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Position Paper on the report on the future of European competitiveness (Mario Draghi)

On September 9, 2024, the report on the future of European competitiveness by Mario Draghi, former Italian Prime Minister and former President of the ECB, was published. With the publication of the report just before the start of the new EU legislative cycle, it coincides with a crucial phase in the European Commission's realignment. We assume that it will have a significant influence on the political direction and priority setting in the new term of office. The WKÖ takes this as an opportunity to comment in detail on the statements in the report.

The position paper follows the content structure of the two documents that make up the Draghi Report. Following a general acknowledgement of the competitiveness strategy for Europe (Part A of the Draghi Report), we analyse in detail the specific measures proposed in the report on the sectoral-and horizontal policy areas (Part B of the Draghi Report).

A. General acknowledgement of the competitive strategy for Europe

Since its accession in 1995, Austria has benefited more than almost any other country from the social and economic advantages of membership in the European Union. The new economic dynamism sparked by the single market has brought its small, open economy average growth of +0.7% per year. Greater prosperity through exports, an increase in opportunities and jobs through direct investments, a future-proof economy promoted by a common European research and technology policy, as well as more education and internationality through joint education programs and stronger regions through regional promotion – the Austrian Federal Economic Chamber (WKÖ) has always played a constructive role in shaping and promoting all those achievements of EU membership. **Our comprehension and evaluation of the Draghi report on the future of European competitiveness, which we explicitly endorse and to whose successful implementation we would like to make a constructive contribution with this first statement, is also characterized by this fundamental pro-European orientation.** Furthermore, the WKÖ, as the voice of the Austrian economy, urges all political leaders to assume a constructive role in all measures and reforms that are necessary to enhance Europe's productivity and competitiveness with the goal of maintaining prosperity and wealth in the future.

1. Changing framework conditions for Austria and Europe

The WKÖ shares the report's comments on the structural problems of the European economy and the changing global environment. For Draghi, the weak economic growth since the 2008 financial crisis poses an existential threat to the EU. Since 2000, real disposable income per capita in the EU has only grown half as much as in the US. Around 70 % of the gap in GDP per capita in purchasing power parities compared to the US can be attributed to lower productivity in the EU. If we do not manage to increase productivity but let productivity growth stagnate at the 2015-2023 level, this will just be enough to keep GDP constant until

2050 in view of the shrinking working population. We therefore agree that a productivity-enhancing policy, as recommended in the report, is the right starting point.

The WKÖ also shares Draghi's diagnosis that the fundamentals of the current European growth model are at risk. The reasons for this are numerous and include: the loss of Russia as the most important energy supplier due to the attack on Ukraine in violation of international law; the erosion of the liberal paradigm and the underlying multilateral trade policy resulting from power and geopolitical developments; the rapid pace of technological transition, which Europe has been unable to consistently translate into globally competitive business models in the past; as well as a demographically induced decline in the European population, which poses major challenges to maintaining the economic and social models that exist in Europe today. We therefore also strongly support Draghi's call to all political leaders in Europe to take prompt and targeted action to ensure the EU's continued role as a guarantor of prosperity, justice, freedom, peace and democracy. It is particularly important for the WKÖ to state that a "business as usual" approach to economic policy cannot work in view of the dimensions of the challenges facing the European project today. The recent past has clearly demonstrated that an uncoordinated administration of policy areas such as industrial, trade and financial policy alongside political-ideological trench warfare characterized by populism and fragmentation will inevitably destroy any functional economic policy. The results of which are visible in the numerous legislative overlaps, excessive bureaucracy and the lack of suitable financing instruments for joint projects. With such policy outcomes positive productivity effects for all of the EU are prevented, while frustration and anti-European resentment are fostered. We therefore, strongly share Draghi's call for a **new industrial policy strategy for Europe,** based **on common focus areas** (innovation, competitiveness and security), endeavoring to provide the necessary resources (financing of investments) and ensuring efficient coordination where needed (strengthening of governance).

Draghi's report identifies three central fields of action on which his recommended measures focus:

- <u>Closing the innovation gap with the USA</u>
  The report states that the EU lacks innovation compared to the USA and China. This is particularly true in the area of future technologies. European - and especially Austrian - companies predominantly manufacture technologically mature products. As a result, they invest less in research and innovation (R&I) than US companies, which further widens the innovation gap and reduces the chances of European disruptive innovations. Draghi therefore proposes a **fundamental reform of the innovation cycle in Europe**: from facilitating the commercialization of ideas from science to joint public investment in innovative new technologies and the removal of barriers that impede the growth of innovative companies.

- <u>Thinking decarbonization and competitiveness together</u>

Draghi is addressing a connection that the WKÖ has repeatedly and emphatically made in recent years: Decarbonization can only succeed if it is pursued in harmony with competitiveness. Internationally competitive energy prices are essential for this, as, according to Draghi, companies in the EU currently pay two to three times higher energy prices than in the US. A **sectorally differentiated industrial and trade policy** that supports generally productive companies facing disadvantages by unequal or unfair global competitive conditions, as well as investments in electricity grids, renewable energies, reductions in energy taxes, etc. can support productivity growth.

- <u>Investing in security and reducing dependencies together</u>
  Draghi is of the opinion that Europe must prepare for a world that is becoming increasingly geopolitically unstable without the universal validity of liberal ideas of order, in which dependencies become weak points and one can no longer rely only on the USA for security issues. The EU is particularly vulnerable since it often depends on a limited number of suppliers for important raw materials and heavily relies on imports for digital technologies. Against this background, the report calls on the EU to develop a "**genuine EU foreign economic policy**". In addition to preferential trade agreements with and direct investments in resource-rich countries, the build-up of inventories in selected critical areas and the establishment of industrial partnerships to secure the supply chain for key technologies are proposed. In view of geopolitical developments, Draghi also considers a common financing basis and a common industrial policy for the defense sector to be essential to guarantee Europe's security in the future.

The WKÖ comments on the three areas of action mentioned as follows:

2. Innovation

From the WKÖ's perspective, the report rightly emphasizes the **urgent need to strengthen the EU's innovative capacity** to close the productivity gap with the USA. In view of intense global competition and technological advances in the USA and China, Europe is faced with the challenge of maintaining and expanding its position as an innovation leader. In particular, China's rapid catch-up is something to behold: While the difference in the European Innovation Scoreboard was 50 points in 2000, it fell to just 5 points by 2022. This development highlights the need to significantly intensify innovation efforts in Europe.

Draghi rightly identifies the main driver of the growing productivity gap between the EU and the USA in the area of digital technologies, where Europe is falling further and further behind. It seems fair to suggest that we in Europe may have already "lost" – as the author puts it - some digital sectors, (e.g. cloud computing). It is therefore important **to set the course** now **so that the EU can benefit from future waves of digital innovation**. Due to the high proportion of industry in Austria and Europe, we share the view that the vertical integration of AI into European industry will be a decisive factor in unlocking higher productivity. The WKÖ also believes that the proposed strong focus on qualifications (skills) is essential.
Draghi's comparative analysis of the research and innovation systems of the EU, USA and China highlights well-known differences, such as the different sector composition and the different dynamics of start-ups and scale-ups. It provides a well-founded overview of the various ecosystems and identifies key weaknesses of the EU, including the fragmentation of the internal market, lack of coordination of national RTI policies, bureaucratic hurdles and regulatory complexity, as well as the untapped potential at EU level. **From the WKÖ's perspective, generally, the following weaknesses in the EU research and innovation programs need to be remedied:**

- *Lack of prioritization*: Horizon Europe suffers from resource constraints and fragmentation, making it difficult to achieve a clear focus.
- *Inconvenient access to programs*: The complexity of the funding programs represents an obstacle for potential participants.
- *Complex governance structures*: Insufficient coordination between the EU and national levels (particularly in missions and partnerships) requires simplifications.
- *Measurability of program results*: Success measurement is often only carried out ex-post, which makes it difficult to evaluate and adapt the programs.

