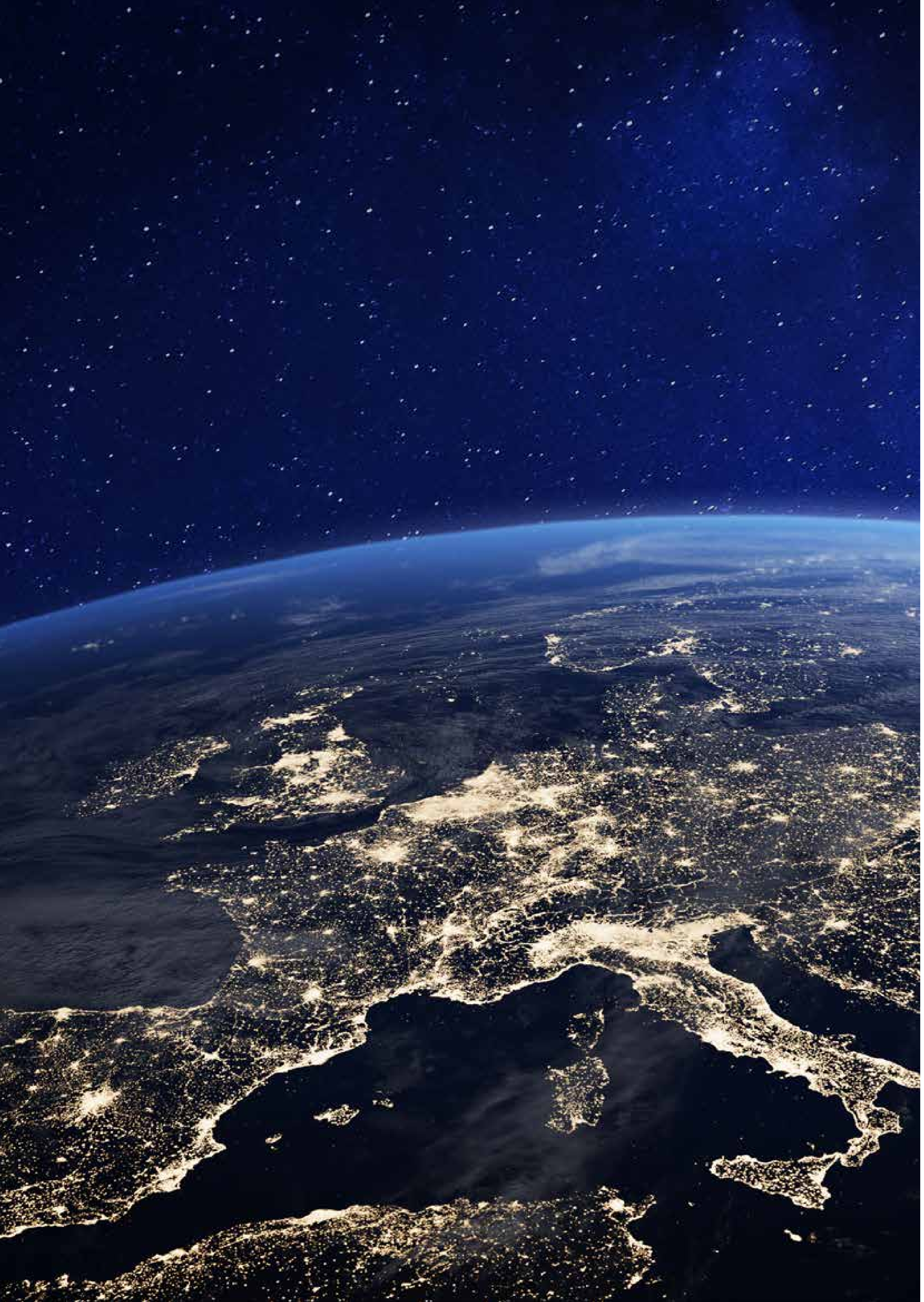
IV-PRIORITIES

FOR THE ELECTION TO THE EUROPEAN PARLIAMENT & EU LEGISLATIVE TERM 2024-2029



CONTENT

CONTEXT

The European Union is currently facing a multitude of crises and challenges.

There are military conflicts raging in Europe's neighbourhood. The Russian war of aggression against Ukraine in particular is confronting Europe with **unprecedented security policy challenges.** Not only have the limits of the Union's peacemaking function become clear, but also the lack and effectiveness of a European armament and defence strategy and capability. Building a Europe capable of defence is a lengthy process, but it is necessary in order to preserve the European (rules-based) model of democracy and prosperity for future generations.

Europe is losing its global competitiveness: parts of the European economy are still reeling from the exogenous crises of recent years, and Europe's global economic relevance is gradually declining, a fact that can only partly be attributed to the rise of new players such as China and India. In the global race, the EU27 had the same global GDP share (in PPP) as the USA (20%) in 2001; according to the IMF, the USA will be around 1 percentage point ahead of Europe in 2028 (EU27: 13.7% vs. USA 14.6%). The European economy is struggling to regain momentum in its growth and threatens to fall further behind the US (GDP growth 2023: EU +0.5%; US +3.1%). The picture is similar for foreign direct investment, which fell by 66% in the EU in the period 2019-2021, while rising massively in the US.

Europe is undermining its international competitiveness through overregulation and bureaucratic requirements. In addition to massive regulatory costs, high energy costs, higher labour and capital costs, lengthy permit processes and generally difficult investment conditions result in a significant burden for Europe's international companies. Another indicator of price competitiveness (exchange rate-adjusted unit labour costs) shows a dangerous upward trend for Germany and Austria, in contrast to the USA and China, which have seen a significant decline in some instances.

Europe is overstretching its value-based approach. The EU increasingly views international trade policy or legislative proposals in the area of sustainability (in particular the Corporate Sustainability Due Diligence Directive) as an instrument for improving the world without including economic feasibility in the assessment. If, after laborious negotiations, the European Parliament is dissuaded from its demand that all – constantly changing – regions of origin for fruit juices and jams must be stated as a percentage on the packaging (EU Breakfast Directive), it should come as no surprise if companies and third countries alike turn their backs on Europe.

