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Charting a Green and Competitive Future for Europe

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The Egmont Royal Institute for International Relations, with support of the Belgian Ministry of Foreign Affairs and in collaboration with the Representation of the European Commission in Belgium, has organised a series of three foresight workshops and three working dinners. Each session was dedicated to a key strategic challenge, providing a vital platform for dialogue and expert insight sharing among decision-makers from EU institutions, the Belgian administration, and civil society. Far from being just a theoretical exchange, the discussions were a targeted effort to further develop strategic long-term thinking, with a vision extending over the next 5 to 10 years.

I. INTRODUCTION

The inaugural session, focused on ‘**Charting a Green and Competitive Future for Europe**’, addressed a pressing issue of our times. In 2023, the [World Economic Forum Global Risks Report](#) propelled climate change to the pinnacle, categorizing it as the greatest risk, and underscored its entangled nature with diverse social, economic, and political dynamics. Recognizing its critical importance, the Commission has placed this theme at the heart of several [Strategic Foresight Reports](#). These reports, among numerous other efforts, reflect the EU’s commitment to navigating the delicate balance between ecological sustainability and citizens’ wellbeing, with economic growth in the twin transition. This theme’s relevance stems from its central role in shaping the future transformation of our society and economy, highlighting the EU’s proactive approach in addressing these interconnected challenges.

This paper explores this balance, examining how the EU can foster a sustainable yet competitive environment amidst the digital and green transitions. The ensuing sections dissect key challenges and envisioned strategies to a well-balanced transition in five critical areas: **regulation and implementation, competitiveness and investment, single market, labour and skills shortages, and social cohesion**. This synthesis aims not only to provide a reflection of the current landscape but also to offer a visionary outlook for the EU’s future in a rapidly changing world.

II. DISCUSSION

As the EU advances its digital and green transitions, it is confronted with a constellation of decisive challenges in an increasingly unpredictable environment, characterized by complex geopolitical dynamics and changing economic realities. These challenges necessitate multifaceted strategies, addressing both internal policy implementation and external global competition trends. Each of the following sections discusses a specific aspect of these challenges, outlining the problems and potential strategies.

(1) Bridging the gap: Implementing the European Green Deal’s vision

The [European Green Deal](#), launched in 2019, represents the EU’s ambitious strategy for transitioning into a sustainable society with net-zero greenhouse gas emissions by 2050. While the goals are ambitious and visionary, the EU faces significant challenges in realizing them. A major obstacle is the **structural implementation gap** of EU policies, where discrepancies between policy

design and execution often hinder effectiveness. This gap, exacerbated by varying levels of capabilities among Member States and inconsistent policy application across the Union, poses risks to the Green Deal's objective of a **just transition** and stretches the EU's capabilities and resources.

To address these challenges, the European Commission has introduced more explicit regulations, as exemplified by the [Net Zero Industry Act](#) and the [Critical Raw Materials Act](#). These legislative pieces provide comprehensive guidance on **implementation procedures** to Member States, ensuring uniformity and effectiveness in their application. They form essential components of a broader **regulatory framework** that provides the backbone of the scaling process, creating a stable and predictable environment conducive to investment and innovation. **Uniform implementation** across the EU is key in maintaining the **integrity of the single market**, supporting businesses in adapting to new norms and standards, and boosting the EU's internal market resilience and sustainability. These measures collectively aim to bridge the gap between policy and practice, and reinforce the EU's commitment to its Green Deal objectives by **providing businesses with the certainty and security** required to invest in and adapt to these transitions.

(2) Strategic Innovation and Investment: Key to EU's Global Competitiveness

The EU's ambition for a **first mover advantage** in climate mitigation strategy, premised on the early adoption of climate-friendly policies and technologies, faces significant obstacles. A major challenge is the EU's **over-reliance on imported technologies and critical raw materials**, which limits its autonomy in ensuring the green and digital transitions and its capacity to lead effectively on the global stage. Compounding this is the persistent **dependence on fossil fuels**, posing a substantial barrier to achieving sustainability. Additionally, **investment constraints**, stemming from limited **public spending** and uncertainties surrounding the **Capital Markets Union (CMU)**, impede progress. A well-functioning CMU is essential to meet the needs of

the twin transition, not only to support innovation in small and medium-scale enterprises, but also to ensure competitiveness and longevity of climate efforts. Against this backdrop, a **risk-averse investment climate** has led to a **scarcity of venture capital**, crucial for the growth of innovative startups and technological advancements. This scarcity is compounded by a discernible **decrease in solidarity** within the **European Commission's budget** and the lack of consensus on new funding resources, which foreshadows potential financial and budgetary turmoil in the upcoming Multiannual Financial Framework review negotiations.

