11TH BUSINESS FORUM CONFINDUSTRIA - BDI

Rome, 6 – 7 September 2021

#BusinessForum21

Joint Declaration

Preamble

We met in Rome on September 6 and 7, 2021, on the occasion of the 11th Italian-German Business Forum of the Federation of Germany Industries (BDI) and Confindustria. We note that Germany, Italy and the European Union are at a critical juncture in overcoming the pandemic and in fostering the economic recovery from the deepest recession in the post-war history.

We applaud both our governments and the European Union for delivering a strong and coherent economic strategy for resurrecting our economies after the waves of the pandemic, involving lockdowns of crucial social interactions and economic activities and stringent regulations. Fortunately, the recovery of manufacturing is well advanced in our two countries already, and in recent months most of the hitherto restricted services sectors made up some lost ground as well. We are not yet fully back to pre-crisis levels of economic activity and need to make sure that policies support a fast resurrection of growth and employment over the next years.

Our national policies on investment and recovery and the implementation of the NextGeneration EU programme are well under way and currently add to economic growth, the stabilization of our social fabric and the structural transformation of our economies in light of the “twin transitions” of climate change and digitalization. Huge amounts of public and private investment will be needed over the next decades to achieve the policy objectives of economic growth and well-being, of a higher economic resilience and strategic sovereignty and of climate neutrality by mid-century. Industrial competitiveness will remain a key requisite in those endeavors. Our companies will need to face these challenges with the best possible policy support that has yet to be fully developed in order to avoid the relocation of production to non-EU countries.

While international cooperation in trade, finance and technology based on a well-functioning international division of labour and open markets will remain crucial, we also support the enhanced efforts of our leaders to strengthen Europe’s strategic sovereignty in a broad range of fields for reasons of national security, economic resilience and technological independence from autocratic states. Again, many new pathways have to be followed.

Acknowledging pathbreaking achievements in collective responses to joint challenges in the European Union as in the past two years should, however, not lead to complacency regarding the challenges ahead of us. The transition of the economic system to achieve mid-range targets on emission reductions until 2030 will already pose great challenges in a wide range of sectors. Meeting those requirements will not be possible without adequate public co-funding and risk-sharing, neither of which is budgeted and appropriately taken into account, neither in national nor in EU budgets. Sustaining competitiveness of European business in the digital transition again will require stronger public support in key technologies with a broad all-purpose character. Achieving a substantially higher degree of strategic sovereignty at the European level across a broad range of domains as laid down in numerous Council conclusions and in the renewed industrial strategy of the EU will require moving from objectives to instruments and funding, too. Talking a strong role and stake in the global order will need to go along with a substantial adjustment in foreign economic policies that is already in the making.

We, the presidents of our national associations, are clearly of the opinion that further substantial moves towards collective problem-solving in the European Union will be preferably to second-best national approaches. We urge our leaders to tackle those larger policy objectives in a common framework and to strive for truly strong European solutions. In several areas, we will have to go beyond current frameworks of instruments and funding as to deliver on our commitments.

Making the green transition a factor of competitiveness for EU companies

- We support the European Green Deal and are committed to the transition to a climate neutral economy by mid-century, which will necessitate a transformation of all our societies in all the Member States – a transformation without precedent hitherto. For such an unprecedented European effort to make a change for the global climate it will be indispensable to very quickly “activate” a global agreement on the Paris Agreement, and to considerably strengthen the Parties’ NDCs. The EU represents some 8 per cent of global GHG emissions. This unmistakably means that all major economies need to act fast now. Our companies are intensifying their efforts to make their production processes more efficient and sustainable and to bring them in line with the European ambitions to decarbonise the economy. The Fit-for-55 proposals need to be developed such that they support the companies’ struggle to contribute their fair share to achieving the EU climate targets. It will be crucial to induce a step-change in all the Member States since incremental improvements alone will not suffice. Huge challenges need to be tackled in all our societies within only nine years. It is therefore very important to properly consider the implementation times of the fit for 55% package within a time frame consistent with the evolution and availability of effective and economically sustainable technological solutions.
- A strong collaborative cohesion is necessary among the European Commission and Member States, in line with the principles of subsidiarity and proportionality, to ensure balanced policies to prevent European industry from losing important strategic manufacturing chains and incur serious effects on employment. To this end, we urge the Italian and German Governments to put in place a closer collaboration in view of next meetings of the Council of the EU, to safeguard the industrial and labour priorities concerned by the Fit-for-55 package.
- To guarantee the social acceptability of the extremely ambitious environmental objectives, our industries will have to continue to provide good and well-paid jobs. They need political and societal, and not least financial support if they want to stand up to this huge challenge. Therefore, effective and extended carbon leakage protection will be a must.
- The work of the EU co-legislators should aim to define a regulatory framework capable of combining the need to completely transform the EU economy within a quite short timeframe with the necessity to avoid penalizing European companies and countries - such as Italy and Germany - that have progressively increased their efforts to accelerate the energy and environmental transition, holding today leading positions in many economic sectors. It is necessary to promote specific industrial conversion programs of some fundamental sectors of the economy.
- The “Fit for 55” package entails stronger commitments on carbon pricing in the existing