In addition, corporate management is now subject to requirements and possible penalties from various fields of law that go far beyond the prevailing „precautionary principle" in Europe. All of this places an undue burden on the European economy and inhibits the willingness to invest, making digitalisation, the supply of raw materials and the climate-neutral transformation more expensive.This economic policy „paralysis" and risk aversion are unfolding against the backdrop that the EU represents merely six per cent of the world's population.

85 per cent of economic growth in the coming years will be generated outside the EU. **Global competitors are increasingly pursuing discriminatory industrial policies**, notably through WTO-opposing practices by the like-minded United States, as well as the important partner, the People's Republic of China.

Nevertheless, it should be noted that the European Union is a clear success story, especially from an Austrian perspective. As a veritable peace project at home, as well as through the centrepiece of the EU, the European Single Market. With a GDP of around 15 trillion euros, 450 million consumers and 21 million companies, the single market and the four freedoms of the European Union form the foundation for entrepreneurship and prosperity in Europe. Since Austria joined the EU in 1995, domestic exports have more than quadrupled, from 42.2 billion euros (1995) to 194.1 billion euros (2022)[1]. Agricultural exports have increased ninefold.

It must also be emphasised that the EU has acted relatively decisively in times of the coronavirus pandemic and energy crisis in order to protect health, jobs and the livelihoods of companies as far as possible. EU crisis management has shown that the union can overcome major obstacles; now it must prove that it can also overcome the current challenges with an ambitious competition and investment agenda.

Otherwise, Europe runs the risk of gambling away its future if it continues to lose itself in protracted decisions or dissent, or increasingly paralyses itself through regulatory micromanagement. Instead, Europe must improve its internal capacity for reform, define its strategic direction for the next 10-15 years and confidently represent its strengths and interests to the outside world. **However, the serious challenges mentioned require an urgent course correction if the European project is to continue as a success story.**

From the point of view of the Federation of Austrian Industries, this course correction must cover the following core areas.

[1]Statistik Austria

THE CORE DEMANDS OF THE INDUSTRY

1. **Confident foreign trade policy in the face of global crises**
2. **Strengthen the European single market**
3. **Curb regulatory overload**
4. **Sustainable transformation in line with industrial policy**
5. **Encourage European investment and scientific and technological excellence**
6. **Skilled labour, skills for the future and European social policy**
7. **Enhance the EU's capacity to act**

1 CONFIDENT & ACTIVE FOREIGN TRADE POLICY IN THE FACE OF GLOBAL CRISES

Europe's greatest strength is and remains its economic power, especially in international comparison. The EU's extensive global network of trade agreements (Free Trade Agreements/FTAs) is a clear indication of the attractiveness of the European single market, as well as the ambitious orientation of the European Commission as chief negotiator. As things stand, the EU already has 42 agreements in force with 74 countries.

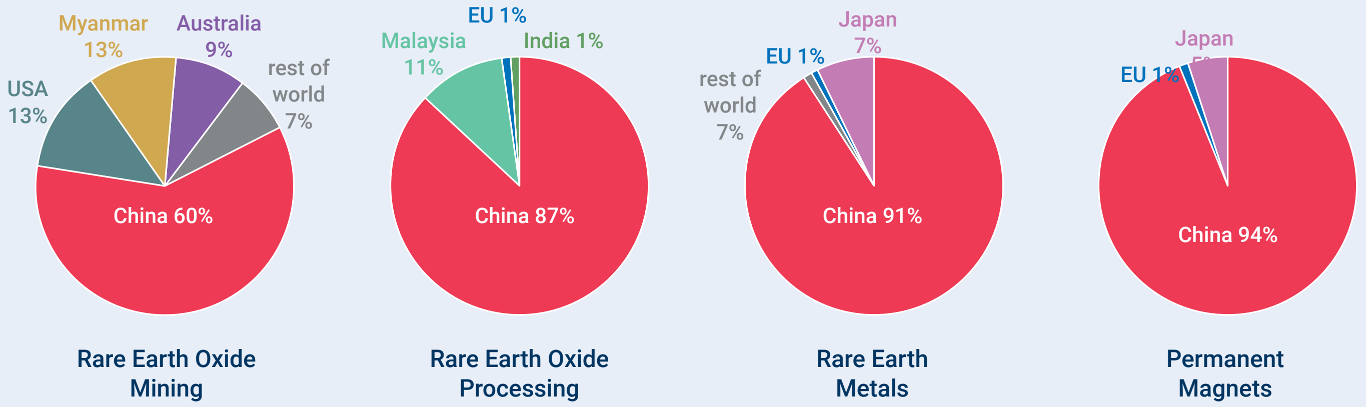
At the same time, it is understandable that **foreign trade policy is increasingly being viewed from a security policy perspective.** The EU has recognised that today's world is increasingly determined by geopolitical factors and that security and defence policy must be given a higher priority on the European agenda.

International dependencies in the raw materials sector represent a particular geopolitical challenge for Europe as a business location. Out of half of the 30 critical raw materials, more than 80% are imported from just a few countries. Dependencies in the processing sector are even more dramatic.

Regarding **global infrastructure**, a crucial element for the resilience of European supply chains, the EU faces significant challenges posed by China's New Silk Road or „Belt and Road" initiative, with extensive strategic investments and infrastructure projects in Central Asia, Africa and Latin America.

