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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	*Preparation of the Competitiveness Council (Internal Market, Industry, Research and Space) on 22 May 2025* Boosting competitiveness - making EU policies better tailored for traditionally strong industries *- Policy debate*

Delegations will find attached a Presidency background note entitled "Boosting competitiveness - making EU policies better tailored for traditionally strong industries" with a view to the policy debate at the Competitiveness Council on 22 May 2025.

ANNEX

DISCUSSION PAPER

Meeting of the Competitiveness Council

Brussels, 22 May 2025

Boosting competitiveness – making EU policies better tailored for traditionally strong industries

The manufacturing sector contributed to one-quarter of the EU's business economy net turnover, with €9.8 trillion in 2022. It employed around 30 million persons in 2022 and generated €2.4 trillion of value added. Hence, manufacturing was the largest of the NACE sections within the EU's business economy in terms of its contribution to employment (18.7%), as well as the largest contributor to the business economy value added with the share of 24.1%[1].

Main contributors to these figures are traditionally strong industries (TSIs) — primarily comprising the automotive, chemical, machinery and equipment, materials, steel and metals, and other energy-intensive industries (EIIs).[2]

The competitiveness of these sectors and the viability of their business models are now under unprecedented pressure due to high, volatile and divergent energy prices across Member States[3], the ongoing green transition, lagging technological progress, intensified competition from third countries, rising geopolitical tensions and a diminishing global level playing field.

The challenges facing this broad range of industries are clearly illustrated by the situation of the automotive, steel, and chemical sectors.

1 Businesses in the manufacturing sector - Statistics Explained
2 Energy-intensive industries
3 Energy prices and costs in Europe - European Commission

The automotive industry provides over 13 million jobs in the EU, 7% of the EU's GDP and approximately 30% of corporate EU R&D investment[4]. The industry faces a declining production, job cuts, and intensified global competition based on price and technological advancements occurring outside Europe – especially on batteries, automated and connected driving technologies. The market share of European automakers in global vehicle production has dropped from 31% in 2000 to just 15% in 2022.[5] The transition towards zero-emissions vehicles is an opportunity for the industry, but it also puts pressure on the automotive industry to innovate and transition production.

Global **steel production** has increased by 123% since 2000.[6] This trend is driven by industrialization in Asia (mainly China and India). Europe still accounts for approximately 7% of global steel production in high-quality steel grades.[7] [8] High energy supply prices placed European steel producers at a disadvantage compared to their competitors in the US, China, or Turkey (including due to the imposition of US steel tariffs).[9] The sector is under massive pressure due to escalating global overcapacity and worsening energy prices disparity. Between 2018 and 2023 steel production in the EU plummeted by 34 million tons, approximately 1/5th of the production volume.[10]

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4 M. Draghi, *The future of European competitiveness: Part B*, p. 140-141.
5 M. Draghi, The future of European competitiveness: Part B, p. 144.
6 Polish Economic Institute, *The Steel and Chemical Sectors – The Potential in Poland, Global Trends, and Development Prospects*, p. 12.
7 Ibidem.
8 EUROFER, European Steel in Figures 2023, https://www.eurofer.eu/assets/publications/brochures-booklets-and-factsheets/european-steel-in-figures-2023/FINAL_EUROFER_Steel-in-Figures_2023.pdf
9 EC Study on energy prices and costs: Evaluating impacts on households and industry (2024 edition) https://op.europa.eu/en/publication-detail/-/publication/78756c15-f263-11ef-981b-01aa75ed71a1
10 EUROFER, *European steel industry on the brink: the EU must act now or risk losing manufacturing, warns EUROFER*, https://www.eurofer.eu/press-releases/european-steel-industry-on-the-brink-the-eu-must-act-now-or-risk-losing-manufacturing-warns-eurofer.

In the **chemical sector**, despite the demand quickly rebounding and exceeding pre-pandemic levels, European companies are facing a declining market share both globally and in the Single Market due to increasing competition from countries with lower production and energy cost, less stringent regulatory frameworks and production overcapacity, notably China. The EU's industrial gas prices for key chemical producers remain significantly above global averages.[11] Between 2003 and 2023 the market share of chemicals made in Europe dropped from 27% to 14% globally and from 87% to 67% in the domestic EU market with the downward trend accelerating.[12] Stringent regulatory frameworks entail significant regulatory burden. Trade Defence Instruments do not provide sufficient support and protection.[13]

Besides the chemical and steel industries, other EIIs such as the cement, ceramics, glass and paper sectors, are facing a similar set of problems of a magnitude corresponding with Mario Draghi's[14] warning of an existential challenge. EIIs are integral to the EU's industrial fabric, providing input to several downstream sectors, and are crucial for the Union's resilience, security, and economic prosperity.