3. Decarbonization and competitiveness

Draghi sees the achievement of European goals at risk by growing competition and high energy costs in Europe. As a result of this and due to stricter climate targets in the EU, decarbonization has gradually developed from a promising business area for European companies into an obstacle to competition. He is therefore right to call for a **new, strategic industrial policy focus**. However, for industrial policy strategies to lead to economically desirable results, they must be formulated in a consistent and coherent manner. The **overall strategic approach of the Draghi report is therefore viewed positively**. It aims to create coherent, target-oriented (innovation & productivity) policy designs and provides a plausible selection of industrial policy instruments.

The WKÖ expressly supports the idea of **a better coordinated European industrial strategy.**

- **Financial, trade and competition policy requirements need to be better coordinated.**
- Current analyzes also show very impressively that welfare-increasing effects through industrial policy can best be achieved in the context of large economies, whereas smaller, open economies are less able to do so autonomously.
- National industrial policy solo efforts not only remain ineffective, but also endanger the level playing field in the internal market and can therefore have a negative impact, particularly on smaller member states such as Austria.
- The development of domestic production capacities and the required key infrastructure can therefore be pursued most efficiently as part of a pan-European overall strategy.

The Draghi report calls for such a fundamental strategic realignment of industrial policy in the EU. The use of specific industrial policy instruments should be differentiated by sector and focus on both the economic competitiveness and the strategic autonomy of the EU. He names the following sectors:

The report identifies four types of sectors:

1. **Sectors without comparative advantage:** In areas where the EU has no competitive advantages and production capacities are low, the EU should allow imports. Costly re-shoring measures are not efficient.
2. **High-employment industries:** For sectors with high employment levels such as the automotive industry, which directly employs around 13 million people in the EU, the EU should consider its arsenal of defensive trade measures to maintain a level playing field and competitiveness. At the same time, the EU should be open to direct investments from other countries in these sectors.
3. **Security-relevant sectors:** The EU must maintain its technological sovereignty in strategically important areas such as defense and telecommunications. "Local content subsidies" can be used here, using the WTO exception for national security.
4. **Future industries and high-growth sectors ("infant industries"):** In sectors with high innovation potential, such as green technologies, the EU should consider temporary defensive trade policy measures to protect its own innovations from protectionist measures by other countries.

From the WKÖ's perspective, Draghi's sectoral approach offers an **economic policy-based framework** that makes it possible to formulate an **industrial policy that uses budget resources as efficiently as possible**, **i.e. to increase productivity to a high degree**. It also corresponds to suggestions such as those found in analyses by the IMF and the OECD, among others. To prevent conflict with global competitors, it is important to **credibly formulate a common and active trade policy**. In terms of trade policy, the EU must, on the one hand, be able to develop defensive capacities in order to protect specific sectors. On the other hand, it must also ensure open and strategic trade development with regard to access to new markets, key technologies and important raw materials. All in all, there is a need for an active industrial and trade policy that is capable of preventing the path to deindustrialization that is already emerging. In this context, we explicitly call for the swift conclusion of negotiations, particularly with MERCOSUR, Australia, India, Indonesia, and Thailand.

On the part of the WKÖ, we believe it is important at this point to clearly define in advance how the trade and industrial policy instruments proposed in the report are compatible with the EU's commitment to WTO law. We therefore expressly support the **efforts** proposed in the report to **reform the WTO trade rules**, in particular the restoration of a functioning dispute settlement mechanism and more pragmatic rules for dealing with economic and industrial policy objectives. **Until then**, the existing trade law exemptions in the **areas of national security, health** and the **environment** must continue to be relied upon.

4. Security and dependencies

The EU's common trade policy has in the past contributed to enormous prosperity effects for the EU member states and their partners. A recent analysis by the IMF shows that the EU is more open - measured by the sum of exports and imports of goods and services - than the USA or China, even though their economies are similar in size. While trade openness has declined sharply in China since the mid-2000s and has also declined slightly in the US over the past decade, it has continued to increase in the EU. Overall, the EU is now 30% more open than the USA and 70% more open than China (McKinsey).

In our view, the high relative openness of the European economic area also harbors potential dangers. The EU is at risk both from trade policy attacks (e.g. weaponization of strategic dependencies) and from geo-economic fragmentation, as it has so far maintained "blocneutral" trade relations all over the world. We see Europe falling behind in the current race to secure critical supply chains and resources, as well as autonomous access to critical technologies essential to decarbonizing and digitalizing the economy.

As the report rightly states, greater independence (from critical raw materials and energy) represents a form of "insurance cost" for Europe, which can, however, be mitigated through (European) cooperation. We consider this point to be central to (energy) supply security, as it resolves the paradox between the greatest possible independence and resilience through increased European cooperation. A challenge for Europe will be to find a balance between (energy) supply security and the very high international ESG standards as part of diversification.

In this context, Draghi suggests developing a **genuine EU foreign economic policy** based on **securing critical resources**. From the WKÖ's perspective, this proposal, which is based on the principle of open strategic autonomy, can only be approved. It would be dangerous not to confront the other two large economic areas, which already have an active, security-oriented foreign trade policy (SWP), with our own strategic trade policy.

The WKÖ also supports Draghi's proposal to use the potential of domestic resources through mining, recycling and innovation in the field of alternative materials. There is great potential for Austrian companies, particularly in the area of circular economy. The time horizon must be taken into account. Building a circular economy is a complex and lengthy process that requires the development and application of a variety of technologies and processes. In principle, the existing potential of European resources should be used beyond alternative materials, too.

From the WKÖ's point of view, the **joint financing of military equipment** mentioned in the report should also be supported. Not only could such a coordinated approach avoid multiple financing and system incompatibilities between countries. This would also improve the increasingly important place-based factor "security" in Europe. Which plays just as important a role in the choice of location for companies as it does in recruiting suitable skilled workers from abroad. Joint financing of armaments projects would also strengthen the European defense industry. SMEs in particular are often unable to obtain sufficient financing on the private market, but are crucial for supply chains. Lifting the EIB's restrictions in this area would significantly improve access to financing, as its lending rules often serve as a template for national commercial banks.

5. Financing investments

Implementing the measures proposed in the report requires significant additional investment. Draghi expects annual investment needs of 750 to 800 billion euros by 2030, which corresponds to an increase of 4.4 to 4.7% of EU GDP. The numbers are within the range of previous estimates from well-known organizations and institutes and can therefore be viewed as plausible. They include the investment required to achieve the EU goals in the areas of decarbonization, digitalization and defense.

The exact distribution of the additional investment needs between the public and private sectors is left open in the report, which in our view increases the risk of different interpretations by stakeholders and thus increases the potential for conflict in the political debate. In any case, it is estimated that the **private sector can finance up to 80% of the identified investment gap if the Capital Markets Union is effectively expanded**. This would require public investment of around €160 billion per year, or 0.9% of the EU's GDP, while the private sector would need to increase its annual investment by around €640 billion.

We note that the scale of the financing required for the EU to achieve its goals is enormous. In our analysis, we agree with Draghi's comments that Europe's abundant private savings do not sufficiently translate into productive investments. However, the EU can succeed in meeting these investment needs without overstretching the resources of the European economy. But it is also clear that the private sector will need public support to achieve the goals in the areas of decarbonization, digitalization and defense. Since, in our view, the necessary stimulus for private investment is likely to have a significant impact on public finances, we see the need for increased caution in this policy area.

In our view, a key reason for the insufficient private investment activity in Europe is the fragmented capital markets. The current size of the EU budget and its lack of focus on means to increase innovation and productivity have an economically inhibiting effect, too. There is no question that **completing the Capital Markets Union** represents a central solution here. On a case-by-case basis, however, joint financing of investments at EU level will be necessary to maximize productivity growth and finance other European public goods. Under no circumstances should a common EU industrial policy be based solely on national financial support. Given that the room for manoeuvre in national budgets for state aid and fiscal support varies greatly, a variant designed in this way could endanger the equality and integrity of the internal market (level playing field), disadvantage smaller and poorer member states and inadvertently provoke a subsidy race between the countries. From an industrial policy perspective, there is therefore an inherent need to supplement national resources with new supranational capacities.