In principle, the EU must seek ways to **engage with all its trading partners.** Simply forging agreements with politically aligned countries will no longer suffice, given the dynamic political landscape. Europe must broaden its network of partner countries and recognise the imperative for a diverse approach. The growing grievances from developing nations, pointing to perceived protectionism in recent EU decisions on the environment and sustainability, underscore conflicts of interest between different EU policy areas. The involvement of all global players is essential to uphold the **rules-based global trading system.**

Example of raw materials/tech dependence: Rare earths & magnets supply chain



Source: European Raw Material Initiative 2021

RECOMMENDATIONS FOR ACTION

- In view of the 38 million jobs that are secured by EU exports to third countries, it is imperative to sustain access to global growth markets. Hence, it is crucial that the EU's guiding principle of **„strategic autonomy" remains complemented by a fundamental commitment to „openness".** This approach is vital for Europe to continue actively shaping the future global trade architecture.
- Continuing the expansion of free trade agreements (including with the Mercosur region, Mexico, India and – potentially – the USA) along with investment protection agreements is essential from both an economic and geostrategic perspective. Expanded market access to essential raw materials and other resources, including energy, will help diversify and strengthen Europe's supply chain resilience.
- Europe's **support for the World Trade Organisation (WTO)** must be continued and expanded. Competition-distorting subsidies, especially from China, as well as the blockade of the appellate body of the essential dispute settlement body, undermine the WTO as a central global trade and economic policy-regulating institution.
- Legitimate policy objectives of a different nature, for example in the area of environmental, social and migration policies, must be pursued with caution so as **not to jeopardise the EU's** urgent **interests in the area of trade and foreign trade policy.**
- The implementation of the **Global Gateway strategy** is key, as the Union uses this instrument to actively contribute to the economic and political stabilisation of neighbouring and third countries in the region. The gradual **increase in EU funding for infrastructure and other economic projects,** particularly in North and Central Africa, should be continued.

2 STRENGTHEN THE EUROPEAN SINGLE MARKET

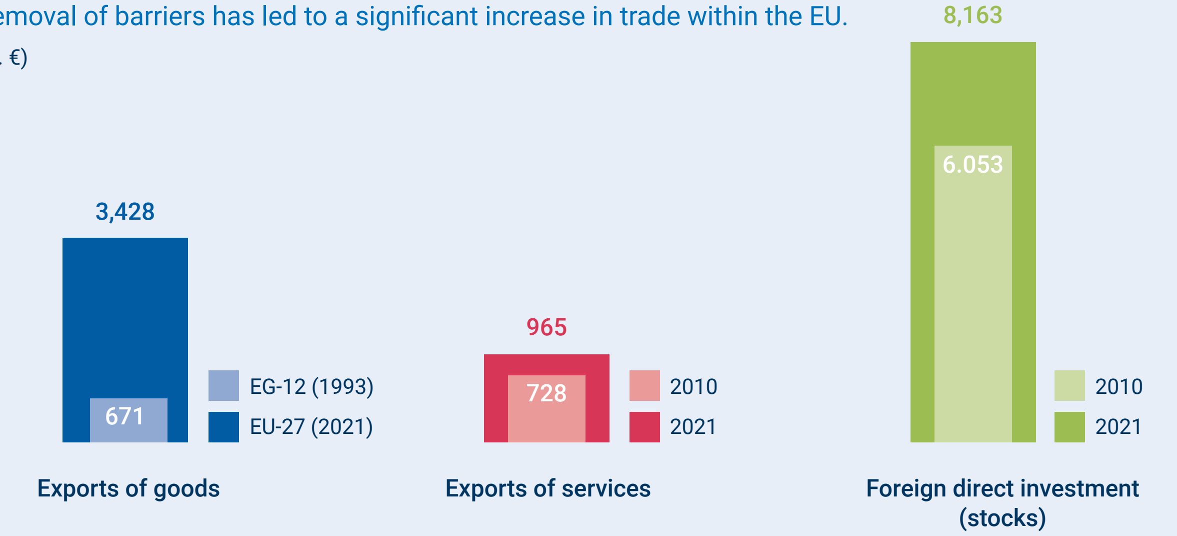
The single market is the largest economic area in the world, boasting a staggering GDP of around **15 trillion euros, encompassing 450 million consumers and 21 million companies.** Anchored by the four freedoms of the European Union, it serves as the bedrock for entrepreneurship and prosperity across Europe. As a small export-driven economy, **Austria has been able to benefit disproportionately from its participation in the EU single market, to the advantage of companies and the population alike.** Today, nearly every second job in Austria is directly or indirectly linked to foreign trade, and 26 per cent of all jobs are created or sustained by Austrian exports to the internal market.

Nonetheless, the EU internal market faces a looming risk of lagging behind in the global competition among business hubs, persisting as a patchwork even three decades after its inception. This applies not only to the traditional realms of the internal market, such as goods and services, where 60 per cent of barriers to cross-border service provision have remained the same as they were 20 years ago: regulatory divergence, high administrative costs, lack of access to information and even market foreclosure. It also applies to other critical domains such as research & development, digitalisation, and energy and transport infrastructure.

The greatest potential for growth and employment lies in its further development. According to projections from the European Commission, the growth potential associated with the completion of the single market amounts to EUR 713 billion by the end of 2029. It is imperative to capitalise on this untapped potential for the benefit of Europe's economic advancement.

The removal of barriers has led to a significant increase in trade within the EU.

(in Mrd. €)



Source: Europäische Bewegung Österreich 2023

RECOMMENDATIONS FOR ACTION

- **Make deepening the internal market a top political priority:** The completion of the EU internal market across all sectors must once again become a focal project for the future of European policy. This also includes structural adjustments to the working methods of the European Commission, in particular improved coordination among individual Directorates-General.
- **Ensure standardised application, implementation and enforcement of existing internal market rules:** As long as the implementation and enforcement of existing internal market rules are not sufficiently guaranteed, new legislative proposals should not continue to be introduced. Additional rules only make sense if the existing rules are reliably enforced.
- **Reduce bureaucracy and avoid excessive burdens for companies:** Expedite cost competitiveness to alleviate cumulative regulatory burdens on companies. The competitiveness check pledged by the European Commission must become an integral component of every impact assessment. Bureaucratic costs from existing and future EU legislation must be avoided and limited.
- The **principle of subsidiarity** must be more closely observed by only proposing and adopting regulations with clear European added value.
- Europe's competitiveness cannot be built on subsidies; however, targeted state aid can be justified, in particular to support energy-intensive companies in their transition, to support the development of the necessary infrastructure and to promote innovation. State aid should remain limited in time and must be carefully calibrated to maintain a level playing field in the internal market.
- Facilitate the swift further development of still fragmented cross-border infrastructure – encompassing shared road, rail, electricity and data networks – through the targeted use of EU funding instruments (including the Connecting Europe Facility, cohesion funds, Digital Europe Programme).
- **Secure powerful EU initiatives for research and technology development** (10th EU Research Framework Programme, EU RTI partnerships and alliances, IPCEI, European Research Area, etc.). Complement these efforts with innovation procurement initiatives.
- **To strengthen and secure technological leadership**, the development and commercialisation of innovations must be accelerated, particularly in the key technologies of the future (such as AI, microelectronics, quantum technologies, material sciences, space technologies, life sciences, etc.).
- **Expedite procedures for the European economy:** It is imperative to decisively expedite permit processes for energy and infrastructure projects throughout Europe. These demands have already been taken up in the Net Zero Industry Act, but the overall level of ambition must be elevated. A harmonised European approach to permit issuance for the entire industrial and infrastructure ecosystem must be achieved. This requires a structured dialogue and exchange of best practices between the European Commission, national permitting authorities and industry at the EU level.

