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BUILDING A NEW EUROPEAN COMPETITIVENESS DEAL

SIX TESTS FOR A PROSPEROUS, RESILIENT, FAIR AND GREEN ECONOMY

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Securing geopolitical, economic and social stability is a priority for European leaders as they finalise the Strategic Agenda for the next five years. With the EU facing acute challenges to its competitiveness, heads of state have called for a "New European Competitiveness Deal". Policymakers will have to learn from the past and effectively leverage Europe's strengths through innovative, inspirational thinking and decisive, joint action.

This briefing sets out six tests for a New European Competitiveness Deal to ensure that it is fit for the future, to the benefit of Europeans citizens and businesses:

1. **Competitive Sustainability Test:** Does the deal seize the competitive advantage for Europe going all out for the green transition building on a new paradigm of competitiveness?

2. **European Unity Test:** Does the deal make a step change towards a genuinely integrated European approach to reap the benefits of Europe's diverse and unique strengths and assets?

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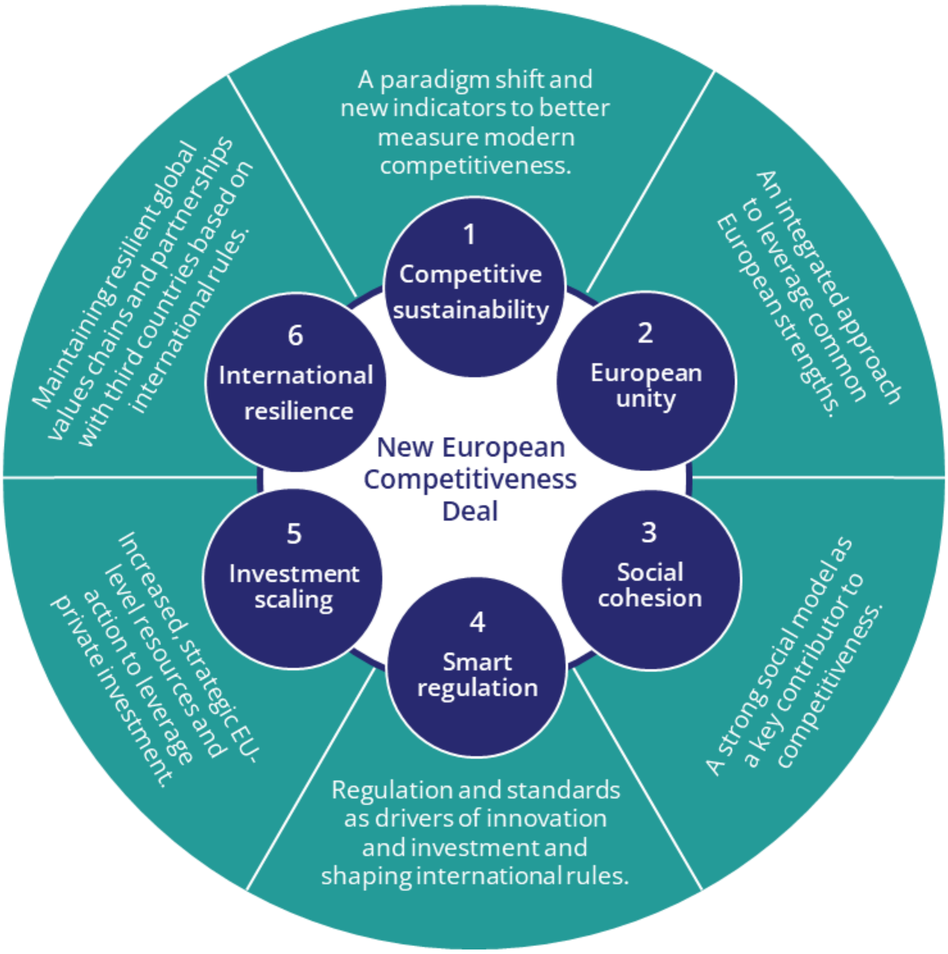
3. **Investment Scaling Test:** Is the deal backed by a substantial rise in common EU resource and action to leverage private capital, setting the conditions for their effective usage?
4. **Smart Regulation Test:** Does the deal leverage the innovation potential of the Internal Market through smart and impactful regulation?
5. **Social Cohesion Test:** Does the deal place the delivery of broader societal benefits as central priority, through a fully inclusive process?
6. **Foreign Policy Test:** Is the deal internationally resilient and grounded in fair global rules?