For us, it will be essential in this area to create the necessary legal clarity and to specifically **define goods with pan-European added value that justify joint financing**. In addition, it is important to formulate strict conditionalities that link the use of European funds and the sustainable implementation of national budget reduction paths along the new EU catalogue of fiscal rules.

6. Strengthening governance

Draghi rightly concludes that a new industrial policy for Europe will not be successful without parallel changes in the EU's institutional structure and functioning. As already mentioned, successful industrial policies today require strategies that unite investment, taxation, education, access to finance, regulation, trade and foreign policy behind an agreed strategic objective. Europe's main competitors are countries with closed national political systems. Who can act much more efficiently from an economic policy perspective. In the EU, however, there are numerous structures and processes that make the development of a stringent industrial strategy slow and cumbersome.

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From Draghi's perspective, strengthening the EU also requires **treaty changes**. But this does not have to be a prerequisite for moving Europe forward: **a lot can be achieved with targeted adjustments**.

- On the part of the WKÖ, we see both a significant need for action and the greatest prospects of success, in the areas of **accelerated procedures** and simplified rules.
- In addition to a comprehensive **EU bureaucracy reduction strategy with a concrete implementation plan** and clear commitment from all decision-makers, we stand for a systematic and improved application of competitiveness checks and SME tests as well as a reduction in the administrative overload of funding.
- The **stricter application of the principle of subsidiarity** and the consideration of a general principle of "self-restraint" at the EU level, as proposed by Draghi, are also in the express interest of the WKÖ. Greater consideration of the principle of proportionality could also avoid over-regulation.

B. Position on the detailed analysis and policy recommendations

Sectoral policy areas

1. Energy

Draghi's diagnosis that the EU suffers from a significant competitive disadvantage in energy prices compared to its trading partners, and that prices also vary greatly between member states, is correct from the WKÖ's point of view. Price volatility is also a key factor that weighs on energy-intensive industries and the entire economy. Currently, gas retail and wholesale prices in the EU are three to five times higher than in the US, whereas historically they have been two to three times higher. Retail electricity prices – especially for industry – are currently two to three times higher than in the USA and China. Historically, electricity prices in the EU have been up to 80% higher than those in the US, while remaining at levels similar to those in China.

The WKÖ assesses the implications for action contained in the report as follows:

<u>Increased measures to reduce energy prices to US levels:</u>
It is welcomed that increased and focused measures are to be taken to reduce energy prices towards US levels. Around half of European companies see energy costs as a major obstacle to investment.

<u>Decoupling the prices of green energies and natural gas:</u>
It is considered reasonable to decouple the pricing of renewable energies from the price of gas so that consumers can benefit from falling prices for green energy.

<u>Drive decarbonization cost-efficiently and technology-open:</u>

All available CO_2-neutral technologies should be used through a technology-open approach. A collective EU focus on grid expansion is a central element of decarbonization and enables the efficient integration of renewable energies.

State default guarantees for long-term power purchase agreements (PPAs):
The introduction of state guarantees for PPAs of industrial users is regarded as a key way out of the interdependence of electricity prices and gas price ("merit order effect") and would make it easier for SMEs in particular to access long-term electricity supply contracts.

Lower and level the energy taxation playing field and the strategic use of taxation measures to reduce the cost of energy:
Energy taxation in the EU is high by international standards and varies greatly between member states. Reducing energy taxes would reduce costs for companies and increase their competitiveness. We expressly support the introduction of tax depreciation models that promote investments in clean energies, e.g. through tax relief for investments in sustainable technologies and the expansion of funding programs to support investments and research in the field of clean energies.

Review of the Carbon Border Adjustment Mechanism (CBAM):
Necessary simplifications, such as the use of default values, should be implemented. The impact on exports needs to be checked. If CBAM does not prove to be effective, the phasing out of free allowances in the EU emissions trading system (ETS 1) should be reconsidered.

Linking decarbonization and competitiveness:
Dependencies on individual producers/suppliers must be reduced. In order to achieve diversification of all (fossil and climate-neutral) energy sources, a coherent approach in all EU policy areas is essential. Above all, the right balance must be found between economic aspects and the promotion of ESG criteria to avoid the loss of essential energy sources. Trade policy can play a crucial role in combining decarbonization with competitiveness, securing supply chains and opening up new markets. In any case, this also requires accompanying measures in other EU policy areas (environmental policy, energy policy, etc.).

Developing governance for a real Energy Union:
The internal energy market must be deepened in a way that helps member states secure their location. In order for it to be truly effective, the conditions for the use of Member States' energy resources, their choice between different energy sources and the general structure of their energy supply must be optimized.

2. Critical raw materials

Critical raw materials are crucial to accelerate the necessary transformation of the EU economy. Secure access to them is essential for the economic resilience and strategic autonomy of the European Union. Given the simultaneity of rapid growth in demand and growing geopolitical instability, competition for scarce resources is becoming increasingly intense. From the WKÖ's point of view, consistent measures must be taken to reduce dependence on external suppliers as much as possible and to ensure security of supply, despite limited diversification options in terms of supply sources.

The WKÖ takes the following position on Draghi's proposed measures:

Implementation of the Critical Raw Materials Act (CRMA):
The rapid implementation of the CRMA is strongly welcomed. It must be ensured that it is carried out according to uniform criteria in all EU member states to avoid distortions of competition in the internal market. Care must be taken to ensure that the CRMA measures do not lead to an aggravation of the tense competitive situation, but rather strengthen the competitiveness of European industry. The aim should be to strengthen domestic production, processing and recycling in the EU along the entire value chain. This will make the supply of the European economy more resilient to geopolitical risks. The Critical Raw Materials Act is, as the report rightly states, an important first step, but one that must be followed by others.

Further development of raw materials diplomacy to secure supply chains and diversification:
We support the proposed action to use free trade agreements and the Team Europe approach to strengthen the EU's negotiating position and secure access to critical raw materials. From our point of view, it is important that the principle of equal treatment is strictly adhered to. In our view, sustainability obligations should be agreed upon by mutual agreement and not anchored in EU free trade agreements under threat of sanctions. We believe that Europe's prosperity can be secured through clever cooperation in our mutual interests, thus avoiding potential trade conflicts.

Promoting the circular economy and creating a single market for recycling:
We support the recommendation to expand the “Green List” within the EU to facilitate notification and security procedures for waste flows between Member States. In addition, an internal market for quality-tested secondary raw materials (including waste) should be created so that recycled materials/secondary raw materials can easily find their way from producer to user. This promotes the circular economy, in which Austrian companies play a pioneering role, and improves the supply of secondary raw materials.

Securing customs exemptions for necessary imports:
It is essential to maintain the possibility of duty exemption for raw materials, semi-finished goods and components which are not or not sufficiently available in the EU. This instrument is of great importance for the competitiveness of the industry. The planned revision of the corresponding communication by the European Commission must be carried out in close coordination with European companies and business representatives in order to develop practical solutions.

Taking into account the new geopolitical situation:
Access to resources is a crucial factor in companies' investment decisions. Uncertainty about the future availability of certain raw materials can slow down innovation projects. It is therefore important to take targeted measures to avoid uncertainty. The recommended actions towards strengthening European production, further processing and recycling in the EU, circular economy, diversification of supply chains and strategic European raw material stocks are viewed positively by the WKÖ from an innovation perspective. The latter should

be used in close consultation with the sectors concerned where absolutely necessary for reasons of resilience and efficiency.

3. Digitalization and advanced technologies

The WKÖ shares Draghi's analysis that the EU's competitiveness increasingly depends on the digitalization of all sectors and building strengths in advanced technologies that create investments, jobs and prosperity. Together with the use of AI, it is also crucial for the ability of public administrations to efficiently deliver public goods. In addition, digitalization and advanced technologies contribute to Europe's open strategic autonomy and make an important contribution to the decarbonization of the economy.

