Trilateral Business Forum

Joint Declaration

Paris

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Executive Summary

Today, in the perspective of the oncoming French presidency of the EU, we urge our leaders to fully embrace policies that empower Europe's industrial base. For Europe to succeed in the twin transformation of the economy, we must strengthen our policies.

First, we must foster a decarbonisation of our economy that also safeguards the competitiveness of our companies. The massive industrial transformation can only succeed with stringent climate and industrial policies that facilitate investment into new products and technologies. The implementation and timing of the Fit-for-55 package must be a part of that endeavor.

Second, we need to minimize the risk of carbon leakage through appropriate instruments, including CBAM, free allowances and compensation measures. Export competitiveness must be considered, too.

Third, we must complete the internal market for gas and support the scaling up of the hydrogen value chain.

Forth, we need an ambitious approach towards strengthening the EU's digital competitiveness. Initiatives such as Gaia-X and the IPCEI on cloud technology, a good legal framework for AI and the promotion of manufacturing and designing competencies in semiconductors are key elements in this.

Fifth, financial regulation must be appropriately designed considering the twin transition. The finalization of the capital framework for banks must not seriously constrain the lending capacity of banks. Similarly, the revision of Solvency II shall support the role of insurance in the recovery and transition. Further, the emergence of ESG rules and regulations must take into proper account the large transition investment needs across all sectors.

Sixth, we support recent initiatives in trade and foreign economic policies strengthening the EU's capacity to cope with the challenges related to sovereignty and resilience on the one hand and to create new business opportunities through bilateral and multilateral agreements on the other.

With the progress of vaccination our countries are starting to return to an almost normal life. The considerable efforts made collectively by governments as well as by citizens and businesses have enabled a strong recovery in Europe. This situation is still fragile. Today, our economies are threatened by many tensions: rising energy and raw material costs, supply difficulties, value chains disruptions, unilateral coercive measures, new forms of protectionism, labour shortages, increasing social inequalities and problems of welfare sustainability. Looking at the digital revolution and the climate imperative, we need to achieve the twin transition of Europe by continuous support for investments, especially in R&D, at European and national level. This is a key factor to avoid depending on technologies solely developed, produced and dominated by others. Our companies are committed to the success of this transition and they are ready to assume their responsibilities in this respect.

We ask our government and EU institutions, in the perspective of the oncoming French presidency of the EU :

I. Empowering Europe's industrial base

- ***Foster a competitive decarbonisation***

The EU accounts for about eight per cent of global greenhouse gas emissions. Without a real commitment from the major global economies, the chances of producing a tangible result in terms of mitigation are reduced while the exposure of our companies to competitive distortions and to the risk of carbon leakage will increase. The green transition is necessary and ambitious; however, it is not devoid of challenges for our companies, especially in the short term. A massive industrial transformation process shall be achieved within only nine years, and an even greater effort will be needed for the 2050 climate target. The regulatory choices to be made by the European co-legislators must aim at finalizing a regulatory framework that provides legal certainty, promotes competitiveness, exploits innovation potential and supports technological progress.

An enhanced European industrial policy strategy needs to be put in place, including specific programs for the industrial conversion of key economic sectors. The implementation and timing of the Fit-for-55 package should be consistent with the evolution and availability of effective and economically sustainable technological solutions. To adapt all sectors of the economy to the new and more stringent green paradigm, the economic and social costs will be extremely high. Therefore, it is essential to mobilize more resources than those currently foreseen in national and EU budgets to cover the investments needed for decarbonisation and to support the social transition. Significant private financing is needed. In this respect, all forms of climate neutral and low carbon energies should be accepted by the sustainable finance taxonomy. Appropriate financial resources, reliable carbon leakage protection measures, progress in global carbon pricing and the availability of sufficient amounts of renewable energies at competitive prices are all essential preconditions for the transition.

- ***Foresee the right instruments to minimize the risks of carbon leakage***

The increased EU's climate ambitions should be accompanied by a strong and effective European framework against the risk of carbon leakage. The proposed gradual decrease of free allowances for sectors covered by the new Carbon Border Adjustment Mechanism exposes companies to higher risks of relocation, also limiting their financial resources to invest in low-carbon technologies. Free allowances as well as compensations for indirect costs should therefore remain fully operational for these sectors. We regret that the proposal does not include measures for supporting the export of the sectors covered by the instrument (the so-called "export rebate"), which is highly critical with respect to the global competitiveness of European companies in third markets.