Six tests for the New European Competitiveness Deal



Towards a New European Competitiveness Deal

The EU is facing new challenges to its competitiveness

With elections looming and the subsequent start of a new political cycle, one topic has dominated EU politics: competitiveness. It is now a key lens through which all political programmes and policy agendas are looked at. Policymakers are name checking it at every opportunity, it jumps out at you from the opening paragraphs of official documents, and a quick internet search will reveal several op-eds giving their diagnosis and potential solutions.

Former Italian Prime Minister Enrico Letta recently published his report on the future of the single market.[2] It sets out recommendations for tackling competitiveness through deeper regulatory harmonisation and single market integration. Brussels is waiting for Mario Draghi's forthcoming report on the future of European competitiveness, commissioned by President Von der Leyen.[3] In the Conclusions of the Special European Council held 17–18 April 2024, EU heads of state included a significant section devoted to "A New European Competitiveness Deal",[4] which sets out a wide range of actions and calls for work to be taken forward decisively and swiftly.

While concerns and conversations about (industrial) competitiveness are not new for the EU,[5] there is a clear sense that the EU is now facing new and deeper challenges and that the nature of competition and competitiveness is profoundly changing:

> **Geopolitical tensions marked by great-power competition are eroding the rules-based order[6] and multilateral trade regime** on which Europe has built its economic model. The EU needs to adapt to a world where other major economies have stopped playing by the old rules.

> **The nature of competition is changing, with markets exhibiting winner-takes-all characteristics** in areas such as digital and advanced technologies,

[2] Letta, E., April 2024, **Much more than a market – speed, security, solidarity**

[3] European Commission, September 2023, **State of the Union 2023. Main initiatives**

[4] Jacques Delors Centre, February 2024, **On the road to the 2024 European elections: Institutional timeline and missed opportunities**

[5] Questions around competitiveness and Europe's industry were at the heart of the Cecchini report on the "costs of non-Europe", which spurred the successful "1993" European Single Market programme – along with its indispensable "social dimension". This also subsequently led to the "Lisbon Agenda", which sought to make the EU the world's most dynamic knowledge-based economy, which also paved the way for the strategically influential "Horizon" Innovation programmes. Similar debates about how best to ensure competitiveness emerged as key issues in the lead up to the 2009 and 2014 European elections.

[6] Mead, W. R., 2023, **The Rules-Based International Order Is Quietly Disintegrating**

where the EU has been losing out.[7] Despite the EU initially having a head start in key cleantech and critical raw material (CRM) value chains, it is now also at risk of losing out here against China's dominance and more recently the US.[8]

> Across the west, it is becoming clear that current economic policies **have failed to distribute economic opportunities equally** within and across regions and that the loss in manufacturing comes with both socio-economic[9] and productivity[10] challenges.

> The COVID-19 pandemic, wars and climate impacts have revealed **vulnerabilities in Europe's supply chains**,[11] making clear that supply chains designed for efficiency are not resilient or secure by design.

> Russia's war of aggression against Ukraine induced an energy and inflation crisis in Europe and abroad, exposing once more the **danger of relying on volatile fossil fuels**[12] with grave consequences for European citizens, businesses and government budgets.

> **The rapidly accelerating climate, environmental and biodiversity crises** – leading to increasingly significant impacts on health, infrastructure and the economy[13] – make clear that business as usual is no longer possible and a structural change to the economy is needed.[14]

In the face of these challenges, there is a clear sense that incremental change will no longer be sufficient. Letta's report[15] argued that the European Single Market was born in a different era and calls for reforms whose speed, scale and political ambition must be commensurate with the new international context. Even more explicitly, Mario Draghi recently trailed[16] that his report will call for "radical thinking" on competitiveness.

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7 Atomico, 2023, **State of European Tech**

8 Strategic Perspectives, 2023, **A New Zero-Carbon Industrial Era**

9 ETUC, 18 March 2024, **Press release: EU loses almost a million manufacturing jobs in just 4 years**

10 ECB, 2021, **Key factors behind productivity trends in EU countries**

11 CEPR, January 2024, **European Energy Crisis and the consequences for the global natural gas market**

12 IEA, 2023, **Global Energy Crisis**

13 EEA, 2024, **Climate**

14 Paxton, M., April 2023, **The destruction of nature threatens the world economy.**

15 Letta, E., April 2024, **Much more than a market – speed, security, solidarity**

16 Draghi, M., 16 April 2024, **Radical change – is what is needed**

While Member States appear to share a sense of urgency, they also remain divided on how to tackle these challenges.

France and Germany have both been pushing[17] for a more interventionist approach in recent years, calling for more flexibility on state aid to allow Member States to support "national champions"[18]. However, they disagree on the degree to which to take this more interventionist approach at the European versus the national level.