3 CURB REGULATORY OVERLOAD

In principle, EU-wide harmonised regulation is in the interest of the economy in order to benefit from EU-wide uniform standards on the EU internal market and to ensure comparable competitive conditions within the EU. **The success story of Austria's EU accession** has exemplified this: Domestic exports have more than quadrupled since accession, from 42.2 billion euros (1995) to 194.1 billion euros (2022), while agricultural exports (including processed food) have increased ninefold.

However, the EU's heightened focus on environmental and sustainability objectives has led to a substantial legislative agenda in recent years. **Between 2019 and 2023, European legislators imposed a total of 850 new obligations on companies, which corresponds to more than 5,000 pages of legislation.** Excessive reporting requirements generate an enormous administrative burden and compliance costs for companies, thus hindering increased investment activity.

In addition, the **development of crucial future industries s**uch as biotechnology and artificial intelligence in Europe is being **held back** by overly complex licensing procedures and excessively prescriptive regulations. Regulations should not nip investment and innovation in the bud. EU institutions and member states must dismantle the regulatory barriers to investments and the development, production and commercialisation of innovations in Europe, and prevent the creation of new restrictions (e.g. through „EU Pharma Legislation").

The bureaucratic burden has been mounting steadily for many years, with uncoordinated action at European, national and even regional level leading to a complex web of redundancies and parallel structures. Navigating and fulfilling these requirements has become a resource-intensive challenge. Over the past two years, the EU has concurrently pursued various projects on sustainable corporate governance and sustainable finance (e.g. taxonomy, corporate sustainability reporting with associated EU reporting standards, deforestation regulation, ban on forced labour, EU supply chain law). Ideally, **all of these projects should have been coordinated and negotiated in terms of content and timing in order to avoid overlaps, standardise reporting requirements and ensure coherent provisions.** Unfortunately, this was neglected, meaning that the member states have to pay the price when it comes to implementation and companies when it comes to application. Only in the course of implementation will it become clear how to differentiate individual legal acts and how the various mechanisms and reporting requirements relate to one another.

Excessive reporting requirements impose a significant administrative burden and compliance costs on companies, impeding increased investment activity. While the announced **reduction in reporting requirements for companies by 25% is a positive and initial step, its tangible implementation is still pending.** The European Union must go far beyond this reduction and refrain from attempting to micromanage companies down to the smallest detail.

RECOMMENDATIONS FOR ACTION

- **The next EU Commission and member states must strive to strike a balance between international competitiveness and political ambition.**
- Such a balanced relationship between competitiveness and political ambition should be reflected in the density and depth of regulation. From the IV's point of view, only regulatory acts whose cost-benefit ratio indicates a clear need for action should be implemented.
- In line with the spirit of subsidiarity, the EU must limit its actions to basic guidelines. This principle, which has recently been violated on multiple occasions, must be reinstated as a guiding principle, particularly in the areas of ecology, energy and climate policy.
- **Ensure evidence-based legislation:** Impact assessments must be improved and adhered to. Every future legislative initiative should be accompanied by **binding impact assessments** that analyse potential economic, environmental and social impacts equally and comprehensively and examine options for action in a neutral and fact-based manner. The cumulative effects on the EU's competitiveness in global competition must be taken into account.
- Any changes made by the Council and the European Parliament in the ongoing legislative process must be reviewed by means of **complementary impact assessments.**
- Member states are urged to refrain from excessive national implementation of EU directives („gold plating"). Maintaining consistency in the implementation of European initiatives is crucial for business activities to prevent competitive disadvantages within the internal market.

4 SUSTAINABLE TRANSFORMATION IN LINE WITH INDUSTRIAL POLICY

For the Austrian industry, the pursuit of climate targets in the industrial sector is only viable if the competitiveness of energy-intensive industries in Europe is maintained. Failure to sustain this competitiveness could lead to the relocation of corresponding production to third countries, leading to emissions being generated elsewhere and thus negating any climate benefit. **Effective climate protection requires the preservation of competitiveness.**

Under the Green Deal framework, the EU is establishing the world's most ambitious targets in the areas of sustainability, climate and environmental protection. However, the substantial expansion and rapid pace of EU projects in energy, environment and mobility policies has led to a **cumulative tightening of numerous existing EU laws and instruments, placing corresponding burdens on the companies affected.** (This includes recent reforms of emissions trading, reforms of the renewable energy and energy efficiency directives, new eco and product design requirements, new CO2 limits in the mobility sector, revisions of waste and packaging requirements and the planned revision of the chemicals regulation (REACH).

In sectors driving the development of new technologies and innovative solutions, **the Green Deal also opens up opportunities.** Particularly, increased resource efficiency, i.e. the optimised use of energy and raw materials per output, is essential for energy and raw material-intensive companies in order to maintain their market opportunities.

