

Newsletter

February 2022

Fit for 55: **A STEPPING STONE OR A STUMBLING BLOCK?**



There is no doubt in my mind that the biggest challenge ahead of us is the challenge of climate change. Addressing this challenge will have huge financial, social and environmental implications. The margin for errors and delays in this regard have become extremely small and this is why whatever steps we take in this direction, they must be undertaken in a correct and timely manner.

The revised 2030 climate targets, as proposed in the European Commission's Fit for 55 package, will unevenly impact companies and people across Europe. This is why we need to make sure that the package is an important stepping stone rather than a stumbling block towards a net-zero European economy by 2050.

For that to happen, the European Commission must undertake a granular mapping of the impacts of the digital and green transitions whilst all legislative proposals within the Fit for 55 framework must undergo a thorough competitiveness check. This will help ensure that every step we take is a sustainable one and allows us to continue on a much needed growth path.

The rapid shift towards a decarbonised economy will entail massive challenges for citizens, workers, companies and regions, particularly those that are the most reliant on carbon-intensive sectors and industries. If those challenges are not sufficiently addressed, this could result in increased inequalities and lead to massive restructuring processes, unemployment and deindustrialisation of territories. Not least, this could create a lack of social acceptance and political backlash from EU citizens against the European Green Deal agenda.

Adopting a model which does not lead to growth based on Sustainable Development would only isolate us in the international area. This would mean that our European model would have failed creating the space for other global competitors to take leadership. If this were to happen, we would then have to follow a model dictated and decided by our competitors.

The business community is fully aware of the challenges of climate change and is ready to undertake the required steps towards achieving the 55% reduction target.

We know that the Green Deal provides us with a unique opportunity to build a stronger and more sustainable future and Europe's enterprises must be an integral part of all solutions moving forward. The private sector is ready to play its role and invest in the needed infrastructure and technologies, and create new jobs. Indeed, massive private investment is already taking place.

However, we perfectly know that low carbon technologies require massive capital investment and, in most cases, entail higher financial operating costs and technological risks than traditional ones. This requires a predictable regulatory investment framework, which can be facilitated if all new legislations undergo a competitiveness check so that the full implications on enterprise are well understood.

As underlined by the International Energy Agency, most of the global reductions in CO₂ emissions through 2030 come from technologies readily available today. But in 2050, almost half the reductions would have to come from technologies that are currently at the demonstration or prototype phase. In heavy industry and long-distance transport, the share of emissions reductions from technologies that are still under development today is even higher. Therefore, it is crucial that regulations pave the way for the development and market uptake of new technologies.



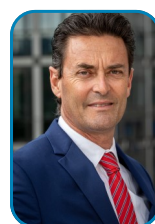
Also, investment decisions to meet the 2030 targets will have to be made at a time when the European economy is still recovering from the pandemic-led economic crisis. It is therefore essential that the EU finds the right equilibrium between the Green Deal and the Recovery and Resilience Fund to drive investments in future-oriented technology and practices.

MSMEs have the potential to accelerate innovation in products and solutions to decarbonise the European economy. Many MSMEs will be the early adopters of the new business models and should be supported in order to ensure their innovation does not come at a competitive disadvantage. This support must help companies that are accessing technologies to decarbonise their production, processing, remanufacturing and distribution processes. It must also respect the principles of equitable access to MSME finance tools and should be based solely on climate objectives.

To facilitate the required massive investment in zero-carbon electricity, businesses also need visibility vis-à-vis long-term market signals and instruments. One of the biggest bottlenecks to the deployment of renewable energy projects is the lengthy and complex permitting procedures. The Employers' Group supports the action being taken by the Commission in this regard.

It is clear that Europe needs to capitalise on its current position as a front-runner on climate change by acting as an innovation catalyser. As the EU has considerable technical expertise, we need to take the industrial leadership in the Green Economy. External EU action or climate diplomacy will play an important role in promoting high environmental standards in the world market.

