



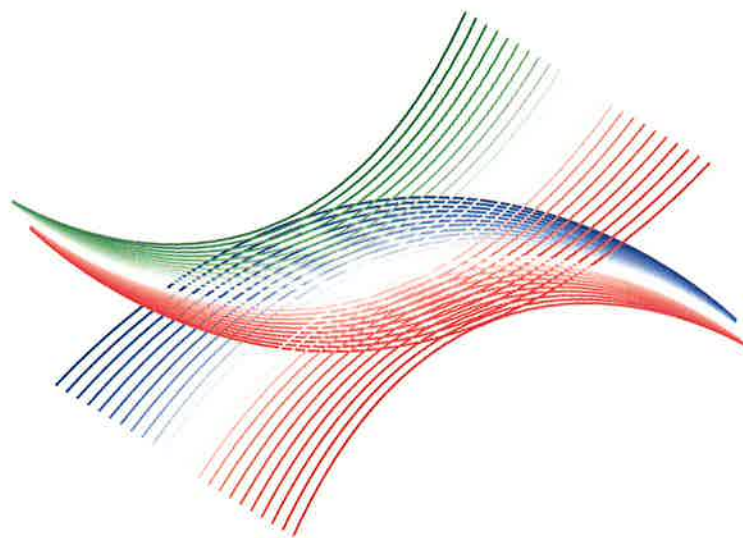
IV BUSINESS FORUM

MEDEF - CONFINDUSTRIA

Joint Declaration

Tuesday, July 12 2022

Paris



On the occasion of the fourth Franco-Italian business forum meeting in Paris on July 12th, the Presidents of MEDEF and Confindustria recall the determination of the two organizations to further strengthen their cooperation and to elaborate concrete proposals to nurture the dialogue with the European institutions as well as the French and Italian governments. Bilateral cooperation between the two countries is stronger than ever, as shown by the signing of the Quirinal Treaty last year: MEDEF and Confindustria are willing to contribute to this process.

Since the pandemic, French and Italian entrepreneurs have been facing unprecedented challenges, such as the impacts of rising energy costs on families and businesses, supply chain disruptions and shortages in raw materials. In this context, the Mediterranean should regain its central role through a shared economic strategy with our main partners in the region, such as Spain and Greece. We ask our governments to support this relaunch, by promoting common initiatives in the energy and defence fields, in addition to migration.

The war in Ukraine has further aggravated these trends, which have direct repercussions on European economies. Ukraine was a major exporter of some of the Europe's most important commodities. Over the past years, the European Union has responded to these challenges and continues to react to crises by showing unity and a sense of urgency when needed. Despite the severe economic consequences of the Russian aggression in Ukraine, both of our countries stand united and are ready to cooperate to face this critical situation. The French and Italian business leaders support the European sanctions adopted against Russia. The respect of the rule of law is essential to ensure reliable business relations. Our two countries are committed to support Ukraine through what is expected to be a difficult recovery.

Despite the impact of the current geopolitical context, it is necessary to pursue the implementation of our national recovery and resilience plans. Regarding the twin green and digital transition, the European Commission has confirmed the ambitious goals and called for an acceleration of the transition process. We fully support this goal and are determined to develop, produce, and export competitive solutions to achieve it. Nevertheless, companies underscore the necessity to restrain from initiatives, which do not consider the operational feasibility, by imposing requirements combined with unrealistic timelines. By overburdening companies in their home markets, European legislators risk hindering the twin transitions and undermining job creation, which should be safeguarded instead. This should be done by implementing effective policies to reduce labour cost and by avoiding a wage-price spiral, which would cause further inflation.

It is vital to create a favourable environment to foster investment and innovation in a functioning single market without barriers. The decision-making process of the European Union should be faster, and this could be achieved for example by abandoning the unanimity rule in the Council. The application of the principles of better regulation regarding economic activities and market diversification legislations is crucial to improve our resilience, both in terms of supply - key components and raw materials - and demand - new customers and business opportunities. We, as Presidents of our national associations, call on our European leaders to consider the multiple implications and effects on the competitiveness of the European economy that pending or enforced policy initiatives will have. All proposals should be accompanied by an impact assessment with alternative policy or legislative options assessed, as to make an informed regulatory choice. This is crucial to establish an economically and socially workable transition pathway to deliver the goals for 2030 and 2050.

The discussions between French and Italian business leaders around energy transition, financing the twin green and digital transformations and defence, security and space related topics highlighted several priorities, such as the importance of open strategic autonomy in this increasingly complex international context.