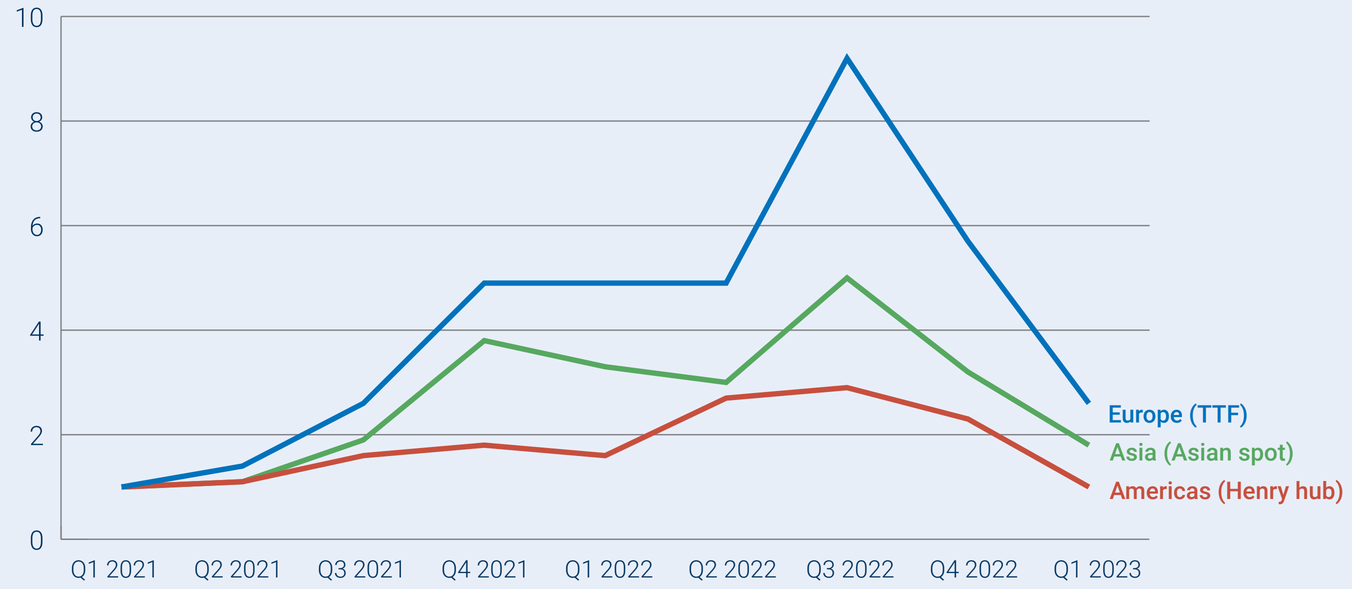
The European industry, however, needs flexibility and technological openness. After all, the **entirety of the economy must be taken along on this transformative journey,** leaving no sectors behind. In order to successfully navigate this transformation, regulations must be grounded in realistic assumptions and embrace technology-open approaches.

The industry therefore welcomes the recently signed Antwerp Declaration, which is intended to supplement the Commission's Green Deal with an „Industrial Deal". This Industrial Deal must now be firmly anchored in the Commission's strategy for the upcoming legislative period until 2029.

It is also imperative to safeguard the energy supply and the stability of the electricity grids, ensuring that they are not compromised. The **issue of energy costs**, which has become increasingly and dramatically relevant in recent years, also demands attention. In 2023, electricity prices for energy-intensive industries in the European Union were almost twice as high as in the USA and China. Domestic and European energy-intensive industries are consequently facing immense challenges.

Wholesale price index for natural gas in the most important markets by quarter, Q1 2021 - Q1 2023

Source: IEA



RECOMMENDATIONS FOR ACTION

- **While safeguarding the competitiveness of energy-intensive industry in particular**, IV is pursuing long-term climate neutrality. However, the concrete **implementation, or the „question of how"**, is crucial. The realistic evaluation of the economic impacts of legislative Green Deal initiatives, particularly with regard to the design of measures and instruments, is crucial.
- Given that technologies for the transformation of the manufacturing industry, in contrast to the energy industry, are predominantly still in prototype or pre-market stages, sufficient **support** is essential **for the industry's market transition, investment and financing requirements.**
- The **availability of energy at competitive prices is a pivotal location factor** for domestic and European industry. Recently, this competitiveness has faced escalating pressures, causing an imbalance in the energy policy target triangle (security of supply, competitiveness, ecology). **The rapid expansion of the energy infrastructure throughout Europ**e must be given top priority, particularly in addressing the often inadequate electricity grid capacities for the electrification of energy-intensive industrial plants. Ensuring an ample supply of natural gas and alternative gases throughout Europe is equally critical and demands immediate attention.
- **Climate-neutral hydrogen** in particular holds the potential to emerge as the pivotal energy source for industrial processes. This requires fundamental **political openness for all types of climate-neutral hydrogen** (blue & turquoise H2). The course must now be set at the European level, as otherwise a cost-efficient scaling up will be impossible. **Importing hydrogen in substantial quantities at competitive prices from third countries is also crucial to the overall success of this endeavour.**

5 ENCOURAGE EUROPEAN INVESTMENT AND SCIENTIFIC & TECHNOLOGICAL EXCELLENCE

Recent years have shown that **the European Union is increasingly losing appeal as a destination for investment.** While the reasons are multifaceted, they are also largely home-made. Certain parts of European industry are also experiencing a decline in production (e.g. chemical and plastics industry), signalling substantial challenges.

In comparison to their US counterparts, European companies encounter limitations in securing essential funding, especially for innovations. The European Central Bank has identified a hurdle in the financing structure, highlighting that investments in European companies primarily rely on debt capital rather than equity capital. Equity financing is notably less prevalent than in the USA and the UK.