In fact, EU competitiveness should go hand in hand with ensuring that competitors both inside and outside of the EU adhere to the highest environmental and social standards. Ensuring competitiveness should not be misinterpreted as an excuse for operating at the lowest common denominator in terms of green standards, in a global market. This calls for a coherent strategy for increasing the export of low carbon goods and services from within the EU to third countries.



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Critical raw materials' resilience starts at home

The acceleration of the ongoing transition towards a green and digital economy offers a golden opportunity to increase Europe's strategic autonomy in the area of critical raw materials. Enhancing our independence is a realistic goal, but we need to act to make it happen.

Europe's dependency on critical raw material imports becomes clear when looking at the numbers: It is estimated that demand for rare earths could increase tenfold by 2050, and the EU currently imports 98% of these materials from China alone. As for lithium, the EU will need 60 times the amount currently used, for which we have a high dependency on Chile. Similar pictures exist for borate, platinum group metals, magnesium, strontium and many more.

The updated industrial strategy and the Action Plan on Critical Raw Materials present the goals for a more sustainable, less dependent future and were therefore welcomed by the [EESC opinion on Critical Raw Materials Resilience \(CCMI/177\)](#).

However, it is now time to clearly define the game plan and start implementing it without further delay. This was the topic of discussions at the events [Critical raw materials: an essential building block for the future of Europe](#) and [The role of Critical Raw Materials to form a strong industrial base](#) that have been organised by the EESC Consultative Commission on Industrial Change, which I have the honour to chair.

Increasing Europe's independence in the area of critical raw materials starts at home by promoting primary sourcing. Strengthening our extractive and processing capacities in the EU by supporting our workers and regions is key. This can only happen with the necessary support instruments, such as facilitating public/private investments and permits.

Furthermore, secondary sourcing from waste and circular reuse needs to be fostered. This is a pressing issue, as my colleague Michal Pintér, CCMI delegate, also stated: It is essential to map the secondary resources that could potentially come from waste, and in this respect the decision to further postpone the review of the waste shipment regulation is worrying to many stakeholders.

Similarly, substitution of critical raw materials can decrease dependency on certain resources. A good example was given by Corina Hebestreit, Secretary General of the European Carbon and Graphite Association. The substitute of natural graphite, synthetic graphite, is already widely used and, even though it cannot substitute natural graphite 100%, it has already reached substitution rates of around 50%. Of course, investment in R&D is indispensable to achieve further results.



Where imports of critical raw materials from outside of the EU are needed, Europe needs to actively diversify its trading partners, while at the same time supporting developing countries. An approach that works within the multilateral framework to ensure a level playing field that is beneficial for EU industry. In that respect, the signing of the Strategic Partnership between the EU and Ukraine on Critical Raw Materials and Batteries in Kyiv is a good path to follow.

Raw materials can be extracted in a sustainable manner, both from an environmental and a human perspective. EESC President Christa Schweng stressed that the EU can have a leading role and has a responsibility in demonstrating that the extraction of raw materials and production processes can be sustainable, in particular if it is done hand in hand with digitalisation and robotics.

Bernd Schäfer, CEO of EIT Raw Materials clearly confirmed that it is within Europe's reach to become the world leading producer of sustainably sourced raw materials but, as Monika Sitárová, CCMI Copresident mentioned, the EU cannot wait any longer to fully exploit the potential that comes from waste and stocks. Likewise, we cannot wait any longer to plan massive investments in research and development that can support the EU in devising substitution or new technologies.

We know that we cannot solely rely on free trade to fulfil our need for raw materials. We need to think strategically, to devise what to do when we are heavily dependent and how to use our comparative advantage when others depend on us. And we need to think about how we combine this with a clear path that contributes to the preservation of the planet, protection and respect for children and minorities and the growth of developing countries. The EESC will continue to follow this critical issue.



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Business Taxation for the 21st century

Although taxation is a national competence, global challenges may require coordination at the supranational level. The ambitious agenda of the European Commission's strategy for business taxation in the 21st century aims to develop a long-term vision that can create a sustainable and competitive business environment for EU companies.

