the regional level but also nationally and across the EU. Organised civil society calls for a more adaptable and diverse cohesion policy that pays closer attention to citizens, particularly those who are most vulnerable.

During the preparation of the new cohesion policy, we should advocate for the broadening, modernisation and revision of existing instruments and approaches. The upcoming opinion underscores the importance of a flexible and renewed cohesion policy that transcends mere investment and delves into areas such as capacity-building, interregional cooperation, effectiveness of outcomes, and opportunities for beneficiaries. To this end, several key recommendations are discussed at the EESC’s September plenary:

**Territorial Strategies and Citizen Participation:** The report proposes a stronger emphasis on territorial policy strategies, such as Integrated Territorial Investment (ITI) and Community-Led Local Development (CLLD). This approach empowers citizens to define development projects and set their own priorities, while also enhancing the fund management capabilities of local authorities.

**Support for SMEs and large-scale companies:** The EESC recommends innovative yet simplified utilisation of existing European instruments, such as the European Social Fund and the European Regional Development Fund (ERDF), to support small and medium-sized enterprises (SMEs). The financing of large-scale companies, particularly in strategic technologies, is also regarded as pivotal for achieving convergence.

**Cross-border Labour Markets and Innovation:** The report highlights the potential of cross-border labour markets, particularly those hindered by legal and administrative barriers. Cross-border and interregional cooperation is deemed essential, especially for infrastructure development and fostering innovation.

**Focus on Vulnerable Groups:** Recognising the significance of inclusive growth, the EESC calls for tailored training, reskilling, and support programs for individuals facing lower employment rates. This includes women, young people, immigrants, and those with lower education levels.

**Rural Development and Demographic Changes:** The EESC emphasises the creation of new economic prospects for less developed rural areas, EU islands, and outermost regions. Bridging gaps between rural and urban areas, and addressing demographic changes, is deemed essential.

**Integration of Cross-cutting Policies:** The report encourages synergy between EU cross-cutting policies and cohesion policy to enhance regional convergence. Alignment with national policies is also deemed crucial.

**Synergy with Recovery and Resilience Facility (RRF):** The EESC stresses the compatibility of RRF investments with future cohesion policy. Disruptions to ongoing projects due to changes in financing could have detrimental effects on regional development and vulnerable groups, necessitating careful coordination.

**Digital Investments and Skills:** In response to the digital transition’s challenges, the EESC urges increased investment in digital skills training to bridge gaps and ensure equitable distribution of benefits across regions and demographics.

**Inclusive Just Transition:** The EESC underscores the importance of social partner involvement in territorial just transition plans. Creating quality jobs and maintaining working conditions during climate-related transitions is a priority.

**Strengthening Administrative Capacity:** To ensure effective policy implementation, the EESC advocates for enhancing the administrative capacity of various government levels and providing tailored technical support.

As the European Union navigates challenges like climate transition, demographic shifts, and technological evolution, Cohesion Policy 2.0 emerges as a potent tool for steering the course toward a competitive, inclusive and forward-looking Europe.

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“Bridging Borders: Water for a Peaceful and Sustainable Future”

This is the chosen theme for the next World Water Week (WWW) in 2024 in Stockholm, which echoes many important conclusions and recommendations from the upcoming EESC opinion Water politics – Between desertification and securitization – Time for a Blue Diplomacy.

In this upcoming opinion, which will be discussed at the EESC’s September plenary, we warn that by 2050 a combination of water and climate-related problems and conflicts will force approximately a billion people to migrate. Water scarcity, and related tensions and weaponisation, pose a rising threat to international peace and stability. However, water could become an instrument of peace and development if concrete blue diplomacy actions are swiftly implemented. The EU must promote and streamline blue diplomacy in its foreign policy and external relations, including neighbourhood, trade and development policies. The awareness of water’s crucial role and need for sustainable consumption behaviour must be constantly promoted in close cooperation with organised civil society. A European Water Centre could be created to coordinate this promotion as well as to highlight cases where collaboration between EU Member States sharing rivers and lakes is exemplary, where more efforts are needed and to recommend policy tools for the promotion of Blue Deal policy objectives within and outside the EU, including by implementing particular projects and transferring knowledge, technologies and best practices.

These elements were also clearly highlighted during the five days of the 2023 World Water Week Seeds of Change: Innovative Solutions for a Water-Wise World, which I had the privilege to attend. It is a top-class event, organised annually by the Swedish International Water Institute (SIWI), under the patronage of HRM Carl XVI Gustav and HRH Crown Princess Victoria. Bringing together 15 000 participants from 190 countries and territories who took part in more than 300 sessions and thematic debates. WWW 2023 was also a benchmark of inclusivity – 52% of the participants were women, 40% of the participants were young people under 35, and Indigenous and local communities were excellently represented. More in-depth analyses will later be provided by both World Water Week’s Scientific Programme Committee and the Junior Rapporteurs.