Smaller Member States are united in their fear of being left behind by such a policy while cautioning against further fragmentation in the single market.[19] Nonetheless, they are split between a more liberal approach and those calling for a larger pooling of resources for them to tap into.

There is a need for a coordinated EU-level approach, capable of bridging these differences with a combination of innovative, inspirational thinking and bold, collective action.

A competitiveness deal fit for the future will need to pass six tests

A prosperous and competitive Europe is expected to be one of the three pillars of the EU's Strategic Agenda.[20,21] This will make competitiveness a prominent part of a policy framework that links to other areas, including climate action, energy security and social cohesion. The content and framing of a New European Competitiveness Deal will therefore deeply impact the parameters and pace for addressing a wide range of political objectives.

There is a narrowing window of opportunity ahead of the June European Council to shape the contours of this agenda and set out what a good deal could look like. E3G, CISL and ZOE Institute have drawn on their respective areas of expertise to develop the six tests laid out in this briefing.

In defining these tests, we have drawn on lessons from previous iterations of EU industrial policy and competitiveness debates. A New European Competitiveness Deal can only succeed if it learns from the past and applies this to the current situation. Experience suggests, for example, that overly focusing on short-term

[17] Euractiv, January 2023, **Germany under fire for push to revamp EU-subsidy rules**

[18] National champions are corporations that are technically private businesses, but due to governmental policy are ceded a dominant position in a national economy.

[19] Euractiv, March 2024, **Smaller EU countries revolt against state aid spree**

[20] Greenpeace, April 20204, **Leaked strategic agenda: military ambition leaves EU vulnerable to ecological collapse**

[21] E3G, April 2024, **Securing social, economic and climate stability through the EU Strategic Agenda**

and narrow cost or financial challenges, at the expense of Europe's longer-term strategic social and environmental agenda, will fail. The consequences of the austerity politics in the EU following the 2008 crisis are still being felt today.[22] More than a decade later, public investments remain flat and much needed spending is still neglected, putting competitiveness at risk.

Recent EU industrial policy attempts to bolster the competitiveness of clean technology manufacturing have shown that the current fragmented and ad-hoc approach is not up to the challenge. In the absence of solid governance and common investment capacity; data and analytical capacity; and EU-level coordination, the Green Deal Industrial Plan and Net Zero Industry Act lack strategic focus, tools and (financial) firepower.[23]

A New European Competitiveness Deal must offer a truly integrated, joined-up approach and one which is not just radical enough to confront the immediate challenges, but inspiring enough for all Europeans to see its greater vision and purpose.

1. Competitive Sustainability Test

Does the deal seize the competitive advantage for Europe going all out for the green transition building on a new paradigm of competitiveness?

Competitive sustainability is the ability of an economy, its companies and industrial ecosystems to excel and compete in their transition to sustainable development.[24]

Unlike in the past, today's concerns about EU competitiveness are not mainly arising from the perception that climate and environmental policies increase costs, but rather from the ongoing global race to capture the market and technologies that will dominate tomorrow's economy, while pursuing sustainable development. Overall, green industries are expected to be worth more than $10 trillion[25] globally by 2050.

[22] NEF and Finance Watch, October 2022, **Europe's fiscal framework – the people's view?**

[23] Jacques Delors Centre, March 2024, **Chasing Shadows: What the Net Zero Industry Act Teaches Us About EU Industrial Policy**

[24] CISL, 2020, **Developing the EU's 'competitive sustainability' for a resilient recovery and dynamic growth**

[25] Reuters, January 2023, **Green industrial could be worth $10.3 trln to economy by 2050 – study**

Thanks to early climate action and the European Green Deal, the EU is already reaping the economic benefits of the transition, and is well-positioned to continue to lead – but only if it doubles down on its "new growth strategy"[26]:

> **Clean energy accounted for around 30% of GDP growth in 2023** and investments in clean energy manufacturing more than doubled.[27]

> **The EU holds significant global market share** in electrolyser, wind, and heat pump manufacturing, along with leadership in engineering. It is also leading the technological revolution underway in heavy industry such as steel, cement and chemicals.[28]

> **Future competitiveness will increasingly be determined by access to cheap electricity[29] enabled by renewables, smart grids and efficiency**. Already in 2021–2023, increased renewables capacity saved European consumers €100 billion.[30] Together with a focus on increasing energy efficiency and more efficient and circular use of material inputs, rapidly expanding access to cheap renewables can mitigate the EU's relative disadvantage in terms of energy costs – crucial for the EU's competitiveness in general and its main legacy industrial clusters in particular.

