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NOTE

From:	Trio Presidency
To:	Working Party on COMPETITIVENESS and GROWTH (High Level)
Subject:	Lunchtime debate: Fit for 55 and the competitiveness of industry

Delegations will find in Annex a Trio Presidency note on Fit for 55 and the competitiveness of industry, in view of the meeting of the members of the Working Party on Competitiveness and Growth (High Level) on 3 February 2022.

ANNEX

Lunchtime debate: Fit for 55 and the competitiveness of industry

Context

Europe faces the challenge of decarbonizing and greening its industry, while ensuring its global competitiveness and market shares. Achieving '**competitive sustainability'** is a core principle of the EU's regulatory efforts to deliver on a cleaner and more competitive Europe, which include the EU's updated Industrial Strategy and the July and December 2021 packages of policy proposals delivering on the European Green Deal and aiming to reduce greenhouse gas emissions by 55% by 2030 relative to 1990 levels.

The concept of competitive sustainability is at the heart of Europe's social market economy and was launched at the start of the current Commission's term of office.[i] It incorporates four dimensions: **environmental sustainability, productivity, fairness, and macroeconomic stability**. These reinforce each other with a common goal: shifting towards a sustainable, resilient and inclusive economic model, driven by the diffusion and uptake of digital and green technologies.

Leadership on environmental protection and a strong, innovative industrial base are two sides of the same coin, giving the EU a competitive first-mover advantage. More specifically, in relation to the climate change, the challenge is to **decarbonise the EU's industry** while **maintaining and even improving its productivity and cost competitiveness**.

Supply and demand-side obstacles to a competitive low-carbon industry

Within this context, from a productivity perspective, there are several obstacles preventing the acceleration of low-carbon industrial transformations.[ii] They relate to a **wide range of factors that influence the innovative potential and uptake of low-carbon economic activities across industrial ecosystems**.

On the supply side, they may refer to access to finance; an appropriate labour force supply; supply chain bottlenecks and regulatory barriers (e.g. cumbersome permitting for fossil free energy generation); access to raw materials; access to affordable decarbonised energy sources (particularly for energy-intensive industries) and fossil-free material inputs; and the adoption of efficient and clean technologies and the corresponding decision autonomy within all parts of European value chains. For example, a recent EIB analysis[iii] reported that the legacy of the pandemic lockdowns coupled with limited availability of adequately skilled staff, and the insufficient transparency on the impacts and risks of climate change on businesses, have constrained firms' ability to finance green investments.

On the demand side, they may relate to robust low-carbon consumer needs and market potential, access to efficient infrastructure and distribution networks.

Obstacles to a well-functioning Single Market without barriers and with fair and effective competition impact both the supply and the demand side.

The case of labour and skills

According to the Climate Target Plan, the transition to climate neutrality could create, with the right accompanying policies in place, around 1 million jobs in the EU by 2030 and some 2 million jobs by 2050, particularly middle-paying jobs. **The green transformation of industry entails a reconfiguration of economies and labour markets, with varying impacts across Member States and industrial ecosystems**.

Some sectors are likely to benefit and grow from the climate transition, whilst others will face difficulties and possibly contraction. For instance, job losses are expected in some mining activities or fossil fuel-based energy production. Other industrial ecosystems need to transform substantially so that they develop along sustainable competitive lines, for example the automotive industry and high-emission industries such as chemicals, steel and cement. On the other hand, there will be significant growth potential and new job opportunities in industries like renewables, water supply, the sewerage and waste sectors, and other circular value retention activities, as well as an increased demand for new green technologies and services, including in construction, electro-mobility and sustainable finance.[iv]

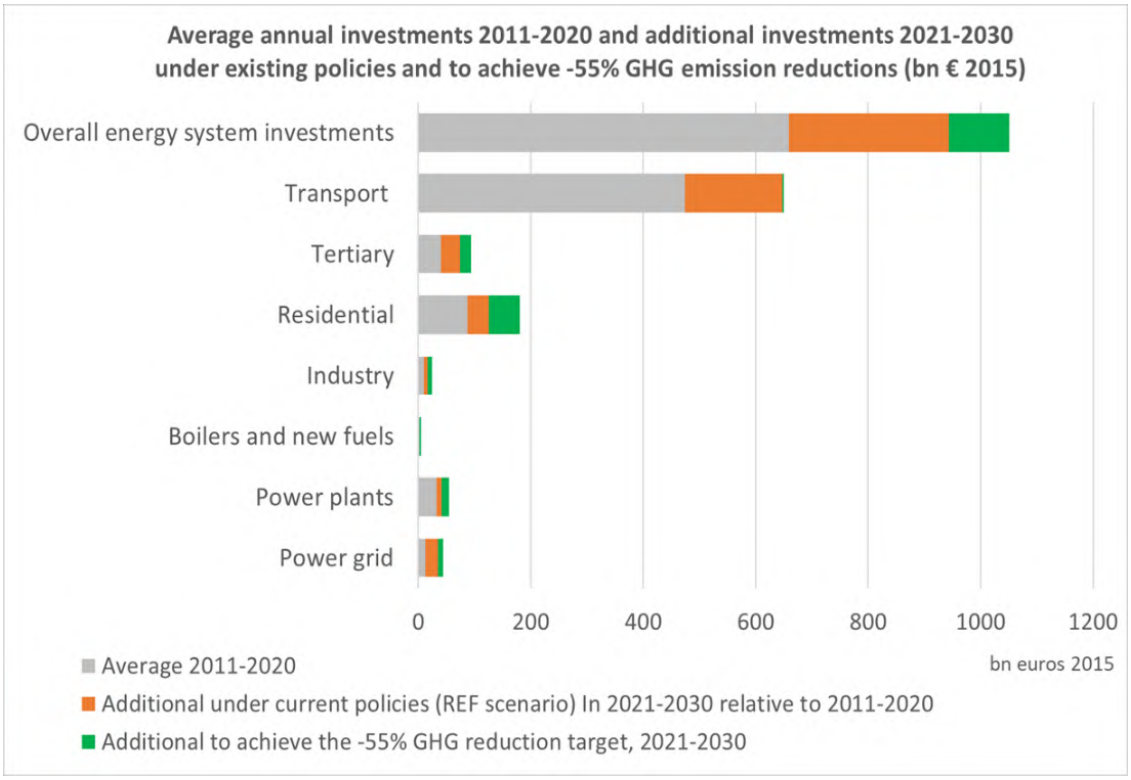
In order to realise the economic growth and employment benefits of the climate transition, **large-scale investment in reskilling and upskilling will be needed**. For example, while it is estimated that 160,000 additional construction jobs could be created in the EU by 2030 through the climate transition,[v] currently skills gaps are visible in occupations related to green design, technologies and materials in this sector. Moreover, there are substantial geographic disparities of such labour market challenges and their policy responses.[vi]