One of the hottest topics was what has come out of the UN 2023 Water Conference in March and the first half of the Water Action Decade. Many sessions focused on the outcomes of the conference from perspectives such as transboundary cooperation, disaster risk reduction and innovation for Sustainable Development Goal 6. The President of the UN General Assembly H.E. Csaba Kőrösi shared his view about progress so far and the role that World Water Week can play.

The crucial significance of water for all our lives seems to have arrived at the world agenda. Here at the EESC we will do our utmost to continue stressing the central significance of an EU Blue Deal.

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Six trends stood out at World Water Week 2023:

Based on WaterFront Daily

1. Interconnectivity is crucial. Many speakers emphasised the need to talk more about how to make transformations happen, rather than just listing problems. There was a strong focus on intergenerational dialogues and learning from each other.

2. Time to rethink innovation. Innovation in governance, finance, values and culture were showcased. It also became clear how essential it is to apply a gender lens.

3. Learning from Indigenous Peoples. For the first time, WWW had a special focus on Indigenous Peoples’ knowledge, with representatives from some 20 groups present to share their views and experiences. The opening started with a keynote by Dr Milika Sobey on the role of Indigenous Peoples’ knowledge for innovation and the importance of values such as reciprocity, respect and relations. But an essential takeaway was also not to generalise about Indigenous peoples – the phrase "If you know one tribe, you only know one tribe" was used frequently.

4. Oceans are making waves. An interesting trend this year was that all the three winning teams of the Stockholm Junior Water Prize had an ocean focus. To young scientists it’s clear that it doesn’t make sense to treat freshwater, coasts and oceans as separate entities. The source-to-sea approach is increasingly becoming the new norm.

5. New approaches to water governance. The future of water governance was discussed throughout the week with a special focus on how we need to change incentives and governance related to water.

6. Linking international processes and boosting collective action to solve water challenges.
The EESC's enhanced role in accelerating progress on the SDGs

In preparation for the Sustainable Development Goal (SDG) Summit in New York, this year’s High-Level Political Forum on Sustainable Development (HLPF) at the UN Headquarters in New York (17-19 July 2023) was particularly important in preparing and supporting the mid-term review of the implementation of the SDGs and the 2023 SDG Summit. The HLPF convenes annually and brings together governments, UN agencies, major groups, civil society organisations and other stakeholders, one of them being the EESC.

The EESC has been actively engaging in the HLPF for years to advocate the views of European citizens and promote sustainable development policies to be aligned with the EU’s priorities. A particularly important initiative this time was the official presentation of the first EU Voluntary Review (EUVR), a self-assessment and reporting mechanism on the implementation of the SDGs in EU policies in recent years. EU Commissioners Paolo Gentiloni and Jutta Urpilainen were present and made sure Europe’s voice was heard.

The EESC did indeed play a significant role in the EUVR process, which was also presented in a joint side-event organised with the European Commission titled "Delivering the SDGs: Revitalised partnership with the EU". The EESC has been tasked with providing the views of civil society through an in-depth analysis of the SDGs, assessing the achievements and challenges of EU policies in attaining each goal. The EESC engaged in a broad consultation process involving stakeholders at all levels, ensuring the active participation of civil society organisations. The full contribution has been included as an annex to the EUVR.

The programme for the EESC delegation was of the highest quality, also including a meeting with António Guterres, UN Secretary-General.

Of particular interest was a meeting with Guy Ryder, Under-Secretary-General for Policy at UN. It was alarming to hear Mr Ryder describe the current challenges of multilateralism in the face of the Russian aggression and the war in Ukraine and the outdated and poorly functioning mechanisms in place, such as the Security Council and the current global financial architecture.

Globally, only 12% of the SDGs are on track. It is critical to reform the international financial system, and debt distress and debt relief in many developing countries need to be urgently addressed to achieve real global progress on the SDGs. Mr Ryder highlighted three important events that will follow up on this issue: the SDG Summit in September 2023, the Summit of the Future in 2024 and the World Social Summit in 2025.

The key message coming out of our mission is: Europe can and must play an important and constructive role in reinforcing or even saving the multilateral system, which is under serious threat.

The "European way of life" is something the world envies us for and which is worth defending on a global scale. An intact civil society is key to functioning democracies and therefore the EESC’s particular institutional role is deeply embedded and clearly recognised. Building personal and institutional networks outside the "Brussels bubble" with civil society organisations and their representative organisations from other parts of the world is an important and unique opportunity to further gain visibility and strengthen our credibility.

Read the full article: https://europa.eu/!KBh8fw

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