> **Accelerating the transition will also enhance the EU's energy security and resilience**. It is estimated that if the EU achieves a 90% emissions reduction target by 2040, it could save €856 billion in gas, oil and coal imports by 2040[31] while reducing the exposure to future fossil fuel price shocks.[32]

> **Embracing circularity and material efficiency will open up new paths for innovation, growth and cost reduction** – while offering climate, environmental and other societal benefits.[33]

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[26] European Commission, 2024, **Industry and the Green Deal**

[27] International Energy Agency, April 2024, **Clean energy is boosting economic growth**

[28] FINANCIAL TIMES, MARCH 2024, **US places bets on European companies in $6bn effort to clean up its heavy industry**

[29] Gil Terte, M. et al, 2023, **Electricity price differentials in the EU: impacts on intra-EU competitiveness** ; Samadi, S., Fischer, A. and Lechtenböhmer, S., October 2023, **The renewables pull effect: how regional differences in renewable energy costs could influence where industrial production is located in future**

[30] International Energy Agency, June 2023, **Renewable energy market update: How much money are European consumers saving thanks to renewables?**

[31] Strategic Perspectives, 2024, **Forging economic security and cohesion in the EU**

[32] European Commission, February 2024, **Impact assessment report accompanying the document 'Securing our future: Europe's 2040 climate target and part to climate neutrality by 2050 building a sustainable, just and prosperous society'**

[33] Corporate Leaders Group Europe, 2023, **Embracing circularity: a pathway for strengthening the Critical Raw Materials Act**; Corporate Leaders Group Europe, 2023, **Circular savings – business perspectives on energy savings through circular practices**

The EU needs to stay its course towards competitive sustainability. It needs to continue to develop in practice an economic model that values health and wellbeing as much as material progress, and seeks to adapt the measurement of GDP and economic progress to reflect a more comprehensive view of prosperity, building on the latest Foresight Report.[34] This report demonstrates how the pursuit of social goals is integral to economic prosperity and how regional cohesion is key to the EU's future resilience and ability to thrive.

A New European Competitiveness Deal should:

> **Make scaling renewable energy, improving energy and material efficiency, and boosting circularity cornerstones of EU competitiveness.** Set a target to fully decarbonise the grid by 2035 and propose immediate action to rapidly electrify the economy. Place the highest possible priority on circular material production while reducing energy and material consumption as means of driving EU competitive leadership and cutting costs.

> **Build a rapid working consensus around a new definition of competitiveness**, recognising the strategic imperative to move rapidly towards an economy and society that can thrive within planetary boundaries.

> **Integrate new metrics and indicators in assessments of competitiveness to measure progress towards competitive sustainability.**[35] Going beyond traditional competitiveness indicators, this should include metrics on matters including social mobility, inclusivity, health and resilience. The metrics should be incorporated into the European Semester and annual single market and competitiveness reports.

> **Develop a new EU Industrial Strategy** based on a thorough assessment of the EU's strengths, opportunities, weaknesses, and threats using competitive sustainability performance metrics, considering the economic potential of all EU regions. Use this strategy to inform cross-cutting infrastructural, investment and international *(see test 6)* needs while identifying where scaling up, transforming or scaling down economic activities is desired.

[34] European Commission, 2023, **Strategic Foresight Report 2023**

[35] See, for example, CISL, 2022, **Competitive Sustainability Index**; or ZOE, 2023, **Economic Resilience Index**

2. European Unity Test

Does the deal make a step change towards a genuinely integrated European approach to reap the benefits of Europe's diverse and unique strengths and assets?

Currently, the EU policy framework does not make full use of its diverse and unique regional strengths and assets for the development of competitive value chains. For instance, countries in Southwestern Europe, rich in abundant renewable energy potential and minerals critical for the transition, are well positioned to develop strategic green supply chains.[36]

First, by operating largely through direct grants awarded by national governments, the current approach implicitly favours countries with larger fiscal resources. Since the relaxation of state aid rules in 2022, France and Germany have been responsible for 77% of approved programmes.[37]

Second, the lack of a unified and coordinated approach risks squandering a key strategic opportunity for Europe to use the economic potential of all its regions and foster the competitive sustainability of the economy.[38] Instead of focussing on its objective strengths for building future-proof value chains – like the great skills-base, backed up by the unique social model,[39] and a rich variety of regional competitive advantages[40] – the current fragmented approach favours preserving the status quo.