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11 EC Study on energy prices and costs: Evaluating impacts on households and industry (2024 edition) https://op.europa.eu/en/publication-detail/-/publication/78756c15-f263-11ef-981b-01aa75ed71a1

12 Cefic Chemdata International

13 Data from the EU's Safety Gate alert system for products non-compliant with EU chemicals legislation REACH shows that vast majority (2021: 77%) of all chemicals causing non-compliance of products are found in products from outside the EU/EEA. ‚More: Cefic Analysis of 2021 cases of non-compliance with the EU chemical legislation 2021, https://cefic.org/media-corner/newsroom/data-confirms-an-urgent-need-to-step-up-enforcement-of-chemicals-legislation-for-imported-goods-and-online-sales/

14 The Draghi report on EU competitiveness

The TSIs' are calling for a pragmatic approach in achieving the EU's goals. This means that we could explore opportunities to adjust the trajectory of reaching our ambitious decarbonization targets in a more pragmatic way in our legislation and implementation processes. Otherwise, we risk further polarisation and loss of public support if we don't ensure a fair and balanced twin transition. EU policies should focus on supporting targeted investments in clean technology, skills, infrastructure, and self-generation energy projects based on the principle of technological neutrality. While the EU is transitioning away from coal and high-carbon industries, we could consider whether this path should be adjusted and whether applicable measures should be differentiated according to existing endowments, local capacities, skills, resources, financial means and viable energy generation and storage solutions to reduce energy prices.

For example, hydrogen production is a crucial step. It has the capacity to reduce greenhouse gas emissions and dependence on fossil fuels. However, the uptake for large-scale use of green hydrogen is limited due to the lack of availability of the cheap green energy needed to produce green hydrogen. This makes green hydrogen currently very expensive. Therefore, stimulating investments in hydrogen infrastructure and accelerating users' uptake requires a more flexible approach to allow for a cost-competitive hydrogen production from low-carbon sources, at least in the transition phase. Additionally, some chemical processes cannot be fully decarbonised in the short term, like in the case of caustic soda production.

Hence, technological neutrality can contribute to a level playing field where TSIs powered by different energy sources, including renewables, nuclear energy and fossil fuels with carbon capture, utilization and storage can compete fairly and equally in the market. By not favouring any particular technology, all technologies would have an equal opportunity to compete, which could lead to cost reduction, reduced entry barriers and more efficient resource allocation. Technological neutrality may also bring us closer to achieving the decarbonisation goals. This approach can also lead to lower costs for consumers. Therefore, a pragmatic and technology-agnostic approach should constantly guide the revision of existing measures and the design of industrial policy initiatives. For example, we could consider whether to reflect in this context on some policies that may be calibrated in a way that favours specific decarbonisation technologies (e.g. "RFNBO" targets from the Renewable Energy Directive).

Europe’s solid and modern industrial base remains a potent driver of economic growth and high-quality jobs creation. Industry was born in Europe and clean industry offers a path to its rebirth and to securing our future. Nevertheless, the transition is occurring in a context of existing disparities within the European Union. While some parts of the EU are well-positioned to benefit from the transition to low-carbon economies, others face significant challenges. These challenges include the reliance on high-carbon industries, a lack of infrastructure, a lower innovation potential, limited access to modern technologies and skilled labour, making them less adaptable to the changes brought by the green and digital transitions. These territories are heavily dependent on sectors set to undergo significant transformations, such as TSIs, which should contribute to their prosperity instead of their vulnerability. Without targeted interventions, the benefits of the twin transition may be concentrated in already prosperous regions, leaving vulnerable areas further behind which would lead to a lack of public acceptance to pursue the EU policy objectives.

