

## Summary note

### ***Accelerating the transition to competitive sustainability***

**High-level webinar, 17 November 10.00-11.30 CET**

Ahead of the EU Competitiveness Council on 19 November, CLG Europe organised a high-level webinar, with Emil Högberg, State Secretary to Minister for Business, Industry and Innovation, Sweden, and Kimmo Tiilikainen, State Secretary, Ministry of Economic Affairs and Employment, Finland, to explore how the European Union can strengthen the competitiveness of its economy and industries whilst simultaneously achieving EU climate targets for 2030 and climate neutrality by 2050. In particular, the event focused on exploring the concept of 'competitive sustainability' what it means for EU policy making.

#### **Martin Porter, Executive Chair, CISL Brussels**

Martin Porter, opened the webinar with a presentation of CISL's new report, *Developing the EU's 'competitive sustainability' for a resilient recovery and dynamic growth* which seeks to share initial ideas on the concept of competitive sustainability. The paper explores the idea in the context of Recovery and Resilience Plans (RRPs) and the European Green Deal. As emphasised by the European Commission, competitive sustainability needs to underpin the EU's growth strategy to focus investments in areas with the biggest potential competitiveness gains and build on its regulatory leadership in creating lead, climate neutral markets in Europe. The CISL working paper provides a starting definition of competitive sustainability and looks at industrial eco-systems, where both current performance as well as potential from different investments and policies in the area need to be assessed.

The paper finds that while many studies provide a partial view of the EU's competitive sustainability – including macroeconomic, technology or value chain studies, and sectoral assessments – only a few consider the opportunities for competitive advantage in Europe from the full range of different technological and sectorial pathways aligned with the 2050 climate neutrality goal. The paper concludes that the EU lacks a clear picture and shared understanding of where it is leading or lagging internationally. While well-positioned, and having already started improving its performance and potential across various dimensions of competitive sustainability, the EU should not be complacent.

#### **Fabian Zuleeg, Chief Executive and Chief Economist, European Policy Centre**

Fabian Zuleeg emphasised the timeliness of the competitive sustainability discussion and the importance of ensuring the concept leads to concrete policies. For Zuleeg, competitive sustainability is a key tool for investment prioritisation. When looking at the enabling environment and barriers for climate and future proof investments, he underlined the difference between the EU and member states level decisions, and the need for competitive sustainability to drive change at the national level. With major economies such as China, Japan and South Korea publicly committing to targeting climate neutrality, and with the election of the Biden administration, the EU must accelerate its efforts to ensure upcoming investment and policy decisions reflect a new approach to competitiveness. While Covid-19 has had a terrible impact, it is also creating structural changes, and the opportunity to transform Europe's economy. Zuleeg acknowledged the need to ensure a just transition and that competitive sustainability should avoid placing an unfair burden on those in already difficult situations. Questions remain around international trade and moving towards common solutions, as well as how to find the right balance when it comes to market intervention.

### **Sirpa Pietikäinen, Member of the European Parliament**

MEP Pietikäinen highlighted important factors currently impacting business and government decisions. One is future-proofing and the need for businesses to base decisions on science, an understanding of planetary boundaries and to have transition plans to climate neutrality which do not harm biodiversity. An understanding of the market challenges and opportunities linked to the transition to climate neutrality will enable businesses to future-proof their approach, improve competitiveness and agility. A second factor to consider are the policy tools to accelerate change, via for instance, Taxonomy, and the EU Circular Economy Action Plan (CEAP). She concluded that we need to make long-term commitments, and that the EU can take initiative and leadership.

### **Henrike Hahn, Member of the European Parliament**

MEP Hahn also praised the timeliness of the competitive sustainability discussion and agreed that the Green Deal and its implementation offer a unique opportunity to transform the economy. When it comes to climate, the EU needs to maintain its high ambition level, and pursue a 65% GHG emission reduction target by 2030 to keep global warming below 1.5C. Alongside increased ambition, Taxonomy should be the compass for investment decisions, so that non-sustainable projects do not receive financing e.g. all fossil fuels should be excluded from funding, and investments should support green industry transformation.

The revision of the EU industrial Strategy will need to carefully consider which policies and instruments should be included to ensure policy coherence with the transition to climate neutrality. One key improvement would be the inclusion of sector specific decarbonisation pathways to provide predictability and guide investment. Elements addressing due diligence, human rights and social policies along supply chains should also be considered. In this area, civil society organisations have an important role to play in monitoring progress.

### **Andreas Regnell, Chairman of HYBRIT Development AB, and Senior Vice President, Strategic Development, Vattenfall**

In Regnell's view, one of the biggest competitive advantages for the EU would be the switch from forecasting to backcasting, to work backwards from the stated goal – climate neutrality by 2050. The Green Deal exemplifies such a shift in thinking. SSAB, one of the companies behind HYBRIT Development undertook a backcasting exercise when setting its goal for fossil-free steel manufacturing, technology which could already be operational in 2021. In addition to backcasting, public funding is vital to cover the risks involved in low carbon technology development, alongside policies that create demand, and a level playing field.