Third, the underlying multi-level governance structure is lacking, which is visible for instance in a lack of EU-level coordination of national industrial policies and long-term decarbonisation strategies. While strategic planning is at present a national prerogative, successful implementation of the growing body of legislation shaping EU economic transformation requires a more coherent and comprehensive governance structure. At present, reporting obligations under National Climate and Energy Plans require little granularity on the

[36] E3G, May 2023, **Making clean technology value chains work for EU economic convergence**

[37] Euronews, September 2023, **Germany & France account for most EU subsidies. Here's why it's a concern**

[38] CISL, 2020, **Developing the EU's 'competitive sustainability' for a resilient recovery and dynamic growth**

[39] **La Hulpe Declaration on the Future of the European Pillar of Social Rights**, April 2024

[40] Bruegel, November 2021, **A new economic geography of decarbonisation?**

transformation of industrial sectors or development of cleantech manufacturing.[41]

Ultimately, the lack of strategic vision combined with unclear governance structures results in a fragmented policy landscape leading to inefficient allocation of resources. A coordinated approach will allow better use of regional competitive advantages – like access to cheap renewables – to benefit Europe's competitiveness and develop strategic cross-European value chains.[42] This will help resolve the current mismatch between the occurrence of competitive factors, the location of existing industrial clusters, capital availability and fiscal space.

A New European Competitiveness Deal should:

> **Design a clear governance and coordination mechanism** for EU industrial policy to ensure policy alignment across all key related activities through existing mechanisms such as the European Semester and Energy Union Governance. For example, Member States should be asked to include strategies for integrated value chains and industrial transformation in their NECPs and national long-term strategies.

> As part of this mechanism, **establish a well-resourced, independent body** to advise the Commission and Member States on priority investments, infrastructure and policies, while monitoring progress and policy coherence.

This new independent body should:

> **Contribute to the development of a new EU Industrial Strategy** *(see test 1)* by identifying strategic industries and their value chain segments that should be promoted though cross-European cooperation. This should be guided by quantitative methods[43] for selecting strategic industries, and align with Open Strategic Autonomy and common EU priorities, such as decarbonisation.

> **Incorporate a place-based approach** to identify and support the EU regions with the highest economic potential for these strategic value chain segments. This should be guided by indicators like regional skills, technological

[41] E3G, October 2023, **Industrial transformation for all Europeans**

[42] For example, integrating sunny countries like Greece or Spain in the transformation of the energy intensive parts of the steel value chains can reduce the cost of European steel by 16% – see Agora Industry, June 2023, **15 Insights on the Global Steel Transformation**

[43] ZOE Institute, June 2023, **Securing future-fit jobs in the green transformation**

capabilities, transition pressures, access to relevant raw materials including CRMs, and renewable energy potential.

> **Advise how to leverage EU financial resources** *(see test 3)* **and smart regulation** *(see test 4)* **to build on regional strengths in establishing strategic value chains**. To this end, high-potential regions could have preferential access to an updated Temporary Crisis and Transition Framework (TCTF) or to common EU funding *(see test 3).*

> **Advance efforts on integrated infrastructure planning at EU-level** for both cross-border projects and between energy carriers (electricity, gas, hydrogen, etc.). More coherent and coordinated planning is also necessary for minimising duplication and a more efficient allocation of resources.

> **Support national and local governments** in implementing the new EU Industrial Strategy and identified projects, especially where these are cross-border in nature.

3. Investment Scaling Test

Is the deal backed by a substantial rise in common EU resources and action to leverage private capital, setting the conditions for their effective usage?

Delivering economic transformation and competitiveness will require the mobilisation of significant finance and investments at an accelerated pace. For example, the European Commission estimates the additional investment needs at €620 billion per year to meet the objectives of the European Green Deal and REPowerEU.[44] Boosting EU manufacturing and recycling capacity for CRMs and clean technologies is expected to require cumulative investments of €72 billion to €152 billion by 2030.[45]

However, the EU is nowhere close to raising the necessary financial resources – be it private or public. I4CE has estimated the annual investment gap at over €400 billion,[46] which is set to increase with the end of the Recovery and Resilience Facility (RRF) in 2026. With bolstering defence spending now a

[44] European Commission, July 2023, **2023 Strategic Foresight Report**

[45] European Commission, 2023, **SWD accompanying the Critical Raw Materials act**; and European Commission, 2023, **SWD accompanying the Net Zero Industry Act**

[46] I4CE, 2024, **European climate investment deficit report: an investment pathway for Europe's future**

political priority, the EU is falling short in mustering enough public finance to leverage the necessary private investments to deliver on the twin transition and boost competitiveness.