The area of international taxation is undergoing radical changes worldwide. An agreement late last year among the OECD countries and the 140 countries participating in the Inclusive Framework (IF) fundamentally changed international rule-making in taxation. The initiative was taken by the largest economies (G7 and G20) but broad agreement was sought.

The EU tax agenda is heavily influenced by the agreed tax package, consisting of two pillars. The first pillar transfers taxation rights for very profitable companies to countries where their goods or services are sold. This represents a shift from current rules and practice. Until now, the country where e.g. innovation, production, financing and key functions take place has had the right to tax profits.

The second pillar is an effective minimum corporate tax. The country hosting the ultimate parent entity in a business group gets the right to top up the tax on transactions in each country that have been taxed at an effective rate below 15 per cent in another entity within the group. This transfer of taxation rights to another country is something completely new. It makes it less attractive for countries to have low corporate tax rates. It also claws back incentives for R&D and other incentives, such as those for green investments. The largest economies are expected to increase their share of total corporate taxes, while smaller and developing countries have expressed concerns about both tax revenue effects and competitiveness.

The Commission approach to transpose internationally agreed rules to all Member States is welcome. It is important that our trading partners do the same and at the same time. So far, the US has used its own rules and it is uncertain whether the new rules will be approved in the US Senate. European businesses must not be placed at a competitive disadvantage and final agreement on further rules at the global level has still not been reached.

The Commission agenda is, however, not limited to transposing international agreements. It has long been recognised that Member States' corporate tax systems create a dis-incentive to use equity financing instead of loan financing for investments. In its Communication, the Commission announced that it would present a proposal to mitigate this distortion. This is a very welcome initiative.

Tax initiatives in the environmental area are, of course, very important if the Fit for 55 package is to be achieved. A review of the Energy Tax Directive is long overdue. The CBAM is also important and the situation for exports from the Union needs to be addressed so that competitiveness is not reduced.



Although the agenda presented in the Communication is very ambitious, there are several areas that are not included and which need to be addressed in any business taxation agenda for the next century. Among these are a revision of the patchwork of sometimes overlapping anti-tax avoidance and reporting rules Member States have introduced over the last decade. With the transposition of the agreed effective minimum tax directive, existing rules that are ineffective and administratively burdensome should be removed or revised.

There is also a need to review the coverage of VAT and the implementation of VAT rules in Member States. For many businesses, VAT is the most burdensome tax, even though it is not supposed to be levied on businesses.

In the post-pandemic period, there is also a need to review how employees and businesses are taxed in cross-border teleworker situations. The risk of double taxation is considerable.

Taxation is important for investments, jobs and the competitiveness of the European economy. In order to stay competitive, we need to closely monitor and react adequately to global developments.

Background:

On May 18, 2021, the Commission presented its long-awaited Communication setting out its initiative for a business taxation strategy in the 21st century. Based on this Communication, a number of tax proposals were presented, including the proposed draft directive on transposing the OECD agreement on an effective minimum corporate tax. Other proposals being discussed include a revision of the Energy Taxation Directive and the Emission Trading System (ETS), the carbon border adjustment mechanism (CBAM) and measures to reduce the distortive tax treatment of equity financing in corporate investments (DEBRA). The Communication also mentions a single corporate tax rulebook as a relaunch of the Common Consolidated Corporate Tax Base (CCCTB). It is called the Business in Europe Framework for Income Taxation (BEFIT) and the intention is to develop the rules in close cooperation with stakeholders and Member States.



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A Pact for Research and Innovation in Europe

ESTABLISHING A NEW VISION FOR EUROPEAN R&I

"More of the same" will not allow the EU to achieve global technological leadership or to create high quality jobs. The new Pact for Research and Innovation (PACT) calls for a new vision for the European Research Area (ERA).

Asia, especially China and Korea, have increased their investments and their speed in R&D massively throughout the last 20 years. The new 2021 EU Industrial R&D Investment Scoreboard for example, shows that from 2020 to 2021, China has increased its R&D investments by 18.1%, the USA has increased its R&D investments by 9.1%, whereas the EU 27 have decreased their R&D investments by 2.2%.