Against this background, to realise the opportunities of the green transition, companies, social partners and policy-makers at all levels have a key role in **anticipating the necessary skills needs of the future** and in supporting training and skills development of the labour force.

Many remaining barriers in ecosystems need to be addressed at EU, national and regional level. Particularly during the COVID-19 pandemic, barriers became evident, especially in the services sector. The removal of new and persisting barriers in the Single Market must now be vigorously pursued. It is important to achieve smoother mobility of professionals in sectors contributing to the dual transition, with an emphasis on business services. This will have a positive impact on added value for products and more resilient and stronger value chains. To achieve this goal, it is also important to reduce regulatory restrictiveness in services, which would increase the productivity and competitiveness of the EU services sector or perceive the need for standardisation in the business services sector.

The case of financing

In the area of climate and energy, the Commission estimates that total energy-related investment needs associated with the Fit for 55 package are in the range of €1050 billion (average annual over the period 2020-2030). This represents an **additional €390 billion per year relative to the annual average energy system investments realised during 2011-2020**. More specifically related to industry, the corresponding Impact Assessments project that energy-related investments for industry as a final energy consumer required in order to achieve the 55% greenhouse gas emission reduction target for 2030, are in the range of €25 billion annually over the next decade. This constitutes more than double the amount of the annual investments that occurred in this area during the last decade.



Source: Based on the Impact Assessment underpinning the revision of RED II, SWD (2021) 621 final, 14.07.2021

The EU budget will be mobilised for upscaling green investments: during the period 2021-2027, it will provide €767 billion for climate and environment, out of which €268 billion from the Recovery and Resilience Facility. However, the bulk would need to be funded privately and complemented by national financing. The latter would be facilitated, where justified, by the revised **State aid guidelines, and possibly by any other existing tools**.

The case of regulatory frameworks for permitting renewable energy production

The Commission, Member States, and stakeholders have identified **permitting and other administrative barriers** as central bottlenecks for the growth of the EU renewable energy industrial ecosystem. [vii]

Lengthy and complex permitting procedures that delay deployment and investments by many years are a national concern as well as an internal market matter that risks hampering EU competitiveness. They can cause delays in many renewable energy projects and therefore also affect the ability of meeting the EU and national climate and energy targets. Equally, barriers to long-term renewables power purchase agreements in some Member States present a challenge for the relevant authorities.

The relevant permitting provisions of the Renewable Energy Directive have recently been adopted. Member States can benefit from discussions on overarching issues to support efforts at national, regional and local levels. The efforts in question may be process-related (e.g. bureaucracy, transparency, staffing, spatial planning), linked to conflicting public interests (e.g. land-use), linked to third party issues (e.g. public resistance, complaints, lack of political/public interest) or related to the grid (e.g. cost of connection, infrastructure).

A better administrative and business environment will be important to improve the competitiveness aspects of the renewables industry and stimulate a more widespread adoption of renewable energy generation projects. This could involve, for instance, policy action on shortening the length of permitting procedures, reducing the complexity of administrative authorisations, and sharing good practices across administrations and projects.

Questions:

1) *Which are the industrial ecosystems and sectors of most concern for your Member State, from a productivity perspective, within the context of climate transition?*

2) *What are the three most important factors or obstacles, for your Member State, hindering the growth of a competitive green industry? What can the Competitiveness Council do to address these issues?*

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[i] See the Annual Sustainable Growth Survey 2020.

[ii] Around 80% of emissions from industry (as a final energy consumer) relate to direct and indirect energy consumption (supplies of electricity and steam), with 70% of the energy demand used for heating and cooling purposes, whilst the other 20% are process emissions, primarily related to the cement industry - SWD(2021) 622 final

[iii] EIB Investment Report 2020/2021" Building a smart and green Europe in the Covid-19 era"

[iv] SWD (2021) 452 final accompanying the Proposal for a Council Recommendation on ensuring a fair transition towards climate neutrality.

[v] Communication from the European Commission: Renovation Wave for Europe - greening our buildings, creating jobs, improving lives, SWD (2020) 550 final, 14 October 2020.

[vi] SWD (2021) 452 final accompanying the Proposal for a Council Recommendation on ensuring a fair transition towards climate neutrality.

[vii] See for instance the Renewable Energy Industrial ecosystem fiche of the Annual Single Market Report 2021, SWD (2021) 351 final, and the recent reports on "The State of the Energy Union 2021", COM (2021) 950 final and on "Progress on competitiveness of clean energy technologies" COM (2021) 952 final