French and Italian entrepreneurs, as well as the whole European business community represented by BusinessEurope, our common European confederation, are committed to take over their responsibilities, to invest and innovate. We ask the European institutions and the French and Italian governments to fully acknowledge the unprecedented efforts required from European businesses to recover from past and ongoing crises. They need to be offered adequate support to remain competitive,

be able to grow and be in the position to ensure safe economic conditions for their employees, customers, and suppliers.

To this end, we have set three main set of priorities.

1. Supporting the energy transition in the geopolitical shocks in Europe

➤ New energy short-term measures with structural effects

The EU legislator should promptly act to tackle the consequences the war had on energy prices, coming from the dependency on Russian gas. The current situation may be the opportunity to blend measures generating short-term benefits for the industrial system with initiatives generating positive structural effects for companies. This reform could be done by implementing a long-term decarbonisation strategy. Furthermore, we may develop a European market of gas and support important infrastructure projects, such as the connection between Spain and the rest of the European Union. The European Commission should therefore promote measures that release energy (gas and electricity) by accelerating the development of demand response schemes and long-term energy contracts. To fund it, a European solidarity mechanism of grants and loans modelled after the Next Generation EU is necessary.

➤ Electricity market reform

With the Clean Energy Package and the Fit-for-55 package, Europe has made electricity the driving force of the EU's decarbonisation process. European institutions should reconsider the operating mechanisms of Europe's major electricity markets, which were developed over the last twenty years. The main power and energy exchanges are based on the marginal price system. This mechanism can be useful in a short-term perspective, but it does not tackle the long-term market challenges of the energy transition (e.g. enhancing the electricity produced by renewables or nuclear plants). It is necessary to swiftly revise the electricity market design, adopting new mechanisms to deliver long term electricity prices in energy markets that give due value to emerging and sustainable technologies.

2. Financing the twin green and digital transformations

➤ A massive mobilisation of public and private funding to support the green transition

The ecological transition goes hand in hand with the transformation of our economic model. The ecological and economic challenges must be tackled together within a comprehensive industrial policy that should be up to the current global challenges, contrary to what has been foreseen so far. . The cost of climate inaction, which would amount to several hundred billion euros, is not a viable alternative. Therefore, investment and financing must be planned to accelerate the implementation of the ecological transition by 2030. These investments will allow companies and society to adapt to a greener mode of production and ultimately change the way we consume. To create the right conditions for investment, an appropriate incentive policy is needed. From a financial point of view, we will have to focus on the help that can be provided to companies as well as households to take this step. We know that this ecological transition, thus essential to maintain the competitiveness of our companies, will not always be smooth (or painless). The counterpart to these efforts and investments will result in job creation. One of the preferred ways to finance the decarbonization of companies would be to lower production taxes in order to encourage innovation.

Moreover, Europe cannot be decarbonized on its own; we must avoid creating a competitiveness gap with our non-European neighbours. In this way, French and Italian entrepreneurs support the Carbon Border Adjustment Mechanism which works in this direction. This new instrument must be carefully introduced considering its effects on our economies.

Our need to invest is urgent: not only to achieve the green growth by reducing CO2 emissions but also to remain competitive in the global race to develop green technologies. Our sovereignty depends on innovation in the sustainable economy and green technologies' exports. All technological solutions allowing the European Union to reach its climate and environmental objectives must be implemented. French and Italian companies consequently support the inclusion of gas and nuclear in the taxonomy regulation. We welcome the adoption of the EU taxonomy complementary delegated act.

More broadly, we urge for an enhanced cooperation between the private and the public sector to leverage private investment with public money or guaranties.

➤ **Financing is a key lever for the digital transition**

The challenges to seize the opportunities offered by digital innovation for the years to come are multiple, especially from an economic, societal, and environmental perspective. Technological and digital innovation is a driving force for the development of our European territories and business communities. French and Italian entrepreneurs are conscious of that and are convinced that digitization and the uptake of innovative digital technologies can play a key role in improving the competitiveness of their companies, allowing them to improve the profitability of their activities and ensure the development of their business models. Although the current context is favourable to the financing of the digital transition and offers interesting opportunities, businesses' needs for financing remains significant, as the digital transformation of European companies is likely to require an annual investment of €125 billion. It is therefore essential to re-assess public policies to ensure the effectiveness and security of private funding that are aimed to:

- Support the financing of the European Internet network to minimize the broadband-less areas that slow down innovation projects even before considering their financing.
- Ensure the protection of the EU digital economy and strengthen level of cyber resilience of businesses, as well as the justice system in the field of cybersecurity. Cybersecurity has become one of the key elements of the European digital transition and, due its significant impact on businesses and society, will shape the future of the defence and security policies of Member States.
- Foster digital skills in the workforce to address the current gaps, which is essential to benefit from the major developments in key technologies, such as Artificial Intelligence, data processing, Quantum and cloud computing. Without these digital skills, European companies' capacity to grow and innovate will be hindered.

