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**Message to the special European Council meeting on 9-10 February 2023****EU urgently needs to do its homework on investment conditions in Europe to improve competitiveness and deliver the net-zero transition****The overall competitiveness challenge**

Already before the series of crises of the last two years, European enterprises were fighting hard to preserve their competitiveness. Having done their utmost during the Covid pandemic European companies are now faced with the headwinds of the asymmetric shock of the consequences of the war in Ukraine as the rise in energy costs is higher and hitting them harder than their American and Asian competitors. Moreover, incentives and subsidies by some of Europe's key trading partners are redirecting private investment away from Europe.

European leaders urgently need to improve investment conditions in the European Union to strengthen the competitiveness of European companies, deliver the net-zero transition and give a credible answer to the U.S. Inflation Reduction Act. To be effective, the actions they will define need to be comprehensive. They must address simultaneously the push factors resulting from higher energy and regulatory costs as well as lengthy permitting procedures in Europe and counter the financial pull factor created by the US Inflation Reduction Act.

The European Commission has finally recognised the urgency to address Europe's competitiveness challenges and the Green Deal Industrial plan for the net-zero age can be a step in the right direction. However, broader efforts will be needed to improve the overall investment and business conditions in Europe.

**Addressing discriminatory provisions of the US-IRA**

BusinessEurope greatly values the transatlantic relation. Strong EU-US cooperation aimed at reducing the cost of doing business across the Atlantic by easing regulatory burden will facilitate transatlantic trade, investment and help better harnessing the EU-US innovation potential. We welcome the objective and efforts from the US to increase climate ambition and support further investments in clean technologies and solutions through the Inflation Reduction Act. However, we oppose provisions that are discriminatory, go against WTO rules of national treatment and most favoured nation principles. They undermine European interests.

The EU needs to continue to discuss with the US ways of mitigating the negative impact of these discriminatory provisions of the IRA. We are encouraged by the announcements the US Treasury made on 29 December 2022 regarding the electric vehicles but need to see the final guidance to be issued in March to fully understand how the US Administration intends to interpret and implement the different provisions in the IRA with a potential impact on Transatlantic trade and investment flows. Moreover, it remains to be seen how other discriminatory aspects can be addressed.



The EU response to the US Inflation Reduction Act should:

- be non-discriminatory and comply with EU's international obligations;
- ensure a level playing field, avoiding any fragmentation in the single market. Therefore, possible changes in the state aid framework should be temporary;
- relieve administrative burden, accelerate permitting procedures, and facilitate access to available national and European funding.

### **A green deal industrial plan for all sectors**

Net-zero is a very profound, long-term transformation for European industry. It offers strong business opportunities as well as serious risks of de-industrialisation if we don't get it right. BusinessEurope therefore welcomes that the proposed Green Deal Industrial plan echoes our longstanding plea to flank the Green Deal with an operational industrial strategy.

The proposed plan rightly recognises the importance of international trade and trade agreements to support Europe in the development, production and deployment of clean technologies and goods. We appreciate the clear reference to the importance of having the right skills to undergo the green transformation as well as the recent promises to establish a 'competitiveness check' for all new EU policy and legislative initiatives. However, words must now be followed by concrete deeds and the urgent need to reduce the overall regulatory burden in Europe is not yet sufficiently reflected.

### **Simplifying the regulatory framework in the Single Market**

Market scale matters to achieve a competitive edge globally. A fully fledged programme to simplify the regulatory framework in the EU single market and advance its integration should be put in place on the occasion of its 30<sup>th</sup> anniversary. This programme should address regulatory fragmentation and remove obstacles in all strategic policy areas - from energy to digital, from capital markets to financial and other services. Doing so is crucial to enhance the competitiveness of both industrial and services European companies.

Technology openness is key. All industrial sectors need to be part of the transformation if Europe is to achieve its goals of climate neutrality, a more digital future and increased open strategic autonomy. Simplifying or fast-tracking permitting is not only important for a limited range of green tech sectors. The goal of creating an enabling environment that reduces regulatory burden, simplifies, and fast-tracks procedures would need to be extended to the whole industry.

### **Well calibrated state aid rules to avoid a subsidy race**

Industrial competitiveness cannot be built on subsidies but targeted state aid and support can be justified, in particular to accompany energy-intensive companies in their transition, help building the necessary infrastructure, support innovation and scale up new tech.

For BusinessEurope, the new Temporary Crisis and Transition Framework can be a short-term measure to mitigate the weakening of Europe's industrial base, facilitate the net-zero transition and address the financial pull factor created by global competitors. However, there



is a fine balance to be found between temporarily relaxing EU state aid rules to speed up procedures and maintaining the necessary harmonised state aid control at EU level to ensure a level playing field within the Single Market: Having this level playing field is essential to ensure that no member state is left behind in the transition to a net-zero industry both in the short and long-term. While it is of the outmost importance that this flexibilization appears rapidly, BusinessEurope needs to examine the details of the draft proposal from the Commission before taking a stance.

Looking beyond the EU Single Market, a subsidy race would sour relations between the US and Europe at the worst possible time. To avoid a global subsidy race, monitoring, exchanging information and coordinating among the EU and the US should be stepped up and, ideally, lead to modern and effective disciplines on industrial subsidies to maintain a global level playing field.

### **To sum up**

This is crunch time for Europe's industrial competitiveness. The European Union urgently needs to address both the structural push factors which create investment leakage out of Europe and the immediate pull factors stemming from governmental financial support in third countries.

We count on the European Council, the European Commission and the European Parliament to

- address both home-made competitiveness weaknesses and the discriminatory effects of the US inflation reduction act,
- deliver a green deal industrial plan that works for all sectors and leads to concrete actions reducing the existing regulatory framework for European companies,
- strengthen the single market and find the right balance between temporarily relaxing EU state aid rules and ensuring a level-playing field,
- translate the recognition of the importance of international trade into concrete actions by concluding, ratifying and implementing new trade agreements.

BusinessEurope stands ready to work hand-in-hand with the European institutions to ensure that the Green Deal Industrial plan includes all the necessary ingredients to boost investment in the green transition and restore the level playing field with our main competitors. We expect EU and national public authorities to make a thorough inventory of actions to be taken to create regulatory breathing space for European companies. In order to contribute to making progress on this, BusinessEurope will publish its own proposals ahead of the Spring European Council meeting.