### **Gonzalo Sáenz de Miera, Director of Climate Change, Iberdrola**

To ensure competitiveness, Iberdrola's Director of Climate Change stressed the importance of having clear objectives and policies. For hard to abate sectors, green hydrogen is a promising new technology. To capitalise on new low carbon technology opportunities, Europe needs to focus on sectors in which it has a competitive advantage, in his view: batteries, electric mobility, and green hydrogen. The decarbonisation of the European energy sector is an opportunity for it to become more resilient, competitive, and sustainable but to guide the significant investments required, the right policies are needed at the European level, for example on Taxonomy, just transition, and industrial and innovation policies that target sectors with the greatest competitive advantage potential. For de Miera, low carbon technology is readily available but needs support to scale up and reduce costs. Europe cannot afford to miss out on the competitive advantage presented by the decarbonisation of the EU economy.

### **Emil Högberg, State Secretary to Minister for Business, Industry and Innovation, Ibrahim Baylan, Sweden**

State Secretary Högberg began by emphasising the significant impact Covid-19 has had on industry, highlighting that the current situation is also an opportunity to build a more competitive and resilient industrial

sector by embracing a green and digital transition. The Green Deal will be a key pillar in strengthening competitiveness while increasing wellbeing across the EU. However, the Green Deal must remain only aspirational, it needs to be followed by action. For State Secretary Högberg, the updated EU Industrial Strategy should aim to strengthen EU competitiveness beyond the Covid-19 crisis. At the last Competitiveness Council, he underlined the importance of revising state aid rules to ensure financing does not harm the environment. Furthermore, industry needs access to sustainable raw materials and critical minerals. Much work needs to be done to ensure their supply.

With Sweden aiming to be the first carbon neutral welfare state by 2045, and Swedish industry to play a leading role in the transition, many industrial sectors have drawn up decarbonisation roadmaps, including the forestry, cement, and steel sectors. Furthermore, the Swedish government has established innovation partnership programmes focusing on strategic value chains and a set of societal challenges.

### **Kimmo Tiilikainen, State Secretary, Ministry of Economic Affairs and Employment**

In Finland, sector-specific low-carbon roadmaps are being prepared by industry sectors. These will provide input for national climate and energy strategy, Government programmes as well as recovery measures. The roadmaps are currently under review by the relevant Ministries, but their overall findings conclude that: electricity consumption will increase significantly, smart sectoral integration will be key in the energy sector, and technological solutions to decarbonisation are needed. State Secretary Tiilikainen underlined that these conclusions should guide investment and R&D work. In parallel to work on the low-carbon roadmaps, the Finnish government has also started to prepare a national industrial strategy. With regards to its competitiveness in low carbon technology, Finland already exports clean energy solutions worth of €5 billion annually.

State Secretary Tiilikainen concluded that policies play a crucial role in the industrial sector, which is looking for clear rules and messaging, for instance, concerning mobilising private investment and phasing out fossil fuels. Finnish industrial sectors are committed to the carbon neutrality targets, and the Ministry of Economic Affairs and Employment is eager to share their experience with its European counterparts.

### **Harry Verhaar, Head of Global Public & Government Affairs Signify, and CLG Europe Chair**

In his summary of the webinar discussion, Harry Verhaar reiterated the importance of competitive sustainability in directing investments and R&D. Europe is well-positioned in this regard. However, more integrated policies are needed because of the speed and the depth of the net zero transition. Decarbonisation is a race to a more inclusive and sustainable future. Verhaar illustrated the need to act fast by drawing on an example from the lighting industry. Signify understood the need to transition out of inefficient, old and low value incandescent lighting to new, highly efficient and value-adding technology. It therefore took early action, as a result of which the company is a now leader in LEDs. The European market is racing against China. To ensure a competitive advantage, some of the policy developments discussed will need to accelerate, for example on Taxonomy or circular procurement. Education will also be pivotal. He concluded that speed is of the essence, and we need to leverage both the recovery package and the Green Deal.

### **Reflections**

One of the evident reflections of the event was the need for a clear set of publicly available, comparable and comprehensive analyses and assessments of the competitiveness dimension of the transition being undertaken in the Green Deal. This aspect appears to be particularly relevant to the [EU Competitiveness Council conclusions adopted on 16 November](#) on 'A recovery advancing the transition towards a more dynamic, resilient and competitive European industry'. The conclusions are expected to serve as the

Council's input to the Commission's preparatory work for updating its 'New Industrial Strategy for Europe' and in particular **invite the European Commission to develop key performance indicators to measure industrial strategy and competitiveness**. It appears important therefore that any such indicators adequately capture the dimensions 'competitive sustainability' to ensure that Europe can measure its ability to achieve competitive advantages in the transition to climate neutrality.