➤ **Supporting investments for the industrial transformation**

To face the green and digital challenges, investments in R&D must be properly supported; this is a necessary condition to develop Europe's own technologies and avoid the risk of having to buy them outside the EU. We call on our countries to define specific support and public-private cooperation mechanisms that are also capable of continuing the industrial development path started within the framework of projects financed by European instruments, such as the IPCEI or the CHIPS Initiative.

We should ensure that European companies are not put at a competitive disadvantage compared to their international peers. In this logic:

- We believe it is important to take an open stance towards further adjustments of the EU rules on state aid.

- It is also important that banks and insurance companies can properly finance the industrial transformation. In this regard, financial regulation and sustainable finance rules need to be shaped to enhance private sector finance contribution to transition finance, while additional rules to accelerate ESG transformation should be carefully considered to avoid crowding out the commitment of the financial sector in supporting companies facing transition. In this context, the finalisation of Basel III rules at the EU level, while ensuring financial stability, should consider European specificities and should not result in significant increases in capital requirements. Besides, bank lending should not come under pressure, and it is necessary that, as economic growth picks up, banks are able to meet corporates' funding requirements. This is key since the green and digital transition will require significant investments by European businesses and these investments will also have to be financed by banks.
- Solvency II revision should support long terms investments which are an absolute necessity for the recovery and future of Europe in its digital and environmental transformations. It consequently should tolerate a certain level of flexibility and risk which insurers would not be willing to bear if the constraints and penalties associated are too strong, especially regarding cost of capital, volatility adjustment, risks reporting and group supervision.
- We urge our governments to actively support the implementation of the capital markets union and the achievement of the banking union in order to establish a genuine economic and monetary union.
- With specific regard to sustainability, while welcoming the ongoing work of EFRAG on reporting standards, we underline the need to speed up in defining voluntary simplified standards for SMEs as well as the crucial importance to define a global baseline of sustainability reporting standards. Moreover, investments should not be hampered by diligence criteria, as well as by too much onerous obligations for sustainability reporting, which risk to inefficiently burden companies. The two main examples are the ongoing legislative initiatives on Corporate Sustainability Due Diligence and on Corporate Sustainability Reporting. The former risks introducing new hardly reachable and measurable goals, while the latter introduces new wider obligations accompanied by reporting standards, whose drafts appear very complex and detailed.

3. Developing synergies in transport, defence, security, and space

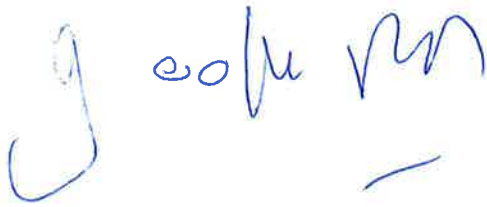
New threats, global rearmament, strategic reorientation, the war in Ukraine have put the issue of defence and security at the centre of our concerns. The Quirinal Treaty is an important step towards a strengthened bilateral cooperation between France and Italy and represents a driving example for European cooperation. We both, as Presidents of MEDEF and Confindustria, support this agreement, witnessing the deep friendship between our two countries. Moreover, this Franco-Italian partnership should help strengthen the European Union at a time when it is suffering from conflicts at its borders. The Quirinal Treaty consolidates existing relations between the French and Italian armament delegations by establishing a common roadmap. Operational synergies between our two countries must therefore be intensified, particularly in the naval, missile systems, space forces, and new generation munitions sectors. The French and Italian defence industries are ready for new cooperation and common roadmaps. They have already proven that this cooperation can be strong and successful, as shown by projects such as the creation in 1982 of ATR (*Avion de Transport Régional/Aerei di Trasporto Regionale*) by Airbus and Leonardo, the joint work between these two companies on the next generation of military helicopter and the collaboration between Ariane and AVIO in the area of launchers.

This collaboration cannot be achieved without a significant improvement of the Union's tangible and intangible infrastructures. Our organizations are therefore determined to support the completion of the Trans-European Transport network and major infrastructure projects, in particular the Lyon-Turin high-speed rail line, a missing piece in the Mediterranean corridor. This is an exceptional project that meets

the threefold objective of economic competitiveness, environment, and regional development. Franco-Italian partnerships in land, rail, sea, and air transport sectors will shape the Europe of tomorrow and are essential to develop the economic and territorial solidarity between our two countries and to strengthen our common international attractiveness.

MEDEF and Confindustria are determined to foster a permanent dialogue between all French and Italian economic players. Our companies are ready to adapt to the new challenges of our time and to contribute to a renewed vision of Europe.

Geoffroy Roux de Bézieux
President of MEDEF



Carlo Bonomi
President of Confindustria