However, we must also recognize that the EU is currently heavily dependent on third countries, particularly the US and China, in key areas such as AI, high-performance computing (HPC) and semiconductors. Currently, around 92% of the data produced in the Western world is stored in the USA and only 4% in Europe. In addition, only 4 of the 50 largest digital platforms come from the EU. There is a significant dependency on US providers, which affects the EU's digital sovereignty. Regulatory challenges posed by the GDPR and the AI Act also pose the risk of inhibiting innovation.

In this context, the Draghi report provides recommendations, which the WKÖ evaluates as follows:

<u>More investment in digital infrastructure</u>:
We see the need for urgent expansion of high-speed broadband networks, cloud computing capabilities and secure data platforms. They form an essential basis for the development of advanced technologies and their application.

<u>Improving digital skills</u>:
From the WKÖ's perspective, significant efforts are needed to increase the digital skills of the European workforce. Digital skills are becoming increasingly crucial for productivity and innovation.

<u>Strengthening the position in industrial AI applications</u>:
We stand for a focus on advancing AI in key industries such as manufacturing and telecommunications. This requires increased computing capacity and greater control over data encryption and security within the EU.

<u>Increasing computing capacity in the EU</u>:
From the WKÖ's perspective, the HPC infrastructure needs to be expanded, particularly through the EuroHPC upgrade program, in order to provide the necessary computing power for training and fine-tuning AI models. The continuation and expansion of the EuroHPC program will help the EU achieve technological sovereignty in the field of digital technologies.

<u>Focusing on AI use in key industries</u>:

We explicitly advocate prioritizing sectors in which Europe has strategic advantages in order to specifically expand its economic strength.

Development of European data ecosystems:
The WKÖ advocates the further development of initiatives such as GAIA-X to create European standards for data ecosystems and to strengthen European cloud providers.

Promoting fair competition conditions:
We stand for the implementation and strengthening of the Digital Markets Act and the Digital Services Act at national level to create a level playing field and support SMEs in particular.

Harmonization of AI real-world laboratories and GDPR implementation:
In our view, it is necessary to set up harmonized AI real-world laboratories (sandboxes) and a coherent implementation of the GDPR to eliminate regulatory overlaps and enable innovations.

4. Energy-intensive industry

The WKÖ expressly shares Draghi's problem analysis, according to which energy-intensive industries are an essential part of the European economy and play a crucial role in reducing the EU's strategic dependencies. They contribute significantly to European added value, employment and innovation, both directly and indirectly through downstream activities. Developments in energy costs and the need for industrial decarbonization have greatly influenced the competitiveness of energy-intensive industries. They are now under increasing competitive pressure, mainly due to increased energy costs and decarbonization requirements, which are higher in Europe than those of international competitors. De-industrialization in the EU has already begun in some sectors and could accelerate without targeted policy measures.

From the WKÖ's point of view, the following proposed measures contained in the report should be supported:

Increasing coordination across different policy areas:
We believe that greater coordination of policies in the areas of energy, climate, environment, trade, circular economy and growth makes sense. It is important to ensure that measures to accelerate decarbonization do not contradict competitiveness. In particular, measures that support both goals, such as simplifying approval procedures (see also Net Zero Industry Act, NZIA), require coordinated and rapid implementation by the public sector. Like the Critical Raw Materials Act (CRMA), the NZIA cannot overrule other regulations. In order to truly ensure accelerated procedures, contradictory and anti-competitive regulations must be eliminated in all relevant areas.

Ensuring competitive access to energy sources:
It is a high priority to ensure competitive access to natural gas as a bridge technology as well as to sufficient and competitively priced green electricity and hydrogen sources during the transformation phase. Barriers in the internal market, such as the German gas storage levy,

must be reduced. This is particularly important for landlocked countries like Austria, which rely on cooperation with EU countries with access to the sea to obtain gas from non-Russian sources and hydrogen.

Simplifying approval procedures and reducing regulatory burdens:
Simplifying and speeding up approval processes as well as reducing compliance costs, bureaucracy and regulatory burdens are of utmost importance to increase Europe's competitiveness. Long process durations delay infrastructure projects and decarbonization measures and tie up valuable resources.

Improving financing conditions for decarbonization investments:
While financing constraints are not currently the primary factor contributing to delays in decarbonisation investments, the provision of financial guarantees has the potential to reduce financing costs and stimulate investment. The further development of such financing solutions is therefore supported.

Effective use of ETS earnings:
Any prospective earmarking of ETS revenue must be structured in a way that ensures the funds are used to support the decarbonisation efforts of the companies bearing the burden.

Support of appropriate financial instruments:
Carbon Contracts for Difference (CCfD) can help create a level playing field during decarbonization and are therefore advocated. In addition to direct subsidies, alternative methods to ensure the competitiveness of EII’s should also be examined.

Monitoring and improving the CBAM:
It is a high priority to monitor and, if necessary, improve CBAM during the transition period. In our view, a regulation for exports to third countries without a CO2 price, an increase in the exemption limit of 150 euros and the permanent applicability of the standard values are to be supported.

Driving demand for green products through transparency and standards in public procurement:
The introduction of standardized low-carbon criteria for public procurement can stimulate demand for green products through signaling effects and market incentives. Green procurement can be an important lever for building up own industrial capacities and at the same time meeting environmental and climate goals. In this context, it remains important to keep an eye on the potential bureaucratic burden for companies.

Promoting the circular economy:
The WKÖ welcomes the creation of an internal market for the circular economy as it enables significant increases in efficiency. The proposal to increase the recycling rate should be supported on a voluntary basis. However, the idea runs the risk of placing additional burden on companies if it is a mandatory requirement. In order to avoid this, subsidies and support from the public sector are required for companies, since - as explained in the report - primary material is often cheaper than recycled material. It is also important to weigh up the extent to which the additional bureaucratic effort justifies the benefits.

Promoting green regional industrial clusters:
The development of green regional industrial clusters near energy-intensive industries can have positive effects. The use of public funds should be assessed based on the availability of alternative financing instruments that are suitable for setting up such clusters. It is important to consider the needs of energy-intensive industries, such as energy infrastructure and local green energy production.

Making EU chemicals policy feasible for SMEs:
The WKÖ shares the results of the report on EU chemicals policy and legislation (see in particular Part B, p. 129). We have been offering companies, including many SMEs, concrete support in implementing these legal matters for years. The obligations, for example from the REACH regulation are highly complex and resource-intensive, which also overburdens the authorities and lengthens approval procedures. Although PFAS are specifically mentioned in the report, we would like to emphasize that this is not the only example of inappropriate chemical regulation.

5. Green technologies

In many important future technologies (e.g. quantum and cloud computing, development of artificial intelligence, e-mobility), European industry is not among the world leaders and is only participating to a limited extent in the rapid market growth. However, the EU has achieved a leading position in the area of clean tech. Austrian companies are particularly successful here, especially in the areas of hydropower, biomass, solar thermal energy, ecological building and water and waste management. The climate and environmental goals that governments around the world have set as political guidelines require a massive expansion of clean tech and therefore represent enormous growth potential for domestic companies.

However, the business opportunities of European companies are being jeopardized to an unprecedented extent by China's highly subsidized industrial capacity building in this sector. There are currently no signs that the Chinese overcapacities induced by industrial policy will be reduced in the foreseeable future. In addition, other large economic areas (North America, Latin America) partly react to Chinese green tech exports with prohibitive tariffs, which will lead to massive trade diversion effects to Europe if EU policymakers fail to respond.

From the WKÖ's point of view, it is crucial - and Draghi's proposals in this regard are principally positive - that green technologies, in which European companies still have comparative advantages and whose prospects of success are promising, are offered an appropriate financing environment.

We therefore comment on the proposals in the report as follows:

Targeted investments and government support:

Investments in research and development, particularly in areas such as batteries and renewable energy, are crucial to strengthen the EU's competitiveness and reduce dependence on third countries.

Driving disruptive technological breakthroughs:
An increased focus on promoting disruptive innovations and further developing the European Innovation Council (EIC) is necessary. This corresponds to the WKÖ's position on the next EU framework program for research and innovation (FP10).