Once the RRF ends, Member States' ability to invest will be even more determined by their fiscal power. However, as new EU fiscal rules enter into force, even countries less reliant on EU funding are constrained in allocating the necessary public spending to leverage investments.[47] In particular, Member States close to or above the EU fiscal thresholds[48] will have difficulties financing their transitions.[49] Where EU-level funding does exist, there are issues of absorption due to design issues or lack of administrative capacity in certain Member States or regions, essentially obstructing the EU from exploiting its regional strengths and assets to the benefit of its overall competitiveness.[50]

While the EU places high expectations on private finance to meet political objectives, it is currently underperforming there as well. Green investment funds are barely investing in Europe, while the US market accounts for 70%.[51] The EU's share in capital market activities is disproportionate to its economic size, highlighting the need for a more integrated European financial market to channel more savings towards investment needs.[52] Crucially, the EU is failing to sufficiently tap into its substantial reserves of long-term capital (such as direct retail investments, as well as private savings) to grow the amount of capital available to support business investments. Additionally, redirecting capital away from harmful activities would free up significant capital that can support European businesses in their transformation, thus enhancing competitiveness.

In conclusion, without additional EU funding – applied efficiently and to counter uneven resource availability at the national level – and measures to mobilise and

[47] ZOE Institute, March 2023, **A 5-point plan for EU industrial policy**

[48] 3% spending deficit related to GDP and a government debt level above 60%

[49] For instance, most of Southern European and CCE countries are not able to increase their green spending by 1% without breaching debt or deficit rules, while there is an annual European climate investment deficit of 2.6% of the EU's GDP. See NEF, 2023, **Beyond the Bottom Line**

[50] For example, while the rules of the Innovation Fund mention geographical balance, this is not effectively operationalised or enforced, contributing to an East–West disparity in the number of projects granted support Important Projects of Common European Interest (IPCEIs), which require the active involvement of companies, are struggling to take off where public–private cooperation is more challenging, like in CEE, or in Member States where fiscal space is more restricted. Further, varying administrative capacity across Europe impairs harmonious implementation of EU-level legislation, such as the permitting ramp-up foreseen in the Net-Zero Industry Act – see E3G, October 2023, **Industrial transformation for all Europeans**

[51] OECD, 2023, **Towards orderly green transition: investment requirements and managing risks to capital flows**

[52] Letta, E., April 2024, **Much more than a market – speed, security, solidarity**

better allocate available private capital, the EU will not achieve competitive sustainability *(see test 1)* or realise the potential competitiveness gains by leveraging its regional strengths and assets *(see test 2)*, while likely deepening economic divergence.[53]

A New European Competitiveness Deal should:

> **Present a European funding approach that offers a structural and long-term financing solution to complement national investments while enhancing efficiency**. New funding should build on NextGenerationEU's strong governance model, including being accompanied by robust environmental requirements and social conditions. **Any repurposing of existing structural funds should not come at the expense of cohesion**, for instance by repurposing cohesion funds only for the development of strategic value chains in left-behind regions with untapped economic potential *(see test 2)*.

> **Better tailor private financing mechanisms to the architecture of European financial markets.** Diversified financing tools, well-suited to the European financial landscape, will need to focus on the banking system, retail and personal savings investments, deepening capital markets, blending finance for de-risking, and better channelling investments.

> **Redirect available finance away from harmful activities and towards strategic European industries and objectives.** Up to two-thirds of investment needs could be raised by redirecting fossil fuel and other harmful subsidies.[54]

> **Support businesses in their transition efforts**. Planning their transition and futureproofing their business models will be essential for staying competitive, including ensuring access to diversified funding. Transition plans[55] are emerging as an essential tool; sufficient guidance, support and regulatory certainty will be essential for drafting such plans.

> **Improve equal access to and effective use of funding across Member States**. The new independent EU body *(see test 2)* should be tasked with advising the EU to revise and improve its funding instruments – both existing and future – to ensure they contribute a level playing field across the block while effectively leveraging Europe's strengths. This could include better

[53] Some policymakers are proposing the repurposing of existing structural funds towards industrial policy to address the growing funding gap. Shifting funding away from certain regions or from investments into public services such as transport or energy efficiency, would put crucial social, economic and environmental objectives at risk.

[54] Institute Rousseau, 2024, **Road to Net Zero: Bridging the green investment gap**

[55] E3G, Shareaction and WWF, 2024, **Investing in Europe's Prosperity**

operationalisation of rules on geographical balance by building on the place-based approach *(see test 2)* to a new strategy for building competitive and strategic value chains *(see test 1)* or providing support for the enhancement of national administrative capacity.

4. Smart Regulation Test

Does the deal leverage the innovation potential of the internal market through smart and impactful regulation?