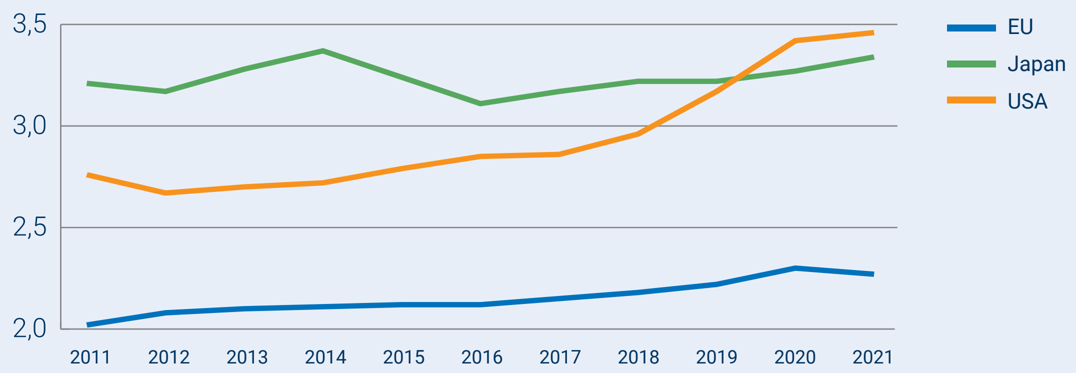
In the long term, the **stimulation of private and public investment** and the massive mobilisation of private capital are imperative. In addition to the successful expansion of the Capital Markets Union, there is an urgent need to bolster venture capital financing to achieve these objectives.

The EU has successfully created a range of financial instruments to promote research, technology development and innovation, as well as cross-border investment. These include the EU Research Framework Programme, IPCEI, Invest-EU, Connecting Europe Facility and the EIF. Framework initiatives such as the EU Chips Act, the Net Zero Industry Act and the Critical Raw Materials Act have also been launched. The industrial policy initiatives in the USA, such as the Inflation Reduction Act (IRA), are quite similar in overall scope, but are often too complex and cumbersome to implement compared to the USA. Their success is also increasingly dependent on funding at the level of individual or several EU member states.

While research and development expenditures in the EU amounted to 2.2% of the EU GDP in 2021, the United States reported a significantly higher figure (3.4%). In addition to maintaining its price competitiveness, the EU must strive to further expand its scientific excellence, technological expertise and technological leadership in order to be successful on the global markets.

The **digital sector** is also crucial for Europe's global competitiveness. Although the EU has adopted a large number of legal acts for the digital sector in recent years, Europe is falling further and further behind in the market. One example of a particularly glaring disparity is in the field of **artificial intelligence (AI)**. Last year, Europe invested 1.7 billion dollars in this future-oriented sector, while the USA invested 23 billion dollars. This is also reflected in the number of AI companies: while the USA has 35 large AI companies, there are only three in Europe.

Expenditure on research and development, by service sector
(Percentage of gross domestic product)



Source: Eurostat

RECOMMENDATIONS FOR ACTION

- The upcoming **EU budget (Multiannual Financial Framework)** must be geared towards future issues and clearly aim to strengthen competitiveness, ensuring that there is no way around Europe as a centre of technology. We must succeed in regaining the ground lost to the USA and China and assert ourselves in the dynamic geopolitical competition. The EU budget must therefore set clear priorities for achieving the EU's industrial policy objectives and invest significantly in research, technology development and the attractiveness of the location.
- A **favourable environment for technological and scientific excellence and the removal of barriers to investment** (e.g. proposed „EU pharma legislation" with planned restrictions on property rights, proposal for an EU initiative on biotechnology and bioproduction), for example by screening existing EU laws that are decisive for general investment conditions, is a priority for a successful European investment and innovation offensive. Strengthening innovation procurement measures at national and EU level is also a central element of such an innovation offensive.
- A core element for improving investment conditions is also the **further expansion of measures designed to accelerate procedures at EU level**, going beyond the Net Zero Industry Act, Critical Raw Materials Act, Renewable Energy Directive, TEN-E and TEN-T Regulation.
- The **expansion of the Capital Markets Union** should be driven forward with great commitment. Possible measures include strengthening the European growth and venture capital market and European venture capital instruments (such as EIC, EIF) for (deep-tech) start-ups and scale-ups as well as for established companies, making stock markets more attractive, reorganising insolvency law, securitising loans, etc.
- Over the past ten years, we have seen a **period of intense regulation in the area of digital technologies.** To ensure that the ambitious regulations have a positive impact on society and businesses across the EU, the next EU legislative period must prioritise implementation and harmonisation as well as enforcement of the regulatory framework. Preferably, this ought to be combined with tangible support for companies from the European and national side and the removal of bureaucratic obstacles. **New rules should only be introduced if a genuine market failure is identified and the current legal framework has been fully implemented across the Union.**
- Europe must succeed in expanding its technological expertise in the field of key digital technologies such as artificial intelligence and data technologies and benefit more from their enormous potential. This requires innovation-friendly regulation to enable and promote the development of these pioneering technologies from within Europe, to drive forward the implementation of specific applications in practice and, subsequently, to make greater use of their economic potential for Europe.
- As part of the **future Framework Programme for Research** („FP10"), an ambitious total budget of at least EUR 200 billion is to be secured, at least **doubling the current funding for industrial sectors of the future.** Project management processes should also be significantly simplified. The EU ought to broaden its array of tools for financing cross-border partnerships, fostering investments in pivotal technologies spanning both business and science. Concurrently, there is a need for enhancing the efficiency and management of these instruments. The EU should further expand the instruments for financing cross-border partnerships to promote investment and key technologies (business and science) and at the same time improve the way they are handled.
- An expansion of **scientific excellence** requires attractive, well-funded **cooperation opportunities** and funding programmes for universities, such as those of the European Alliances under Erasmus+. The legal **framework conditions for attractive international cooperation** must be clearly defined and simplified in order to position EU universities as strategically relevant partners for **attracting talent** (students, teachers, researchers) worldwide. A joint approach to the **visibility of university programmes** and the **transfer of knowledge and technology** from universities to industry, business and society must be further promoted throughout the EU in order to keep pace internationally.