Better coordination at EU level:
Closer collaboration between EU institutions, industry and research institutions, including the use of IPCEIs, is essential. This also aligns with the WKÖ's FP10 position.

R&D has an essential role in decarbonization:
New technologies could contribute at least a third of the C02 reductions required to achieve climate neutrality by 2050. Research and innovation are therefore central to decarbonization efforts.

Problems in commercializing innovations:
Despite strong innovation performance, Europe struggles to successfully commercialize and scale innovations. From the WKÖ's point of view, measures to facilitate market entry and a closer link between research and industrial policy are necessary.

Dependence on critical raw materials and recycling:
The supply of necessary raw materials and effective recycling strategies are crucial to making the production of green technologies sustainable.

Defining clean tech as a strategic priority in the next EU research framework program:
Setting Clean Tech as a strategic priority in FP10 must not come at the expense of other strategically important subject areas. The aim should be to ensure a balanced and comprehensive research and innovation strategy.

6. Automotive

The current weakness of the European automotive industry poses a risk that, due to short-term business management considerations, there will be abrupt relocation of production from Austria and the EU to economic areas that are attractive in terms of funding policy, such as the USA, or a rapid takeover of plants and companies in the EU by foreign (subsidized) companies.

To ensure that there is no sell-off in this particularly important industrial segment in the EU, the WKÖ strongly advocates a well-tailored, place-based automotive industry for Europe. Here too, in the spirit of a fiscally responsible industrial policy, Draghi's sector-specific approach should be pursued, which assesses the future market opportunities of companies (taking stock of market and technological developments) to avoid subsidies for mere conservation.

The WKÖ comments on the individual measures as follows:

Continuation of a technology-neutral approach to the review of the Fit for 55 package:
It is strongly welcomed that the review of the Fit for 55 package should adopt a technology-neutral approach and consult stakeholders. As part of this review, the planned review of the CO2 fleet targets for passenger cars in 2026 is an important further step, but comes too late and should take place earlier. The ordinary legislative procedure should be launched in parallel. Serious consideration needs to be given to the critical preconditions and factors that make the implementation of the CO2 fleet targets and the decarbonisation of this sector possible in the first place (e.g. development of the charging infrastructure, market share of electric vehicles, green hydrogen infrastructure and its use in vehicles). New, realistic CO2 fleet targets should then be set on the basis of these findings. This is an essential measure as it promotes innovation and enables flexible solutions for decarbonization.

Overcoming skills gaps and addressing retraining needs:
Joint educational initiatives by the affected Member States and regions to exchange good practice, pool skills and increase the transparency of qualifications appear to be an important step in view of the challenges of transformation.

Development of a comprehensive EU strategy for industrial production:
As the report rightly states, Europe lacks a targeted and forward-looking industrial strategy for the automotive sector, which particularly addresses the question on how to deal with trade-distorting industrial policy programs in other economic areas. Due to the convergence of different value chains (e-vehicles, digitalization and circular economy), a comprehensive approach is required that covers all stages from R&D to the extraction and supply of raw materials, refining, components, data exchange, manufacturing and recycling. European state aid law must also be considered, in order to avoid relocating production facilities within Europe.

Expansion of the charging and refueling infrastructure for all vehicles:
Sales of vehicles with alternative drives are currently stagnating. However, by 2030, around 50 percent of sold vehicles should be powered by low-CO2 emissions. The development of charging and refueling infrastructures for all vehicles is considered a key measure to encourage customers to switch to low-CO2 products. Without sufficient infrastructure, the demand for vehicles with alternative drives cannot be guaranteed.

7. Defense

From the perspective of the WKÖ, particular importance must be attached to protecting external security by ensuring the necessary defense capacities in view of the new geopolitical and power-political realities in Europe's immediate neighbourhood. For a long time, security was a location factor that was considered guaranteed by all sides and was therefore traditionally neglected. With the Russian war of aggression against Ukraine, Europe was taught otherwise. On the part of the economy, it is therefore important to reassess defense not only as a branch of the economy, but above all as a fundamental basis for stable economic and social conditions.

We therefore endorse Draghi's remarks, which present the EU's defense sector as crucial to ensuring Europe's strategic autonomy in the light of increasing external security threats, and at the same time drive innovation throughout the economy through spillover effects. Since the Defense sector is also a significant driver of innovation across the wider economy. In certain areas, the European defense industry remains competitive at global level, but suffers from a combination of structural weaknesses. Public defense spending by EU member states is inadequate in the current geopolitical situation. Currently, EU defense spending is about a third of that of the US, while spending in China is rising rapidly. In addition to public funds, access to private financing remains a key challenge. While the European Investment Bank (EIB) uses financial instruments to address existing market failures, it largely excludes support for the defense industry, sending negative signals to the broader financial sector. Despite several initiatives, Member States have so far been unable or unwilling to carry out some consolidation and integration of the European defense industry. Europe must find a better balance between economies of scale (and the risk of monopoly formation) and competition (greater range of offers) in order to minimize the additional financial costs for individual countries, maintain a broad business landscape and at the same time increase the level of security in Europe as a whole.

Below we take a position on the corresponding measures:

<u>European Defense Industrial Strategy (EDIS) and European Defense Industrial Program (EDIP):</u>
Both initiatives are expressly welcomed.

<u>Promote the pooling of demand for defense goods by Member States and the standardization and harmonization of defense equipment</u>:
Increasing the share of joint defense spending and procurement to close critical capability gaps would have a positive impact on the consolidation of industrial capabilities. The approach would further promote gradual industrial specialization within the EU through EU-wide or transnational agreements, particularly in areas requiring very large investments in infrastructure and technology. More systematic standardization (in line with NATO standards), harmonization of requirements, common certifications and mutual recognition policies would help achieve interoperability and even interchangeability. This would make a significant contribution to reducing budgetary burdens while simultaneously increasing defense capacities.

<u>Development of an EU defense industrial policy</u>:
In our view, an independent industrial policy with a focus on the defense industry seems to be effective. However, it needs to be formulated in addition to the civil industrial policy and provided with appropriate resources. This is expected to lead to an increase in economies of scale and a specialization of industrial locations. An integrated internal market for defense products creates additional efficiency gains.

<u>EU-wide financial resources for the expansion of the European defense industry</u>:
The peace dividend Europe reaped after the end of the Cold War has shrunk defense spending in most EU member states to levels that can no longer guarantee security in view of current security threats. As national defence go-it-alone approaches are expensive and highly

inefficient across Europe, other means of financing are needed. To this end, financial resources could be mobilized and jointly invested on the financial markets. These funds would be used to implement the proposed medium to long-term EU defense industrial policy and the EDIP. In particular, they would be used for new joint defense R&D programs under the European Defense Fund (EDF), for the joint development and procurement of critical and strategic capabilities in the EU, and for incentive mechanisms that support the further integration, consolidation and technological innovation of the European defense industry.

Competition law meets defense policy requirements:
Consolidation of the EU defense industry must be possible where economies of scale are needed. Innovation potential, security, resilience and the need for coordination and joint implementation must be brought into line with EU competition policy.

8. Space

From the WKÖ's perspective, space research and industry are of crucial importance for European competitiveness and have produced numerous radical and disruptive innovations in the past. Given the current challenges, it is necessary to make ambitious investments to strengthen Europe's weakened competitiveness in this area.

The WKÖ expressly requests to be involved in space issues in the future, in particular due to the WKÖ's representation on the FFG Advisory Board for Aerospace and the strong interlinkage of space and defense.
In addition, the WKÖ comments on the following recommendations of the report:

Expanding cooperation and synergies between space and defense:
We welcome and support the expansion of cooperation and synergies between the space and defense industries. The close connection between these areas can lead to technological advances and greater strategic autonomy for Europe.

Promoting the Single Market for Space through a common EU legal framework:
The development of a single market for space is in the interests of our export-oriented domestic SMEs in the new-space sector. Access to a larger European market would encourage innovation by increasing returns.

Reform of Geographical Return at ESA:
A reform of the Geographical Return at the European Space Agency (ESA) could spark innovation by giving preference to the best projects regardless of national contributions. This would increase efficiency and support excellent projects.