system and a new emissions trading system for buildings and road transport. Stronger efforts to establish appropriate carbon-pricing systems globally are also needed in order to avoid carbon leakage risks. It is not yet clear whether the new Carbon Border Adjustment Instrument will be able to guard the limited number of industries subject to the new system. The Commission proposal is still quite unclear, and many essential details are yet to be revealed by the COM in the coming years. We welcome the pilot phase proposed by the COM combined with the gradual reduction of free allocation for the CBAM incumbents.

- However, once the introductory phase will be over it will be absolutely necessary to consider the effects on the financial level for the industrial sectors that will have to purchase all the emission quotas when fully operational. More importantly, extra-EU exports of manufactured goods will need to stay competitive in the wake of decarbonization. This will only work if the basic profitability of new technologies can be established and fostered in the first place. This will require up-front policy promotion and funding until new technologies are well developed, until a rapid cost degression becomes possible and production costs become competitive to old technologies. Of course, adjustments to energy taxation levelling the playing field for new technologies, resources and business models are required and foreseen, too. Moreover, appropriate strategies fostering energy efficiency shall be adopted.
- The integration of the EU energy market should be completed with particular reference to natural gas market – key commodity of the decarbonization process - in order to promote market efficiency, to strengthen the competitiveness of the European Union and to increase security of supply. Achieving an integrated, liquid and interoperable gas market, while removing existing regulatory, operational and tariff barriers, would facilitate also a correct and swift integration of renewable and low carbon gases in the overall energy system.
- The approach to renewables and hydrogen, however, needs to become much more ambitious and needs to be better linked to the decarbonization of energy-intensive industrial sectors whose transformative investments need a clear-cut policy framework and public co-funding now. Similarly, the large transformation of the transportation sector necessitates the establishment of appropriate new infrastructures for charging EVs, for low CO_2/CO_2 free fuels etc. across Europe in the medium term. In the ~~short period~~ transition period it is important to allow all low carbon solutions to contribute and compete on a fair basis towards the clean mobility targets.
- While carbon pricing will play a large role in setting stronger market incentives for private investments, a substantial, permanent increase of public investment in new infrastructure, buildings and transportation is necessary. Moreover, fiscal support for private investment will initially have to be large to incentivize complex transformations in many sectors in which a gradual, market-driven process would be too slow. Therefore, we urge the EU institutions to provide path-breaking new state-aid rules for the Green Deal that allow a much larger role of public support at both the national as well as the EU level while increasing European resources for coping with the social impact generated by the implementation of green-related initiatives. Furthermore, for many of these transformative investments sector-specific policy guidelines for fiscal support are necessary to protect employment, value-added and technological sovereignty. In this context, it needs to be kept in mind that the principle objective of the state-aid rules should be to support all sectors at risk of moving outside the European Union to locations where environmental requirements are less ambitious, due to

the energy costs they are faced with. Current levels of budgeting for those transformative investment are inadequate both in national budgets and in the EU budget.