6 SKILLED LABOUR, SKILLS FOR THE FUTURE & EUROPEAN SOCIAL POLICY

An increasing number of companies across Europe and in a wide range of sectors are facing **labour shortages**. This is due to the **skills gap** (notably prominent in the crucial STEM sector vital for industry), the **ageing population** and the increase in the inactive labour force. Further obstacles lie in the **lack of labour mobility** within the EU and the complexities associated with **recruiting qualified workers from third countries.**

These labour shortages and the mismatch between skills supply and demand have a negative impact on businesses and society, such as **reduced economic activity** or **weakened competitiveness**, potentially rendering the EU **less appealing for investment and innovation.**

The European Union needs to shift its focus towards addressing these labour shortages and the mismatch between supply and demand and **distance itself from a predominantly regulatory and overly prescriptive approach to European social policy**. This necessitates a steadfast commitment to the principles of subsidiarity and proportionality. The emphasis should be on social policies essential for the seamless operation of our internal market, with a particular focus on implementing **shared solutions for the recognition of qualifications and initiatives aimed at dismantling barriers to free movement.**

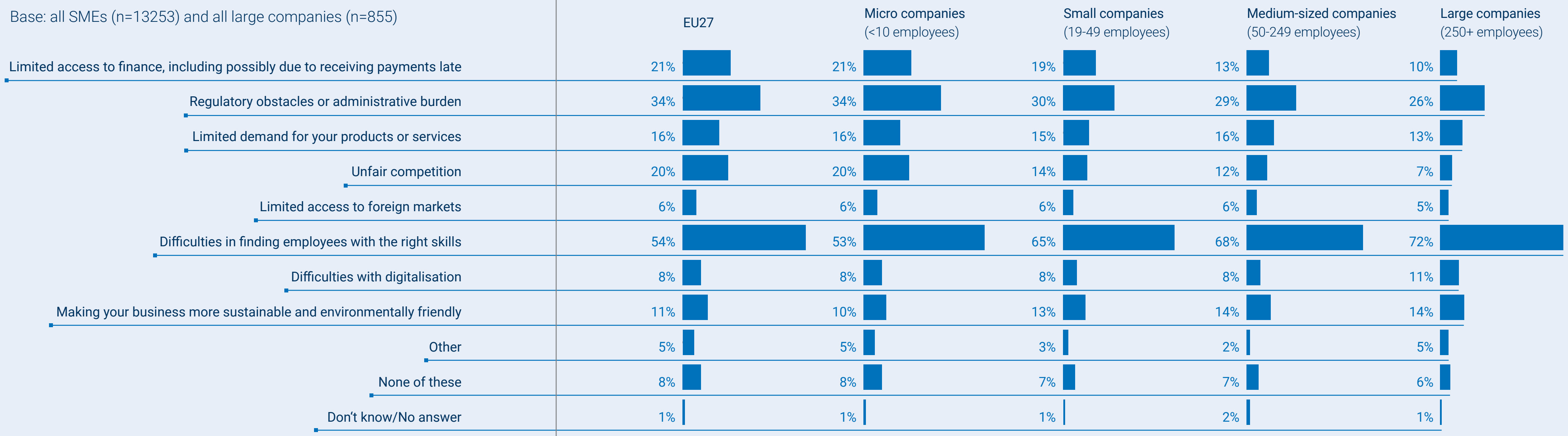
The European Pillar of Social Rights is an important guideline for good work and economic activity in Europe, but must not lose sight of the competitiveness of European companies. There needs to be a renewed commitment to strengthening social dialogue at EU level and to jointly tackling the key challenges facing European economies and labour markets.

RECOMMENDATIONS FOR ACTION

- We welcome the Commission President's **focus on the labour and skills shortage** in her 2023 State of the Union speech - it is an important issue that the Commission should address in 2024 in the form of an EU Action Plan.
- Access to a sufficient number of skilled workers is an important factor for our competitiveness. Nevertheless, the persistent **misalignment between the skills available and the specific needs of companies** hinders our capacity for innovation and growth. Increased **intra-European labour mobility** and standardising the **recognition of qualifications** and diplomas could offer significant assistance in addressing this challenge.
- The **talent pool** proposed by the Commission can make a decisive contribution to making Europe a **more attractive destination for the skilled labour required from third countries.** Actively connecting qualified third-country nationals with the most critical shortage occupations is an important approach that must now be put into practice. Preference should be given to models of skilled immigration that provide companies, workers and their families with long-term planning security. The qualification component must be placed at the centre from the outset.
- The introduction of **algorithmic management** in the workplace will create unprecedented opportunities as well as new challenges for both European employers and employees. Appropriate and meaningful measures must therefore be taken to increase transparency in order to promote greater trust in this area. We **therefore call on the Commission to give companies the necessary freedom to develop responsible and ethical approaches to working with AI technologies** and to give employees the opportunity to use these technologies.

Which three of the following problems are currently the most serious ones for your company?

Base: all SMEs (n=13253) and all large companies (n=855)



Source: Eurobarometer, 2023: https://europa.eu/eurobarometer/surveys/detail/2961

7 STRENGTHEN THE EU'S CAPACITY TO ACT

In addition to the benefits for companies and citizens through the EU single market, a **central purpose of the EU is to achieve better results in major common challenges** than through individual measures by individual member states: for example, through close cooperation at EU level, the pooling of resources and the removal of barriers.

A certain **degree of complexity in decision-making processes** cannot be avoided in a Union with 27 member states and the need for checks and balances (these are particularly important from the perspective of a smaller member state). Nevertheless, from the IV's point of view there is **potential for improvement, if not a need for reform.**

This is particularly true with regard to the **EU enlargement policy**, which will be of central importance in the years 2024 to 2029. There are currently nine recognised candidates for membership of the European Union (Turkey, North Macedonia, Montenegro, Serbia, Albania, Georgia, Moldova, Ukraine and Bosnia and Herzegovina). Admittedly, accession to the EU has so far been handled via a strict **merit-based process** that is linked to stringent conditions. However, EU enlargement policy is once again seen more than ever as a political instrument for stability and security.

Realistically, the further development of EU reform options would have to be chosen on the **basis of the existing treaties**. In addition, there needs to be a sufficient balance between the three EU institutions (Commission, EP, Council) as well as a focussed deployment of capacities within the EU administration.