Improving access to finance for SMEs, start-ups and scale-ups in the space sector:
Access to financing is an important prerequisite for scaling innovative SMEs. Financing instruments should be adapted to make it easier for these companies to access capital.

Shared strategic priorities and pooling of resources:

Setting common strategic priorities and pooling resources at European level can lead to significant improvements in efficiency. This promotes cooperation and the development of key technologies in the space sector.

Access to the international space market:
Access to the international space market should be made easier. Similar to the Single Market for Space, access to a larger global market could spark innovation as companies benefit from expanded sales opportunities.

9. Pharma

From the WKÖ's point of view, the pharmaceutical sector is of great importance. The global pharmaceutical sector is the fourth largest market in the world in terms of net sales and the third largest in terms of total profits. With a share of 5% of the value added of all industrial manufacturing and almost 11% of EU exports, it makes a significant contribution to the EU economy. In addition, the pharmaceutical sector is of geopolitical importance, as the COVID-19 pandemic has shown. The ability to quickly develop, produce and administer vaccines has been crucial to the economic recovery not only of the EU but of the whole world.

The proposals in the Draghi report are largely welcomed by the WKÖ. The report sets out measures to improve Europe's competitiveness and highlights the crucial role of industry in achieving this goal. It recognizes the major challenges facing the European pharmaceutical industry vis-à-vis global competitors, particularly the USA and China.

The following detailed assessment of the recommended actions can be made:

Strengthening R&D:
Targeted measures in the field of research and development can make Europe a more attractive place to do business and attract investment. All measures that promote R&D in the medium and long term are to be welcomed.

Mobilizing private R&D investments in the EU and strengthening the supportive environment:
In order to keep up with other research regions, both public and private investments are required. Increased incentives should be created to enable these investments. A stable and reliable regulatory framework is important to maintain Europe's leading role, too. The framework conditions for R&D must be adapted and improved in international comparison.

Support for the European Health Data Space (EHDS) and in vitro diagnostics (IV):
The national bodies for access to health data play an essential role for the smooth functioning and implementation of the EHDS. In addition, the WKÖ considers the clarification and coordination of possible opt-out mechanisms of the member states to be a decisive factor for the success of the EHDS.

Accelerated market access through coordinated actions by drug authorities, HTA authorities and public payers:
The plan to accelerate market access through more efficient processes and greater cooperation between players is welcomed. Uniform access to medicines is desirable.

However, it must be noted that pricing and reimbursement are heavily influenced by national rules. This should be taken into account during implementation and relevant stakeholders should be involved. It is essential to avoid potential new obstacles so as not to delay access for patients.

Integration of current discussions and adjustment of incentive systems:
The measures proposed in the report address issues currently being discussed as part of the pharmaceutical package, such as intellectual property protection, incentive systems and approval procedures. The findings of the report should feed into the implementation of these legal acts. The incentive system proposals should be examined in detail and adjusted with the aim of ensuring stability and creating additional incentives for innovation.

10. Transport

Efficient transport networks and services and a strong transport industry are crucial for the competitiveness of the EU economy. Transport systems enable access to goods, services and resources, thereby promoting economic development and territorial and social cohesion. In the EU, transport is considered a "service of general interest" whose role in promoting social and territorial cohesion is recognized in the Treaties.

The transport sector is also a priority area for the EU's decarbonization goals. Transport accounts for a quarter of all greenhouse gas emissions, with some segments considered particularly difficult to reduce.

The WKÖ comments on the individual measures as follows:

Development of a comprehensive EU strategy for emissions-neutral transport:
We believe that a strategy for cross-border and modal integration as well as emission-neutral transport makes sense to promote the decarbonization of the transport sector. Particular emphasis should be placed on ensuring that the strategy is technology-open, i.e. that all available energy sources may be used.

Expansion of the charging and refueling infrastructure for light and heavy commercial vehicles:
The construction of charging and refueling facilities for commercial vehicles is seen as a priority measure. Without sufficient infrastructure, a higher proportion of commercial vehicles with alternative drives cannot be achieved. This is crucial for reducing emissions in the European transport sector. Strengthening the financing of charging and refueling infrastructure, especially for heavy goods vehicles, is a priority measure. This enables operators to switch to alternative drives and contributes to achieving climate goals.

Support investments to reduce emissions in aviation, shipping and heavy goods vehicles:
In our view, it is positive that investments to reduce emissions in these areas should be supported through targeted incentives. This encourages the adoption of new technologies and accelerates decarbonization.

Developing risk mitigation programs for investments in sustainable fuels and alternative propulsion systems:
In addition to supporting sustainable fuel producers, it is emphasized that fleet operators should also benefit from risk reduction programs. This reduces financial and operational risks when using new technologies and promotes faster decarbonization. Special tenders within the framework of the innovation fund, for example for emission-free synthetic aviation fuels, are seen as an important measure. This supports innovation and accelerates the market entry of new technologies.

Strengthening the financing of infrastructure projects by combining EU grants and national investments:
The combination of EU subsidies with investments from national development banks, particularly in the area of alternative fuel infrastructure, is highlighted as an important measure. This increases financial resources and enables the implementation of large infrastructure projects.

Horizontal policy areas

1. Accelerate innovation

Beyond the general acknowledgement of the strategic field of action in innovation (see section A 2), the WKÖ takes the following position with regard to the measures proposed by Draghi to accelerate innovation:

Establishment of an agency similar to ARPA:
The European Innovation Council (EIC) should be used more to promote disruptive innovations. To promote research and technology initiatives with disruptive potential, the EIC should be developed into an agency along the lines of the US ARPA.

Strengthening the venture capital market:
The development of a comprehensive capital markets union is necessary to facilitate access to venture capital and overcome market fragmentation. Its realization improves the chances of achieving the scale needed to be able to compete globally.

Creating a simpler and more effective 10th EU Research Framework Program (FP10):
The seven key objectives formulated in the report are in line with the recommendations of the WKÖ (FP10 position paper) and should shape the direction of the EU's RTI policy. These include the promotion of excellence, openness and inclusivity. A budget of 200 billion euros is supported. There is a need to cut red tape and streamline EU partnerships, and to focus more on transformation, with an emphasis on excellent basic research and disruptive innovations.

Increase in the ERC budget:
An increase in the ERC budget would make sense, but should not be at the expense of other programs. An EU program to strengthen excellence in research institutions could be helpful,

but must be carefully designed. Excellence should be promoted without creating too much inequality between institutions.

Creation of the position of “EU Chair” for top researchers:
The introduction of a special model for Research Chairs poses challenges, particularly with regard to staffing and potential conflicts in the research institutions. It should be examined whether simpler contract models would be more practicable.

Expansion of European research infrastructures:
European research and technology infrastructures have clear added value. Investments in large, cost-intensive projects should be coordinated at EU level. This would allow synergies to be better exploited and resources to be used more efficiently.

Reform of the ERA-Governance:
The coordination of the research and innovation union must be improved to ensure more effective coordination of policies.

Promoting public procurement as a driver of innovation:
We share the view that public procurement is a largely unused lever to promote innovation. This should be used strategically to promote innovation, especially within the framework of mission-oriented policy approaches.

Voluntary access to data from private owners:
The use of privately held data from various economic sectors enables an increase in efficiency in the production of official statistics and a reduction in the reporting burden on companies. However, access to such data should be voluntary and negotiated so that companies' private autonomy continues to be respected.

Potential of AI in official statistics:
Large existing amounts of data provide ideal conditions for the use of AI and machine learning, leading to increased efficiency, improved methods and standardization. However, the associated risk of loss of transparency or other ethical problem areas must also be taken into account.

Research and innovation as a European public good:
In order to finance European public goods in the area of research and innovation, a larger EU budget will be necessary. All financing options should be carefully examined. Investments that are (partly) financed with common EU debt should only be undertaken in line with sustainable fiscal policy.