Deregulation should never be an end in itself. Calls to reduce regulatory burden or in favour of a regulatory pause[56] ignore that deploying regulation and standards is one of the areas where the EU can best compete. Through the power of its internal market, the EU can drive innovation and investment while shaping international rules.

Deregulation would lead to an increased risk of being outpaced by other major economies, who are running ahead with their own market- and industry-shaping policies. Smarter, not less, regulation holds the key to enhancing competitiveness and supporting the transformation of European businesses.

Smart regulation is needed to further harmonise the EU's internal market,[57] standardise reporting requirements and develop lead markets for green goods and commodities. In turn this will drive finance and investment towards the competitive, green, inclusive, and resilient transition of key supply chains, while reducing reporting burden. There is widespread support among business leaders for all of this.[58]

A New European Competitiveness Deal should:

> **Maintain policy certainty and coherence for business.** Backtracking on ambition and political uncertainty around long-term policies dampen confidence in the market and can stifle growth in nascent strategic

[56] Politico, May 2023, **Belgian PM wants to hit 'pause' on nature restoration rules**; European People's Party, June 2023, **EPP Summit Statement**

[57] Letta, E., April 2024, **Much more than a market – speed, security, solidarity**

[58] Carbon Herald, February 2024, **Open Letter To The EU Calls For Low-Carbon Products Strategy**

industries.[59] Rather, clear targets and milestones, binding standards, and clarity on long-lasting support mechanisms are necessary to trigger and sustain the major investments required from businesses.[60]

> **Set ambitious standards and revise regulatory barriers** to create effective lead markets for clean technologies and green, circular materials. Demand-pull instruments are vital for the business case and scaling of nascent manufacturing industries. These standards should be mainstreamed in existing policy frameworks – including for public procurement[61] or funding mechanisms – for both domestic producers and importers.

> **Harmonise environmental and reporting standards**. Fragmentation in environmental standards across Member States and lack of coherence across reporting standards create additional burdens, undermine the single market and have prevented innovative European cleantech companies from scaling up in the way their US and Chinese counterparts do.

> **Adopt measures to futureproof the economy, including regulation to support businesses to shift away from fossil fuels via electrification.** This can include de-risking investments by governments committing to develop the necessary infrastructure; supporting access to clean energy by de-risking power purchase agreements; improving the business case for electrification by realigning taxes and charges away from electricity consumption and designing innovative ways to support capital investments and additional operating costs, such as carbon-contracts for difference.[62]

> **Create an enabling environment for developing the circular economy and disincentivise linear economic models**. Given the slow increase in the use of circular material over the last years, the EU will need to secure a more than tenfold increase in the recently observed average annual rate of change[63] if it is to reach its 2030 goals.

[59] EHPA, April 2024, **Pump it down: why heat pump sales dropped in 2023**

[60] CISL, 2021, **Fit for 55? A progressive business perspective on the EU's transformative climate package**

[61] Sapin, A., Schraepen, T. & Tagliapetra, S., 2022, **Green Public Procurement: a neglected tool in the European Green Deal toolbox?**

[62] E3G, February 2020, **A Policy Vision for the EU Industrial Strategy**

[63] European Scientific Advisory Board on Climate Change, 2024, **Towards EU climate neutrality: progress, policy gaps, and opportunities**

5. Social Cohesion Test

Does the deal make the delivery of broader societal benefits a central priority, through a fully inclusive process?

An EU Competitiveness Deal should learn from lessons for economic success, including the importance of the EU's strong social model.[64] This model is both foundational to its lengthy post-war period of stability and prosperity and a vital contributor to the EU outperforming large parts of the world on metrics that matter to citizens, such as health and quality of life.[65]

A strong social model and economic competitiveness go hand in hand: a rights-based framework, worker protections – including against new climate and environmental risks – education and training opportunities, and comfortable purchasing power combined with access to quality goods and services create a thriving and productive economy. This makes EU businesses more competitive in the global market. Crucially, this requires inclusive action beyond competitiveness, skills, and jobs to encompass other equally important aspects of the social dimension. Social protections and actions to improve social mobility create stability and help enable the "freedom to stay".[66] Europe cannot achieve the economic, manufacturing, industrial and technological base required to secure its global and regional competitiveness, without investing in its workers, its citizens, and its diverse regions.

Finally, for a competitiveness deal to be truly *fair* and politically stable, it must be backed by broad stakeholder involvement.[67] While maintaining close engagement with the private sector is crucial, exclusive public–private interactions carry the risk of political capture. Therefore, meaningful engagement and dialogue with all stakeholder groups, including at the regional and local levels, is vital.