In order to be able to at least keep up with global RTI competition, the EU has to speed up its pace in innovation drastically. R&D investments in the areas of Key Enabling Technologies (KETs), as well as Future Emerging Technologies (FETs), e.g. artificial intelligence, machine learning, robotics, advanced materials, microelectronics, quantum computing, 5G telecom standard, technologies (hardware and software) for emergency preparedness, as well as digital business models in general, have to be especially enforced.

The PACT sets out commonly agreed values and principles for R&I and identifies, on a global, general level, the areas where Member States will jointly develop priority action, which should be designed and implemented in agreement with the United Nations' 17 Sustainable Development Goals (SDGs). Thereby, it supports the new European Research Area (ERA), while bearing in mind that research and innovation are largely national competences.

Within the new PACT for R&I, Europe must prepare the soil for a more entrepreneurial culture so that risk-taking, innovative businesses are encouraged – MSMEs, such as start-ups, as well as innovative multinational enterprises. The well-known slogan "No risk, no fun" translates innovation into "No risk, no new business, no new quality jobs".

One challenge which also has to be addressed definitively within the new ERA and the PACT, is the growing shortage of highly qualified STEM (Science, Technology, Engineering, Mathematics) graduates and especially engineers in all fields of ICT and digitalisation, e-mobility and in technologies for renewable energies. It has to be pointed out that it is primarily engineers who convert R&D results into technical products. Due to demographic changes, and due to the fact that most countries in Europe are failing to attract more women students to engineering studies, the shortage of highly qualified engineers will increase in the future.



Another global issue that must be addressed within the new ERA and PACT, is the global war for patent leadership and IPR (Intellectual Property Rights), as well as the issue of a global lead in setting technical standards. China has been performing very strongly and aggressively in both fields throughout recent years.

The Pact for Research and Innovation is a meaningful and logical step following the European Commission's plan for the new European Research Area, and is indispensable if Europe does not want to be left behind in the global race for new trail-blazing inventions.

Background:

On 16 July 2021, the Commission adopted its proposal for a Council Recommendation on 'A Pact for Research and Innovation in Europe' to support the implementation of national European Research Area (ERA) policies. The Pact proposal defines shared priority areas for joint action in support of the ERA, sets out the ambition for investments and reforms, and constitutes the basis for a simplified policy coordination and monitoring process at EU and Member State level through an ERA platform where Member States can share their reform and investment approaches to enhance exchanges of best practices. To ensure an impactful ERA, the PACT foresees the engagement with research and innovation stakeholders. The PACT is well structured in the following sections: values and principles; priority areas for joint action; prioritising investments in R&D; policy coordination and monitoring and reporting.



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Energy Efficiency Directive Recast: THE RIGHT BALANCE NEEDS TO BE STRUCK TO MEET CLIMATE TARGETS AT MINIMUM COST

Without energy, Europe's economy would be at a complete standstill. To reach the EU's ambitious climate targets, Europe will need to learn how to use energy efficiently while still fuelling its businesses.

The recast of the Energy Efficiency Directive promises a way forward by encouraging investment, which the energy transition is in dire need of. Businesses naturally invest in energy efficiency which is in their own self-interest. However, energy efficiency has a certain limit. The cost-efficiency of energy-saving measures typically decreases as the volume of energy saved increases: initial measures are easy to apply, but further measures are more costly and yield a smaller result. The same goes for the "Energy Efficiency First Principle", which should therefore not be considered dogma. In some cases, it will be more efficient to invest in clean energies rather than in costly renovations. Against this backdrop, and in light of overall rising energy demand, we should focus on the overarching goal of decarbonising our economy, and give businesses flexibility in determining how to achieve this goal.

Setting up increasingly demanding efficiency targets (reduction in energy consumption by 9% in 2030 compared to the 2020 projections) on EU Member States with economies hit by COVID-19, will certainly bring little results. According to the 2020 Progress report, only 12 Member States have more or less met their indicative national targets for 2020. In order to be successful, the new energy efficiency targets must be realistic.