2. Closing the skills gap

The WKÖ generally supports the analysis of the report on closing the skills gap and the associated challenges. However, we are rather critical of some of the proposed conclusions and measures, particularly with regard to the diversity of educational systems and traditions within the EU:

Harmonization at EU level:
The EU member states exhibit a wide range of conditions and traditions in the education sector, such as Austria with its strong vocational training system. Harmonization at European level must take these differences into account and must not lead to a levelling down. It is recommended to maintain the focus on "soft" policies at EU level that are more responsive to the national circumstances of education systems, rather than seeking centralized harmonization. Stricter conditionality in the area of EU funds, in particular the ESF+, can encourage Member States to reform or to make educational areas such as vocational training and lifelong learning more attractive, even without direct legal intervention. Successful models such as the "implacement" foundations and impulse qualification associations in Austria, which enable needs-based qualification, should be supported and recognized as best practices.

Revision of vocational training curricula:
The regular updating of curricula with the involvement of the social partners, as practiced in Austria, should also be extended to other Member States in order to meet changing requirements.

Strengthening higher vocational education:
The explicit establishment of higher vocational education as an equivalent educational path alongside academic education could contribute to the attractiveness of vocational education.

Promoting adult education:
The strengthening of adult education is welcomed, but should be based on national needs and institutional circumstances, without central requirements at EU level.

Monitoring and coordination of investments:
Investments from EU funds in education should be better monitored and coordinated to identify best practices, avoid duplication and ensure the quality of education providers.

Identification of critical sectors:
There should be a targeted identification of strategic sectors with a shortage of skilled workers, followed by support programs for retraining and further training.

Promoting the immigration of qualified specialists:
Facilitated immigration of highly qualified third-country nationals in sectors with labor shortages is expressly welcomed. However, we note that existing instruments such as the Blue Card may not be sufficiently effective and should be improved.

Consideration of care obligations:
In addition to childcare, care for older or disabled relatives and their influence on labor market participation must also be taken into account.

Increasing labor force participation:

EU member states should review their social and pension systems to see whether they provide incentives to stay part-time or leave the workforce early. In view of the demographic developments in Europe, the corresponding need for reform must be addressed quickly.

Avoiding migration from structurally weak regions:
While labor mobility within the EU should be promoted, this must not lead to the neglect or further weakening of structurally weak regions.

Use of expertise from social partners and companies:
We welcome the report's call to make greater use of the high level of expertise of companies and social partners in vocational training and in determining the need for skilled workers.

3. Sustainable safeguarding of investment activity

The report assumes annual investment needs of 750 to 800 billion euros by 2030, equivalent to an increase of 4.4 to 4.7% of EU GDP. This includes the investment required to achieve the EU goals in the areas of decarbonization, digitalization and defense. The exact distribution of the additional investment needs between the public and private sectors is left open in the report.

In addition to the general statement on "financing investments" (see Section A 5), we comment as follows:

Deepening the Capital Markets Union:
From the WKÖ's point of view, proposals for measures worth supporting to deepen the Capital Markets Union include a review of the banking supervisory regulations - also with regard to Basel IV - in order to ensure a strong and internationally competitive banking system in the EU, a promotion of the securitization market by easing the existing regulations and a reduction in the implementation effort in the area of sustainability reporting (especially CSRD). In addition, just like the report, we are in favor of harmonizing national insolvency rules, as this would provide greater legal certainty for investors.

Investment-promoting tax measures:
We generally support all investment-promoting tax measures such as investment allowances, the reduction of corporate tax and the reintroduction of tax advantages for pension contributions. This would also promote the development of the second and third pillars of pension provision.

Reform of the EU budget:
The reform of the EU budget should aim to utilise existing funds more efficiently and focus on strategic projects. A structural reallocation of EU spending towards areas with greater EU added value is an important step. In doing so, it is important to avoid additional burdens for companies. The establishment of a "Competitiveness Pillar" in the next EU budget needs to be discussed. Crucial is, however, that the focus is on improving competitiveness.

Joint bonds:

With regard to a joint issue of EU bonds, legal clarity must first be created in principle, as concerns are regularly expressed about the legality of such a measure, particularly with regard to Article 125 TFEU (the Union and member states are not liable for the liabilities of another member state). In addition, it is always important to fully utilize existing funds before considering new debts. In our view, joint borrowing based on the Next Generation EU model should only be carried out in exceptional and targeted ways. For example, to finance joint infrastructure or technology projects (e.g. IPCEIs), joint bonds based on the NextGenEU model could be considered as a sensible and practical option. However, we are opposed to joint borrowing without a clear earmark.

For stability policy reasons, it is important to us to emphasize the topic of conditionality. In our view, a member state allocation of jointly financed European funds can only take place if the member state meets its obligations resulting from the EU fiscal regulations.

<u>Corporate taxation</u>:
In the area of corporate taxation, national tax sovereignty must be respected. Proposals to harmonize corporate taxation, such as BEFIT, must be examined critically. The principle of subsidiarity and national tax sovereignty must be preserved.

<u>European Investment Bank (EIB)</u>:
The European Investment Bank (EIB) plays an important role in providing capital for innovation projects. Considerations that enable greater risk-taking by the EIB are interesting and could help to close the financing gap for European investments in the future.

<u>Investment framework for SMEs</u>:
We recognize the importance of investing in strategic sectors such as digital technologies, renewable energy and health. Creating a dedicated financing framework for SMEs could improve their access to capital and promote innovation. Support for SMEs is particularly crucial to ensuring Europe's long-term competitiveness.

<u>Removal of tax obstacles:</u>
Easily manageable taxes on capital gains and properly implemented tax incentives represent a major lever for the Capital Markets Union. We therefore generally welcome efforts that lead to greater harmonization or synchronization of national systems.

<u>Strengthening the second and third pillars of the pension system:</u>
We welcome the measures to strengthen pension schemes in addition to the first pillar and their availability for employees. We regard the establishment of transparent and simple pension dashboards as particularly positive, which could increase awareness of the need for comprehensive pension schemes. Experience from countries with particularly developed capital markets (USA, UK, NL, SE, DK) shows that the expansion of company and inter-company pension schemes is one of the central keys to mobilizing capital. The automatic, quasi-mandatory membership of employees, tax-protected options for voluntary additional payments and the professional management of pension assets have proven to be particularly helpful strategies. In view of the challenges ahead, all initiatives to strengthen the second and third pillars of the pension system must be supported. In order to achieve the capital mobilization of private pension schemes mentioned in the report, it is necessary to improve

the framework conditions for private pension schemes as a central element of an integrated three-pillar pension system. In this way, 1) demographic challenges can be met, and 2) significant financial resources can be channeled into European investments. Tax incentives have an important role to play. At the national level, investment-promoting tax measures such as the reduction of insurance tax on life insurance, the enhancement of retirement savings in the income tax law for pension and provident funds, and a reform of subsidized pension scheme products could contribute to the mobilization of capital.

Separate legal framework for cross-border banks:
The inconsistent application of regulatory rules by national supervisory authorities remains one of the main barriers in the internal market for financial services. The idea of a separate legal framework for institutions operating across borders is an interesting approach to use capital and liquidity more efficiently, but should be subject to a thorough impact analysis.

ESMA as a single supervisory authority:
We consider a gradual approach to be the most sensible approach when it comes to a greater centralization of supervisory powers. The focus must be on a comprehensive assessment of all advantages and disadvantages. This can be achieved for example, by starting with voluntary (opt-in) models for market participants.

4. Realignment of competition

In recent years, the WKÖ has repeatedly pointed out the place-based policy challenges for Austria and Europe, resulting from the geopolitical and power political-induced reorganization of international economic relations. Competition policy is a key instrument for promoting innovation and strengthening Europe's economic resilience. Mario Draghi's report highlights the need to adapt EU competition rules to take greater account of long-term strategic objectives such as innovation, investment and security. He raises the legitimate question about the extent to which a strict competition policy contradicts the ability of European companies to achieve sufficient size (scale-up) in order to be able to compete with large Chinese and American companies today.