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[64] Euractiv, 2023,**The difficulty of learning the right lessons from the US**

[65] Health System Tracker, 2024, **Life Expectancy** (based on 2022 data); World Happiness Report, 2024, **Ranking of Happiness 2020-2022**

[66] Letta, E., April 2024, **Much more than a market – speed, security, solidarity**

[67] Corporate Leaders Group Europe, 2023, **Principles for an ambitious EU Green Industrial Strategy**

A New European Competitiveness Deal should:

> **Put investments in Universal Basic Services at the core of the New European Competitiveness Deal.** This should include improving the availability of quality public infrastructure that contributes to citizen wellbeing, such as quality education, affordable housing, healthcare, clean energy, and sustainable food.

> **Make new green jobs and manufacturing projects attractive** by incentivising unionised, secure, well-paid, safe, and well-respected jobs and ensuring broader community benefits. Apply social conditionality clauses[68] for public funding to ensure quality labour and training provisions as well as occupational health & safety.

> **Develop social impact assessments.** Including frontline communities and workers in assessing impacts and integrating local knowledge and lived experience can ensure local value-add and public support. Adopting a "Do Significant Benefit"[69] objective for new projects would ensure they contribute to a socially and environmentally just transition.

> **Develop a match-making mechanism[70] between in-demand skills and jobs expected to be lost** during the transition.

> **Ensure balanced input from all stakeholders in defining goals and objectives.** Civil society, workers, communities, regions and the private sector must be equally included and enabled to participate in all stages of strategic and policy planning.

6. Foreign Policy Test

Is the deal internationally resilient and grounded in fair global rules?

Europe's perception of its competitiveness is linked to escalating geopolitical tensions and the ongoing race to dominate future industries like AI, semiconductors and clean technologies. Major powers like the US and China engage in this race to achieve geopolitical leverage, as well as economic growth.

[68] Somaglia and Bragason, 2023, **CAP's social conditionality clause could be a game changer for agricultural workers**

[69] Bankwatch, 2023,**Manifesto on the future of EU public finances**

[70] ZOE Institute, 2023, **Securing future-fit jobs in the green transformation**

This convergence between competitiveness and security is blurring classic distinctions between policy areas. For example, trade policy is no longer primarily aimed at opening markets to boost growth, but now more explicitly at boosting resilience, security and influence. This implies that the new approach to competitiveness needs to be better integrated into other policy domains, including foreign policy.

At the same time, the EU economy remains reliant on global trade and open, diverse supply chains – much more than the US or China.[71]

On the one hand, this implies that Europe needs to be conscious that intervening more actively in its economy is likely to lead to an international response, and to anticipate partners' concerns. Shaping new markets and production capacity through regulation and support instruments will have profound impacts on third countries that cannot be overlooked. Recent examples of European policy initiatives including the deforestation regulation or carbon border adjustment mechanism (CBAM) show that this international dimension is often overlooked while robust engagement with partners is lacking.[72]

On the other hand, considering the EU's reliance on international trade and global stability, the competitiveness deal needs to recognise that maintaining resilient global value chains and well-functioning global institutions are instrumental to its success.

A New European Competitiveness Deal should:

> **Actively identify and pursue mutually beneficial clean economy partnerships[73] with emerging economies as the external dimension of a new competitiveness deal.** These can provide a stable set of relationships that help diversify key value chains while bolstering valuable international partnerships. Prioritising local value-add, driving investments and fostering adequate technology transfers would help bolster mutual trust and accelerate partners' transitions and economic development, while helping secure the competitive position of EU firms in foreign clean economy sectors.

[71] In 2022, international trade of goods and services represented 25% of the EU's GDP, compared to less than 20% in China and below 15% in the US. The EU also remains the largest exporter of manufactured goods and services, accounting for 17.4% of global exports – see Eurostat, 2023, **World trade in goods and services – an overview**

[72] ECFR, 2023, **Decarbonisation nations: how EU climate diplomacy can save the world**

[73] E3G, 2024, **EU clean transition partnerships with emerging economies**

> **Defend international cooperation as a pillar of EU competitiveness.** A competitiveness deal should advise that the next EU budget increases funding for NDCI-Global Europe while streamlining Global Gateway's strategic approach to international cooperation. This would strengthen its reputation and contribute to enhancing global economic resilience, diversifying EU value chains and creating new export opportunities.

> **Continue to pursue international dialogue** to manage tensions around industrial policy, green subsidies and trade policy for climate- and nature-positive action towards exploring principles and new governance systems.

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E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action. E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

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