Because many businesses' and sectors' energy efficiency potentials have been fully realised, technical optimisation measures will no longer result in significant improvements. What we need to see and support is a systematic change and technical innovation (e.g. in the form of waste water use, change in the mobility sector via switching from road to rail, etc.). Waste heat from industrial processes should be counted as an energy efficiency measure in any case, and any technical or economic barriers to its use should be avoided.

To be able to use the energy transition as an opportunity, businesses need sufficient financial support, as well as a skilled workforce. The support to energy-efficiency projects allocated through NextGenerationEU has great potential to alleviate the financial burden from companies. The situation looks less promising with regard to a skilled workforce: there is a significant lack of qualified people in this sector; this needs to be tackled as fast as possible.

The EED recast also foresees linking the requirement of an energy audit to a company's energy consumption. As long as the threshold takes into account the number of organisations covered and the additional benefits in terms of energy savings, this approach can



maintain a reasonable cost-benefit ratio. Businesses should have the option of choosing between an energy audit and an energy management system in order to reduce administrative burdens, while leaving the assessment of the cost-effectiveness of each system to the businesses themselves.

Good news for businesses is the leading role that the public sector will play in the EED recast. The recast foresees measures to renovate and reduce energy in the public sector, which can be an incentive to help the construction sector, especially SMEs, develop and implement new technologies and create jobs under the Renovation Wave Strategy.

A one-size-fits-all approach will also not be the key for success in the EED recast. As Member States have to deal with different specific national circumstances, such as the share of industry in GDP and emission reduction potential, they should have flexibility in reaching EU climate targets by choosing indicative national targets. For the same reason, market-compatible instruments should be preferred to compulsory measures.

Reaching ambitious targets should not take place at the cost of high negative socio-economic consequences. The immediate tightening of the criteria for high-efficient cogeneration installations is not a good thing, as the limit value of 270g CO₂/kWh would cause many former high-efficient installations to fall outside of that definition. Instead, as a first step, this new criterion could only apply to new installations, becoming applicable to existing installations only after 2030. All in all, the recast could provide real support in reaching the EU's climate targets, if it manages to mobilise the investment needed for the transition. However, the crucial question remains as to whether the deployment of the energy efficiency ambition can be adequately followed by technology progress, companies' budgets and qualified workers.



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Virtual EU-China Civil Society Round Table

THE INCONVENIENT TRUTH OF CULTURAL DIFFERENCES

The EU-China Civil Society Round Table resulted in what is increasingly the case when representatives of Western and Chinese institutions sit down at the negotiating table: heightened expectations dispelled by the realities of disbelief and disillusion.

After a long break, a joint meeting of the EESC and its Chinese counterpart, the CESC, was finally achieved in the form of a virtual round table, which could not but be affected by Beijing's conflict with Vilnius, the devastation of personal freedoms in Hong Kong and the grave military escalation in the Taiwan Strait. In normal times, appeasement could be achieved at least in sport, but following the unsettling case of the harassment of Chinese tennis player Peng Shuai this channel has also temporarily closed.

The meeting was seen as a big chance of the EESC and CESC. Even if we cannot agree on everything, by selecting what is most important for each side, and beyond that finding issues on which agreement is possible, we can engage in dialogue. Dialogue rather than mutual grievances.

The result was to be a joint statement. The group's internal discussion within the EESC, which preceded the round table, had already shown that it could be difficult to agree on a common line and a single text. Two opposing positions took shape. Some members considered the very signature of a joint statement to be the most important outcome, which was undoubtedly an achievement after years of "silence". Others considered that, regardless of its succinct and abbreviated form, the statement should highlight fundamental values.

However, the first group warned that the mere mention of Lithuania or Peng Shuai, let alone the crimes committed against the Uyghurs, could irritate the pride of the Chinese delegates and lead to a renewed freeze in relations. The second held that leaving these issues without comment could be seen as a change in the EU narrative and a step towards acceptance of such policies, and even worse it would not be understood in our home countries.