We comment on his recommendations as follows:

Adaptation of EU competition rules:
In addition to the traditional competitive economic assessment of antitrust cases, security and economic resilience should be included as additional criteria in the competition analysis. This corresponds to the proposal to give greater consideration to macroeconomic concerns in competition law. It is also proposed to revise merger control practice and to take greater account of future market developments and innovation potential. New guidelines and an ‘innovation defense’ could help to better assess the positive effects of mergers on innovation.

Funding policy and law on state aid:

The aim is to pool resources at the European level and to achieve better coordination between EU and national funding policies. The aim is to specifically promote strategic industrial projects of European importance. An answer to the question of which state aid priorities should be set remains to be developed.

Digital Markets Act (DMA) and Foreign Subsidies Regulation (FSR):
The new laws must be implemented effectively. This requires sufficient resources without neglecting competition supervision in other areas.

Support of SMEs:
The special needs and concerns of small and medium-sized companies must be taken into account with a view to fair competitive conditions.

New Competition Tool (NCT):
The aim of the instrument is innovation-friendly, in general. However, the idea of taking action against companies without a specific violation is viewed critically. Companies must not be placed under general suspicion of acting “against the market”. Here we refer to the wording in the report that solutions are developed together with the companies.

Expansion of IPCEIs to key innovation areas:
The proposal is to be welcomed, although the methodology for identifying the “key areas of innovation” must be designed to promote growth. In particular, the expansion of “Catch-Up” IPCEIs is viewed critically, as these often only promote the imitation of existing technologies and are less innovative. Only the best, forward-looking projects should be awarded the contract. It is not intended to be a top-down instrument to finance the needs of large European players with little future potential. When it comes to thematic orientation, care must also be taken to ensure that it is open to future developments and does not specify a rigid 5-year topic plan. The topic of AI shows how quickly new technologies develop.

Opportunities to participate in the IPCEIs:
These must be designed in such a way that innovative companies or agents from smaller member states are not disadvantaged compared to those from larger member states. Openness for agents from smaller Member States as well as for SMEs must be guaranteed.

Co-financing of IPCEIs by EU funds:
This can be an important building block for a coordinated European industrial strategy. Currently, IPCEIs are financed at national level from Member States' budgets. Countries with more generous budgets are more likely to allow their innovative agents to participate than Member States with more restrictive budgets. From this point of view, financing from common resources (as with Horizon Europe) would be desirable.

Faster and less bureaucratic implementation of IPCEIs:
Accelerating the IPCEI processes is also an important aspect for the future direction of the IPCEI tool. In addition, the administrative burden must be kept low in order to ensure openness to SMEs and players from smaller Member States.

Improving decision-making processes:
Speeding up decision-making processes is desirable, while respecting the quality of investigations and companies' rights of defense. Clear and predictable decisions promote business confidence and support effective competition policy.

Innovation as a central element of competition policy:
Fair competition promotes innovation because companies with innovative approaches are best able to prevail in the competition. Competition policy should therefore take greater account of innovations. For example, in mergers, both positive and negative impacts on innovation should be thoroughly assessed. The positive effects of the existing rules must be preserved as much as possible.

Avoiding barriers to innovation:
Measures should aim to avoid market concentrations that could inhibit innovation in the long term. R&D collaboration, standardization and access to resources should be encouraged, but anti-innovation cartels should be avoided.

Preventative measures preferred:
Prevention of undesirable market concentration is better than having to react with subsequent measures. From the WKÖ's point of view, a strict ex-ante policy is an advantage for Europe.

5. Strengthening governance

Strengthening the EU's competitiveness requires reflection on the institutional structure and functioning of the European Union. A level playing field in terms of place-based policy vis-à-vis other powerful economic areas can only be established through European cooperation. In order to become better able to act collectively in this regard, reforms in governance are necessary.

We comment on Draghi's proposals in detail below:

Avoid over-regulation:
It is important to relieve citizens and entrepreneurs of excessive regulations and requirements that inhibit innovation and growth. A balanced level of regulation promotes the competitiveness and dynamic development of the European economic area.

Consistent application of the principles of subsidiarity and proportionality:
We fully support the call for greater application of the principle of subsidiarity in order to focus EU policies on areas with real European added value. The principle of proportionality should also be given greater consideration in EU policy-making and the legislative process in order to prevent over-regulation and not impair competitiveness. Given the excessive increase in legislative activity, we support the proposed reluctance of the EU institutions to introduce new laws. Careful prioritization of legislative initiatives can help reduce regulatory density and give companies room to innovate and grow.

Linking EU policy coordination and budgetary surveillance:
Draghi's idea of setting common EU priorities for competitiveness is fundamentally positive. For reasons of efficiency, new coordination frameworks should be linked to the European Semester. Since the implementation of new EU competitiveness goals must be taken into account in national budget planning, a logical consequence would be to integrate the proposed "Competitiveness Coordination Framework" as a separate pillar into the semester process in order to ensure coherent implementation.

Role of the Competitiveness Council:
The Competitiveness Council (COMPET) could take on a stronger role, similar to ECOFIN and EPSCO in the European Semester, to promote the coordination and implementation of competitiveness priorities.

Simplification of rules:
The complexity of the EU regulatory environment represents a major challenge for companies - especially SMEs. We support the goal of reducing reporting requirements by 25% and for SMEs by up to 50%. This should be done on a clear calculation basis. The "Think Small First" principle should be consistently applied to new regulations. If regulations are designed to be SME-friendly from the start, all companies benefit from less bureaucracy. In addition, there should be better coordination in advance between the EU Commission's Directorates-General in order to avoid duplication and contradictions in EU law.

Systematic review of existing legislation:
The proposed systematic stress tests of existing EU law at the beginning of each new legislative period, with the aim of simplifying EU legal acts and supported by digital tools and AI, are to be welcomed.

Uniform method for calculating regulatory costs
A consistent method for calculating the costs of new EU legislation for businesses is needed. The EU institutions should apply this method uniformly, and Member States should also use it when implementing EU law.

Revised competitiveness test:
A revised competitiveness test with a clear methodology for measuring the cumulative burdens on SMEs is necessary. Planned legal acts should be examined for their potential impact throughout the legislative process. The impact of a planned legal act on competitiveness and SMEs should therefore be examined not only when drafting the Commission proposal, but also when changes are made by the European Parliament and the Council. Negative effects should be avoided. The impact assessment must also be given greater consideration in the EU Commission's ex-post evaluations.

Better enforcement of internal market rules:
The correct and timely implementation of EU law in the member states is essential. The Single Market Enforcement Task Force should be strengthened to more effectively address the inadequate national implementation of EU law. With regard to infringement procedures,

existing enforcement instruments should be made more efficient in order to quickly resolve internal market infringements.

Qualified majority decisions:
The objective of taking more decisions by qualified majority in the Council makes sense in terms of the EU's ability to act and of safeguarding Europe as a business location. However, we are in favor of maintaining the unanimity principle in the area of tax policy (including energy taxes) and other sensitive areas (see WKÖ Agenda EU 24+).

Promoting innovation and digitalization:
Modernizing governance at EU level can promote innovation and digitalization. The introduction of a “Competitiveness Coordination Framework” could help to better link horizontal policies with sectoral policies, especially if research and innovation are strategically anchored. A Multiannual Financial Framework (MFF) focused on strategic EU priorities and European public goods such as research and innovation would better support the EU's competitiveness.

EU Innovation Hubs:
The proposal to create “EU Innovation Hubs”, which are intended to support the member states in defining “regulatory sandboxes”, is viewed critically. It is unclear what additional benefits these centers would provide beyond information exchange, especially since European Digital Innovation Hubs (EDIH) already exist. A general experimental clause at EU level would be too general. Sectoral sandboxes could address specific challenges more specifically and promote innovation.

Involvement of social partners:
In our view, it is important that the social partners at European and national level play an active role in all aspects of competitiveness, particularly in the governance of the Competitiveness Coordination Framework. Due to their affectedness and expertise, the social partners can make valuable contributions and should therefore be more closely involved.

We respectfully request our comments to be taken into consideration.

Queries:

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Kind regards

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