A mandate for decisive actions

The **Competitiveness Compass**[15], published on 29 January 2025, provides a new roadmap to restore Europe's dynamism and boost the EU's economic growth. The **Clean Industrial Deal** (CID)[16], presented on 26 February 2025, announces actions to strengthen the business case for competitiveness and decarbonisation in Europe. They include actions aimed at improving access to funding which is crucial to ensure a suitable level of such investments. Public de-risking instruments are essential to attract private investments. The EU's funding mechanisms and public investments also play a crucial role in supporting the green transition. To this end, the CID aims to unlock additional private investment through simplification of InvestEU and an increase of its risk bearing capacity, the development of an improved and streamlined process for Important Projects of Common European Interest (IPCEIs), and greater involvement of the European Investment Bank (EIB). The Commission is currently preparing a new Clean Industrial State Aid Framework (CISAF), to be introduced in mid-2025 in place of the Temporary Crisis and Transition Framework (TCTF). It is intended to provide a flexible, agile, and investment-conducive environment, facilitating companies' efforts to switch to clean technologies. In this regard, it is important to avoid market distortions and ensure a level playing field in the Single Market to safeguard equal opportunities for the development of clean industries across Member States. To support a sustainable and resilient production in Europe, the CID framework stresses the importance of fully respecting and applying the principle of technological neutrality.

As a key component of the CID, the Commission put forward an Affordable Energy Action Plan with measures to lower the costs of energy supply, accelerate permits for clean power and grids connection, complete the Energy Union, improve gas markets, attract investments, mobilise capital for the transition, foster the security of supply and ensure more stable prices.

15 Competitiveness compass - European Commission
16 Clean Industrial Deal - European Commission

The Steel and Metals Action Plan[17], presented on 19 March 2025, and the Industrial Action Plan for the automotive sector, presented on 5 March 2025, set out targeted measures to support two key industrial ecosystems. For steel, this includes reinforced trade defence tools, a €1 billion Innovation Fund auction for low-carbon technologies, and planned targets for recycled content. For the automotive industry, the Commission proposed[18] a targeted amendment to the CO2 Standards Regulation for cars and vans. This will help manufacturers to meet the targets by averaging their performance over a three-year period (2025-2027) and to offset any shortfalls in one or two years, while still aiming for the 2025 targets.

17 A European Steel and Metals Action Plan - European Commission
18 Boosting the European car sector - European Commission

Yet, many business stakeholders, in particular from TSIs, have great expectations on the upcoming initiatives to be proposed by the Commission (including in the envisaged Industrial Decarbonization Accelerator Act and the Circular Economy Act, as well as planned changes in the Carbon Border Adjustment Mechanism and the Emissions Trading System), or point out that the already proposed solutions are not sufficient, as in the case of energy prices (in particular short-term solutions are necessary to urgently lower the cost of energy).[19] [20] [21] [22] [23] [24] [25]

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[19] BusinessEurope *Clean Industrial Deal is the right direction, but Commission must 'walk the talk'*
https://www.businesseurope.eu/publications/clean-industrial-deal-is-the-right-direction-but-commission-must-walk-the-talk/

[20] Eurofer *Clean Industrial Deal: right diagnosis but more 'radical change' is urgently needed to turn the tide*
https://www.eurofer.eu/press-releases/clean-industrial-deal-right-diagnosis-but-more-radical-change-is-urgently-needed-to-turn-the-tide-says-eurofer

[21] Cefic *Europe's clean technology industries & key materials suppliers call for EU Clean Industrial Deal and urgent actions to keep Europe in the world's clean technology race*
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[22] Plastics Europe *Clean Industrial Deal risks overlooking criticality of plastics manufacturing to Europe's industrial base*
https://plasticseurope.org/media/clean-industrial-deal-risks-overlooking-criticality-of-plastics-manufacturing-to-europes-industrial-base/

[23] EIT Manufacturing *EIT Manufacturing welcomes EU Clean Industrial Deal*
https://www.eitmanufacturing.eu/news-events/news/eit-manufacturings-position-on-the-eus-clean-industrial-deal/

[24] Cleantech for Europe *Open Letter: For An Ambitious Clean(Tech) Industrial Deal – Building Markets To Unleash Investments*
https://www.cleantechforeurope.com/policy/open-letter-for-an-ambitious-clean-tech-industrial-deal---building-markets-to-unleash-investments

[25] European Ceramic Industry Association (Cerame-Unie) *Inclusive Clean Industrial Deal: the make-or-break moment for EU industry*
https://cerameunie.eu/topics/industry/industrial-policy/inclusive-clean-industrial-deal-the-make-or-break-moment-for-eu-industry-video-statement-by-cerame-unie-president-heimo-scheuch/

Questions for discussion:

1. Which EU policies require a more pragmatic approach to achieve their objectives while increasing the competitiveness of TSIs? In particular, should the trajectory of achieving the EU's decarbonisation goals be adapted for TSIs and how?

2. What are the bottlenecks, and the missing infrastructures needed for European TSIs to fully unlock the potential of the twin transition?