In the end, the document that took form appeared from our perspective to be fairly balanced. We agreed that as long as references to human rights, free speech and market freedoms were included in the statement, this would still be a step towards creating a platform for further dialogue.

The round table itself was surprisingly positive. The Chinese side reacted strongly and defensively to references to Lithuania, the unequal treatment of companies and Peng Shuai, but nobody left the table.



Everything remained at the level of an exchange of arguments. At the last minute, in the course of amendments by the Chinese, in the end with some surprise we noticed that the document had been stripped of some content we had considered crucial. Some of us felt that the change was not of a great significance; others, including myself, thought it quite an unfortunate coincidence. The final form of the statement was not well received by Politico, which pointed out the rather vague references to human values.

China Daily quoted an extract from Ms Schweng's statement: "the EU and China share a lot of common concerns, including climate change, artificial intelligence, trade policy, rising energy costs (...)". The quote itself is true, but it conveys a false picture of our indulgence of something that Beijing calls a cultural difference. A free market, personal freedoms – which for the CCP are an internal affair – are for us the essence of everything we do. Trade, business and capitalism are just fuel for liberal democracy and our freedoms. To ensure that populist ideologies like communism do not gain the hearts of people overwhelmed by poverty and disinformation.

Individual sentences and phrases on paper are not as important to our societies as real freedoms. Hence, the event in itself would not be worth mentioning if not for the fact that for many Chinese, symbolic words are the only breath of freedom.



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Looking ahead with our partner organisations

What will 2022 bring for European businesses?

As is our tradition at the beginning of every year, the EESC Employers' Group invites its partner organisations to discuss the opportunities and challenges of the year ahead. The first meeting took place on 26 February, with the participation of Valeria Ronzitti (Secretary-General of SGI Europe), Markus Beyrer (Director-General of BusinessEurope) and Pekka Pesonen (Director-General of COPA-COGECA).

In the course of the discussion, the following key drivers were identified that would be important in 2022:

Twin Transitions

Businesses identified the green and digital transitions as the two main goals to gear their transformation in 2022 (and beyond).

The Green Deal can be a growth strategy for Europe, but only if there are the right conditions for it to succeed. If Europe wants to thrive sustainably in its green transition, all instruments have to be deployed while bearing in mind their impact on competitiveness, be it by guaranteeing access to affordable, low-carbon energy or ensuring that implementation of the CAP is harmonised in Member States or that businesses receive the proper support when it comes to ETS and CBAM.

Digitalisation will be as high up as ever on businesses' list of priorities. The French Presidency will give a boost to the conclusion of the Digital Markets Act and the Digital Services Act. It is important to safeguard agreements that have already been reached in the Council, such as the Country of Origin Principle.

Single Market

The Single Market is the EU's main infrastructure that cannot be forgotten because of the pandemic. It is built on harmonised rules, and if Member States avoid taking unilateral actions. Better regulation, for SMEs and all other companies, is indispensable, especially in times of crisis.



Trade

Focusing on open markets as much as on strategic autonomy will be another main driver in 2022. The international trade agenda will remain key for Europe. By way of example: modernising the Chile agreement is necessary for gaining vital access to lithium, which is a crucial component of electric vehicle batteries. Other corners of the world to look to include the UK, China, Mexico and the US.

Recovery

Unfortunately, Europe will need to continue dealing with COVID-19 and its effects in 2022. What will help Europe to move further out of the pandemic will be a continued focus on vaccination, as well as successful implementation of the Recovery and Resilience Facility.

Employers' Group President Stefano Mallia summarised the meeting: "The new year will bring a lot of challenges for businesses, such as high inflation, a continuing energy crisis and the repercussions of the pandemic. But with the expertise that we have internally and combined with our partner organisations, I am convinced that we can achieve important milestones in 2022."

The Employers' Group is also looking forward to exchanging views on the year ahead with EUROCHAMBRES, EuroCommerce and SMEUnited on 23 March.

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