- Therefore, a serious debate on funding the transformation beyond current quotas in the EU spending programmes, NextGeneration programmes or EIB lending schemes is urgently required both in national parliaments as well as at the EU level. Those quotas pertain only to public investment or policy lending but not to support for private investment. We clearly prefer a joint European approach that delivers the sufficient amount of public funding based on a revamped state-aid framework in the single market and does not resort to the hope that the strategy of financing a sustainable Europe can be solely squared by writing complex ESG rules for banking, asset management or insurance. Rather, in most difficult areas such as energy-intensive industries (chemicals, steel and metals and other intermediate goods) green investments need a policy framework that turns strictly negative returns on current market terms in mildly positive ones; a fact recognized by the Commission and member states. Only then can private banking and capital markets begin to play their role. This will also require new instruments of providing transitory cost- and risk-sharing with the private sector on capital expenditure and partly on operational expenditure, for example by carbon contracts for difference and similar instruments.
- In addition, infrastructure investments into the hydrogen and carbon capture and use value-chains are necessary. Funding programmes for research and development are mostly in place, and schemes for investment in up-grading human capital and skill are in the making, too. In many instances, however, accompanying product market, public procurement and other rules must be simultaneously adapted as to allow a green and circular economy to take hold fast enough. It is fair to assume that public support for transformative investments will need to reach in the first decade of the Green Deal a level of a very high double-digit billion euro amount that needs to be financed out of national budgets, the EU budget or other funding schemes.
- The new strategy on sustainable finance presented by the European Commission is very ambitious and should be implemented in a proportionate and gradual manner, to really support those activities that are contributing to transitioning towards climate neutrality and environmental sustainability. In this context, it is important to maintain a positive approach promoting the transition of economic activities towards sustainability rather than penalizing activities not yet sustainable but involved in a process of change. On a global level it would be important to work towards the harmonization of reporting standards of ESG investments as well as on the definition of sustainable finance and circular economy taxonomies and the alignment of ESG disclosure frameworks, ensuring consistent implementation and guaranteeing a level playing field.

Promoting the single market, an EU industrial strategy and the digital transition

- We welcome the Commission's renewed industrial strategy fostering growth, resilience and sovereignty. A stronger approach including clear objectives, an adequate toolbox and stringent monitoring of policy are clearly warranted. Reducing key industrial and technological strategic dependencies of the EU economy based on the Commission strategy is of great importance. The European institutions should soon set clear milestones for industrial policy, establish action plans on the most crucial topics and apply the policy instruments from funding in EU programmes to a supportive regulatory environment and appropriate structures for networks and governance.

- Addressing such dependencies in raw materials, chemicals, health products, hydrogen, semiconductors and cloud and edgetechnologies is warranted. While we clearly applaud the new IPCEIs on batteries, microelectronics and hydrogen, a stronger approach based on innovative funding mechanisms also involving the EU budget from research and innovation to demonstration is warranted, too. Steps towards reducing Europe's technological dependency in the semiconductors should be taken soon, including the strengthening of the design and production networks in semiconductors in Europe.
- Referring to the new IPCEI framework, which includes projects in strategic sectors which increase their technological excellence and resilience, we ask the Italian and German governments to quickly launch and promote additional frameworks, with a wide share of public-private participation, in fields such as automotive, steel industry, aerospace, shipbuilding and defense.
- The COVID-19 crisis has shown how much economy and society are increasingly depending on digital technologies and in need of new business models. Now more than ever, the digital transformation of our businesses, the uptake of digital technologies (such as AI, Quantum and HP computing, Blockchain) and the competitive access and use of data have therefore an even higher potential and role to play in increasing industrial productivity, reducing costs and providing innovative goods and services. BDI and Confindustria welcome the EU's initiatives to foster the digital transformation. A smart data policy in conjunction with legal certainty for the utilisation and exchange of data by companies are integral for the success of an innovative data economy.
- To this end, we call for a legally certain regulatory framework that can strike a balance between fostering innovation and ensuring an adequate level of security and data protection as well as targeted solutions from the EU and our governments to stimulate investments in digital solutions (especially for SMEs and most vulnerable businesses), address the dependency of many strategic EU sectors and critical infrastructures from components and services offered by non-EU countries and tackle the existing digital skills gap through ad hoc assistance programs.
- The emergency created by pandemic has strongly highlighted the strategic role of freight and passenger transport and logistics as an irreplaceable driver, in order to support domestic supplies and to give new impetus to the demand for foreign trade, in particular to reboot growth. For this reason, BDI and Confindustria call upon the EU to set up an automatic mechanism for the activation of Green Lanes in case of emergency situations, to interrupt and avoid the return of bottlenecks and serious delays in inbound and outbound supply chains. We stand against all forms of unilateral cross-border blockades along the core network due to crisis situations or alleged emergency.
- Moreover, Confindustria and BDI stress the need to strengthen TEN-T governance instruments, in order to avoid blocking border transit at the core nodes and ensure the management of alternative rail or road routes. Implementation of TEN-T both at national and EU level is essential to allow people and goods move faster and safer, to promote

sustainable and digital solutions in line with European new targets, to greater integration and development of the internal market. The revision of the TEN-T regulation, scheduled for autumn, could be an opportunity to rethink the governance of the Corridors, for example by "Europeanising" the management of disputes in nodes such as the Brenner Pass.