- ***Complete the EU energy market and achieve an integrated gas market***

The integration of the EU energy market should be completed with reference to the natural gas market – a key commodity of the decarbonisation process – to promote market efficiency, strengthen the competitiveness of Europe and increase security of supply. Achieving an integrated, liquid, and interoperable gas market, while reshuffling the existing framework, would also facilitate a correct and swift integration of climate-neutral gases in the overall energy system. We believe that, in line with our *Joint call for European energy and climate innovation leadership* of June 2021, different solutions could be effective to obtain a single European gas market, and the adoption of the "gas package" in December will be the opportunity to make the gas market design to evolve in the right way.

- ***Support the scaling up of the hydrogen value chain across Europe***

In parallel, the EU should focus on scaling up a European hydrogen economy as promised by the European hydrogen strategy and the "gas package" should provide for the required regulatory framework (such as for an EU-wide infrastructure, standardisation, and certification of climate-neutral gases). A functioning hydrogen economy and the sustainable electrification of industry are mutually reinforcing and should be properly incentivised in the interest of strengthening Europe´s overall energy system integration and resilience.

- ***Deploy joint efforts to ensure European digital leadership***

We welcome the progress made in recent years in promoting key digital technologies. As a key lesson learned from the Covid-19 pandemic, however, we must continue to step-up our ambitions to digitalise all dimensions of our societies, further strengthen the European digital ecosystem and thereby Europe's digital sovereignty. Support to R&I will be crucial to develop actual and future European key digital technologies and reduce EU's dependency.

- ***Foster Europe's cloud competences and developing harmonized rules***

We joined the European project Gaia-X as day 1 members. We look at Gaia-X as a strong and unique European initiative to strengthen Europe's digital sovereignty by setting up the foundations for an urgently needed data ecosystem based on European values. We call on our governments to continue supporting this very important European initiative. At the same time, we believe that many complementary initiatives, aimed at increasing industrial productivity through the uptake and use of new technologies and digital means, should be launched, also to take advantage of the momentum. We welcome the launch of the Important Project of Common European Interest (IPCEI) on Cloud which should usefully complement this trend to create a continuum from Cloud to Edge and allow the EU to have a competitive European cloud market with powerful EU-based players. In that sense, the future data legislation (Data Act) is also fundamental since data is a strategic asset for businesses.

- ***Ensure an innovation-friendly legal framework for the use of AI in Europe***

Artificial intelligence (AI) is one of the most important key technologies for the industry. Therefore, a smooth, non-burdensome and innovation-friendly legal framework for the uptake and use of AI by European businesses is a central prerequisite for securing the innovation and competitiveness of European industry in the long term. We welcome the European Commission's decision to adopt a risk-based approach to address high-risk AI systems in its draft proposal for a European AI Regulation, presented on 21 April 2021. An action plan on the industrial use of AI, robotics and other data-based technologies would also be appropriate, in alignment with the role played by Digital Innovation Hubs.

- ***Promote manufacturing and designing competencies in semiconductors***

The Important Project of Common European Interest on Microelectronics currently under discussion should build on the positive impact of the first IPCEI on microelectronics, extending its scope to the field of communication technologies. The European institutions as well as our governments shall ensure that the new IPCEI provides for a microelectronics ecosystem for Europe's sustainable digital sovereignty that covers current needs as well as the “leading edge” areas and creates the basic conditions for 2nm production in Europe in the coming decades. In this regard, we welcome the Commission’s commitment to issue in 2022 a legislative proposal to address the current shortage of semiconductors and the need to strengthen their technological development and supply chain resilience. In view of the concrete and still increasing demand for industrial production capacities in the 12-40nm technology corridor and in the More-than-Moore technologies, we also urge our governments and the European Commission to give the highest priority to the expansion of these production capacities and designing competencies.

II. Facilitating investment through appropriate financial regulation

We urge the European institutions to safeguard the provision of bank lending to the corporate sector. The huge private investment needs related to the twin transition towards a green and digital European economy need to be financed by the banking system and by capital markets. We are strongly concerned that the finalization of Basel 3 capital requirements for banks may lead to significantly higher capital requirements. This would seriously constrain the capacity of EU banks to provide adequate lending to both SMEs and larger companies. It would also seriously hamper foreign exchange hedging of non-financial corporates and infrastructure and real estate financing. A substantial role of banks in financing the twin transition must go along with an enhanced capacity and readiness to extend lending to those sectors.