The international, rules-based world order is under massive pressure from aggressive actors and states that do not shy away from brutal military action. The European Union cannot do enough to counter such behaviour, neither internally nor externally. The mutual assistance clause in Art. 47(7) TEU is not geared towards a continental crisis. Despite a large number of new defence programmes, budgetary and material bottlenecks, long decision-making processes and a lack of cooperation in the areas of procurement, research, cyber security and military mobilisation paint a drastic picture. Europe must now set the course for a **defence union.**

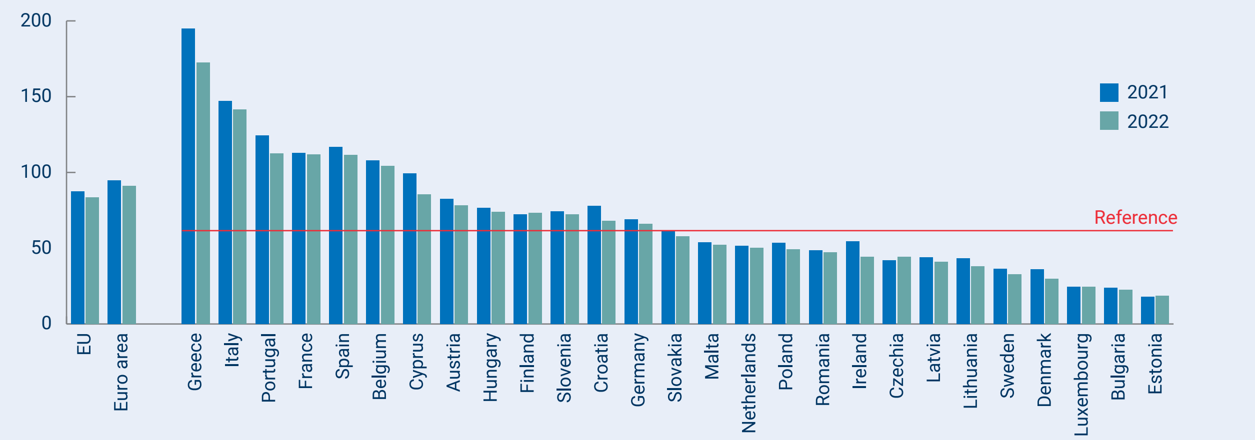
The stability of public finances is just as crucial to the EU's ability to act. In principle, the **Stability Pact** introduced in 1997 limits the annual budget deficit to 3% of gross domestic product (GDP) and total government debt to 60% of GDP. The suspension of these rules in the wake of the coronavirus pandemic and their extension beyond that, partly against the backdrop of the war in Ukraine, led to an increase in debt in most EU member states and the majority of the eurozone exceeded the 60 per cent national debt mark in 2023 (see chart).

The key **innovation in the EU fiscal rules** for member states from 2024 lies in the individual agreement of budget targets, set for at least four years, between the Commission and each country. Despite overarching quantified targets for debt reduction, the Commission will wield even greater fiscal policy discretion than before, raising concerns based on past experiences. Regardless, the **consolidation of national budgets and the implementation of structural reforms in the eurozone countries** are imperative for ensuring the **stability of the monetary union.**

The continuous **call for new EU own resources** is understandable in the context of policymaking at the EU level and to sidestep the net contributor vs. recipient debate. However, the utmost caution must be exercised in order to avoid further increasing the tax burden on European companies.

Government debt to GDP ratio
(in percentage)

Source: Eurostat



RECOMMENDATIONS FOR ACTION

- **Establishing a European Defence Union: the development of a future European security architecture** should build on the lessons learned from the ongoing war in Ukraine. In addition to fostering close cooperation in security policy, there is a pressing need to eradicate the fragmentation within the procurement systems of EU member states to create an **EU-wide internal market for defence equipment** Beyond enhancing Europe's transport and logistics capabilities, Art. 42(7) must be reformed towards an institutionalised duty of assistance – while preserving constitutional characteristics such as Austrian neutrality. The creation (or expansion) of an EU financing instrument for specific R&D projects or defence investments, as well as the revision of the Taxonomy Regulation to support necessary investments in this area, should be considered.
- As IV, we support the European ambitions of the nine EU candidate countries and emphasise the need to continue pursuing the **performance-oriented** approach. **Gradual integration** towards full membership is the best way forward. At the same time, **geopolitical considerations** should also be taken into account in possible accession negotiations, particularly **regarding the Western Balkans.**
- However, ambitious **EU enlargement** must not be limited to technical accession negotiations with the individual candidate countries, but requires a debate on the necessary **adjustments within the EU itself**, addressing important governance and budgetary issues.
- One **concrete way of strengthening the Union's capacity to act** would be to apply the unanimity principle in the EU Council only in particularly sensitive areas such as tax and social policy (by means of a „passarelle clause" without amending the treaties). In other policy areas and for political statements, however, decisions should be taken by „qualified majority".
- **The instruments of the economic and monetary union must be further strengthened.** In the medium term, it is necessary to reduce debt ratios, improve the debt sustainability of EU countries and implement structural reforms. **Any future new EU own resources** should only be introduced on a revenue-neutral basis and the proceeds should be earmarked for specific purposes, **above all for investments that make sense in terms of industrial policy.**
- **All three EU institutions require equal capacities** so that the Council, for example, can better realise its potential within the institutional structure. Changes to Commission proposals, for instance, should also be analysed independently by the Council from an economic perspective and any tightening and competitive disadvantages better identified.

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IMPRESSUM – LEGAL NOTICE
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Central registry of associations: 806801248, registry for interest representation and lobbying: 00160, EU-Transparency Register No.: 89093924456-06
Purpose of the association according to § 2 statutes: The purpose of the Federation of Austrian Industries (IV) is to unite, in a free and democratic form, industrial and industry-related enterprises operating in Austria, as well as their owners and managers, to represent and safeguard their interests, particularly in professional, operational and economic terms, at national, European and international level, to promote industrial developments, to secure framework conditions for the existence and freedom of decision of entrepreneurship and to spread understanding for issues of the economic and social order.

The terms used refer equally to all genders.
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