- In this regard, Confindustria and BDI denounce the Commission's continuing inaction on the crisis generated by the blockade of the Rastatt railway junction, the Brenner corridor at the Italian and German border with Austria, and recall the Commission to its role stated by EU Treaty. Correct implementation of European law is an essential condition for the proper functioning of the internal market, especially to avoid competitive distortions.
- Confindustria and BDI deem necessary to preserve the Single Market as a strategic asset of the EU and call the European Commission to counteract every attempt of fragmentation and ensure a real level playing field for European businesses by increasing controls and sanctions towards the Member States not respecting EU laws.
- The future EU proposal on due diligence should be workable, proportionate and effective. It should not be a way to simply transfer state responsibilities on to companies. Any framework should be based on an obligation of means rather than an obligation of results. The focus should be on the area of direct impact and tier 1 suppliers in the supply chain according to the severity of the risk. Moreover, it needs to take account of the needs of Small and medium-sized companies (SMEs). In this context, depending on the extent and nature of those measures several options should be considered, from exemptions to softer requirements. Similarly, as for the future EU proposal on sustainable corporate governance, it is to consider that the EU framework has already fostered the transition towards new sustainability goals thanks to targeted rules, corporate governance codes and company best practices, thus nullifying the need to expand the corporate purposes and fiduciary duties as well as responsibilities of directors further misleadingly. Finally, the EU proposals should guarantee a level playing field with international competitors. Coherence with other EU initiatives should be ensured too, to have a clear legislative framework and to reduce burdens for enterprises.

Europe as a strong partner at global level

- We stand against all forms of protectionism. We call the EU to keep on engaging with its trade partners to revamp the multilateral trading scheme by establishing a modern rulebookthat enables the WTO to carry out its role effectively. The twelfth Ministerial Conference (MC12) scheduled to take place in the week of 29 November 2021 in Geneva represents a unique opportunity to address this, while tackling other urgent matters such as the close interconnection of trade and investment with climate action and sustainability. We are also in favour of the reform and modernisation of the Agreement on Subsidies and Countervailing Measures (SCM), and of the development of ambitious multilateral and plurilateral agreements in fields like e-commerce. Another top priority is an effective reform and reinstatement of the Appellate Body and thus, the dispute settlement mechanism. The WTO secretariat should be strengthened to assist in the monitoring and enforcement of rules. The MC12 thus provides the opportunity to deliver on a detail-oriented reform agenda concerning both the aforementioned dispute settlement predicament as well as the overall reform needed within all three pillars of the WTO: rulemaking, transparency, and enforcement.

- We welcome the strong commitment of the Biden Administration to the transatlantic partnership. The United States remains the EU's most important partner and ally. Only together with the United States can we tackle major global challenges such as climate change and pandemic control and convince other partners to join our efforts. Since these challenges are numerous, the transatlantic agenda of the coming years must also be shaped in a positive way. A new transatlantic agenda further requires clearly defined milestones. We welcome the establishment of a Transatlantic Trade and Technology Council (TTC) and stand ready to support the TTC with industry's proposals and expertise. Bilaterally, the EU and the United States should find solutions to their remaining trade disputes and reduce barriers to transatlantic trade and investment in order to strengthen our economies.
- We call for an assertive and unified China policy of the EU and its member states that balances cooperation, competition and confrontation. China's state-controlled economic system leads to market distortions and an increasing politicisation of business interactions. This undermines the global level playing field. The EU should continue to engage China constructively, whilst simultaneously taking its own measures and coordinate closely with like-minded international partners to address the challenges of systemic competition with China. Unfair trade practices, such as illicit subsidies, must be urgently addressed at bilateral and multilateral level, but also through unilateral measures. In this context, we support the Commission's recent proposal for a regulation on foreign subsidies, which represents an important step forward to guarantee a level playing field and preserve our internal market from external competitive distortions, wishing for a frequent involvement of stakeholders in order to support the legislator in achieving a good balance between the internal market protection and the beneficial investments flows.
- Russia is a key business partner for our economies, in particular when it comes to bilateral trade in goods and energy supply. While we understand and share the concerns that led to the current sanction regime, we also underline the importance of returning to selective engagement in economic relations based on the five Mogherini principles.
- Finally, we are closely monitoring the current situation in Afghanistan, and we stress the importance of finding solutions in the framework of the UN and of the G20 in the interest of the Afghan people and to avoid further destabilization in the region.

Over the next few months, BDI and Confindustria will jointly undertake several initiatives at the European level, also in conjunction with BusinessEurope, our common European organization, in order to pursue these objectives.

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