Further, the capacity of capital markets to provide external finance, both equity and bonds, for the huge financing needs must be substantially strengthened, both by implementing the Capital Markets Union and notably alleviating the regulatory obstacles to relaunch securitisation as well as by an aligned approach to sustainable finance. Implementation of the CMU should also be aligned with the ongoing Solvency II review as European insurers are important institutional investors. As the Commission published its Solvency II review package on 22 September, we note that it has set a temporary capital charge reduction target for European insurers, this reduction should be permanent, given the horizon of those missions. Solvency II revision should lead to the strengthening of the driving role of insurance in favour of the economic recovery and the ecological transition.

We are concerned that various regulatory pressures may lead to a premature rationing of lending and equity investment to sectors in transition that are in an urgent need for transformative investment. The new strategy on sustainable finance presented by the European Commission is very ambitious and should be implemented in a proportionate and gradual manner maintaining a positive approach promoting the transition of economic activities towards sustainability rather than penalizing activities not yet sustainable. On a global level it is of essence to work towards the harmonization of reporting standards of ESG investments as well as on the definition of sustainable finance and circular economy taxonomies and the alignment of ESG disclosure frameworks, ensuring consistent implementation and guaranteeing a level playing field.

III. Strengthening European companies' capacity to face geopolitical risks

European companies must not be the collateral victims of either geopolitical tensions between the United States and China or the shift of the world's center of gravity towards the Indo-Pacific. Without naivety, the European Union should act to preserve its strategic interests. Protectionist tendencies and geopolitical interests have taken a toll on European companies' access to markets and their business activity. With the post-Covid economic recovery hindered by phenomena such as the raising prices of raw materials and the disruptions in maritime freight transport, it has even more become apparent that the European Union needs to develop further appropriate tools and instruments to ensure a level playing field in global trade. The pandemic has shown that Europe can find itself in a vulnerable position following disruption in global supply chains. It is key to strengthen the European footprint of sensitive and strategic industrial activities to ensure that they will have a competitive future at home.

Therefore, we call on our leaders to:

- Enforce international trade rules and economic partnership agreements between the EU and third countries more effectively and protect the internal market against unfair competition from third parties.
- Continue working to counteract the impact of negative effects of distortions and illicit subsidies in third countries. In this regard, the recent proposal for a regulation to address potential distortive effects of foreign subsidies in the Single Market is a welcomed step forward.
- Advocate for the removal of trade irritants (tariffs and non-tariffs barriers) with trade-partners around the world.
- Push for resilience: a European Anti-Coercion Instrument that covers extraterritorial sanctions, a reformed European Blocking Statute, and a resilience committee could be important starting points for strengthening Europe's ability to withstand economic coercions.
- Secure supplies: the EU should implement a common European strategy to secure its supplies, based on trade agreements concluded with foreign partners (common stocks, diversification, etc.) and quickly adopt tools allowing reciprocity in the market access, such as the International Procurement Instrument (IPI).
- Lead the effort to reinvigorate multilateralism, and reform, strengthen and further develop the World Trade Organization (WTO).
- Commit for a common migration flow management to facilitate the access of skilled workers from third countries, and to organize the admission of migrants who benefit of international protection measures.

To respond to the EU's most pressing challenges, in a rapidly changing global landscape where competition in many business sectors is intensifying, it is more crucial than ever that we ensure that fiscal rules are well-designed to support long-term growth and competitiveness in Europe. The debate on an Economic Governance Review recently relaunched by the European Commission is very much welcome. We, in close coordination with BusinessEurope, are keen to engage in this public debate through shared views and recommendations.

This great transformation concerns all of us. The first asset of Europe are the men and women and their collective intelligence. Nothing will be possible without an effort to promote education, training, and skills. Nothing will be possible without a strong collaboration between all those who, through their work, energy and talent, contribute to the success of Europe. We, and our companies are committed to work together for the success of Europe, that is, the success of our countries.

BDI, Confindustria and MEDEF, also within BusinessEurope, will continue to work together to contribute to the definition of measures and policies at European and national lever, to foster the recovery of the European economy and to defend the competitiveness of our companies at global level.