To overcome these hurdles, fostering **robust innovation ecosystems to nurture homegrown technologies** is key. The European Commission's [Innovation Fund](#), dedicated to supporting large-scale green-tech projects, plays a pivotal role in enhancing competitiveness. This fund is instrumental in nurturing homegrown technologies, reducing reliance on external sources, and facilitating a shift away from fossil fuels. Additionally, **synchronizing supply and demand** through [industrial alliances](#) is crucial. These alliances, which unite diverse public, private, and civil society partners along the value chains, are instrumental in aligning business needs with market availability, and ensuring a balanced and responsive economic ecosystem. **Investments** play a significant role here, fueling growth and enabling businesses to capitalize on opportunities in green and digital technologies. To boost investment, **strengthening the CMU** and cultivating a more investment-friendly environment are vital. These strategies need to include **innovating funding mechanisms** that could catalyse much-needed venture capital and ensure fair distribution of resources across Member States. The upcoming MFF review negotiations present an opportunity for the EU to reassess and realign its financial strategies, potentially introducing more flexible and responsive funding models to support its ambitious green and digital transitions. Establishing a more coordinated approach to investment, aligned with the goals of the twin transition, will be crucial for the EU to sustain its growth and maintain its competitive edge in a rapidly evolving global landscape.



(3) Transforming Single Market: Towards greater integration

The EU's single market is undergoing a notable transformation, moving away from being perceived as an aggregate of 27 national economies towards a more **unified economic entity**, akin to other major global powers. This paradigm shift, spurred by global challenges like the pandemic, geopolitical conflicts, and the energy crisis, accentuates the need for **integrated value chains** within the EU and for having reliable trading partners in the world. The pandemic, in particular, cast a spotlight on the risks associated with fragmented value chains, evident in sectors like automotive manufacturing and vaccine production, and exposed **vulnerabilities in raw material sourcing and industrial production capabilities**. Concurrently, the internal market is challenged with maintaining a **level playing field**, amidst the pressures of global competition and an evolving economic climate. The role of **state aid** has gained prominence, especially in light of recent global crises and legislative changes like the Inflation Reduction Act in the United States. While state aid relaxation can help Member States support their businesses through subsidies, thus potentially ensuring the robustness of the EU single market on a global stage, it also risks distorting competition within the EU. This is particularly true for Member States with more fiscal space to offer subsidies, potentially creating disparities within the internal market.

Addressing these challenges involves a strategy that reinstates stricter **state aid discipline** in conjunction with **aligning EU and national fiscal support**. This dual approach is designed to stimulate growth by establishing a robust financial framework that supports innovation and expansion, while ensuring fair competition within the internal market and adapting to global competitive pressures. Such alignment is crucial to ensure that fiscal policies support business scalability and transition towards more sustainable and technologically advanced operations, without compromising the internal market's integrity. Additionally, the concept of **sovereign investment fund**, financed by common debt, has been mooted as a strategic tool to catalyze innovation and

competitiveness, as it provides necessary financial support for growth. Moreover, the EU has initiated a comprehensive **analysis of its imported products** to further identify potential diversification opportunities and vulnerabilities, with the goal of crafting strategies to respond to supply chain disruptions and to strengthen strategic autonomy. The mapping is essential for boosting the resilience and sustainability of the EU's internal market.

(4) Tackling Labour and Skills Shortages

The EU is currently navigating a unique labour market situation. Despite recording the **lowest unemployment rate** in its history, it concurrently faces unprecedented **structural labour and skills shortages** across various sectors, including healthcare, construction, manufacturing, and ICT. These shortages, exacerbated by **demographic shifts** like an aging population and diverse labour market dynamics, are becoming more pronounced as the EU adapts to a changing world. Recognizing demographic changes as a strategic competitive factor, as highlighted in the Commission's recent paper, is crucial. These changes can be leveraged to diversify and strengthen the workforce, especially in the face of green and digital transitions. The **green transition** is projected to create up to 2.5 million additional jobs by 2030, while the **digital transition** urgently requires a wide range of ICT skills, evidenced by a shortfall of 11 million ICT professionals against the 2030 target of 20 million.

To address these challenges, the EU has declared 2023 as the **"European year of skills,"** which has given a fresh impetus on the growing labour and skills shortages. Central to this strategy is **enhancing labour market participation among underrepresented groups**. This includes the roughly 7 million young people not in employment, education, or training (NEETs), and women, as gender gaps in the European labour market contribute to GDP per capita losses of up to 10%. **Reskilling and upskilling** the domestic workforce is paramount to equipping them with the necessary skills for the changing job market, especially in the context of the green and digital transitions. Additionally, supporting intra-EU



mobility is also vital. While many actions promoting qualification recognition, labour mobility, and learner mobility are underway, these measures alone are insufficient to meet the growing demand. Consequently, the EU's future competitiveness hinges on its ability to attract **global talent**, which requires **detoxifying the migration debate**, more cooperation with **partner countries**, establishing new pathways for **legal migration** (e.g. Talent Mobility package with the EU talent pool), offering **skills development support**, and promoting **circular migration** to counteract brain drain. In essence, these strategies are crucial in overcoming labour market challenges and ensuring the EU's economic growth and stability.

(5) Social Dialogue for a Just Transition

The EU's strategy for a green and competitive future necessitates a **citizen-centred approach**, which recognizes the importance of inclusive and equitable policies. A primary challenge is **designing a just transition** that considers the socio-economic impacts on all levels of society. The complexity lies in ensuring that all are considered and that the economic transition does not exacerbate existing social inequalities or create new ones.

To achieve this, **social expenditures** must be viewed not merely as costs but as vital **investments** in the EU's social fabric and long-term sustainability of its efforts. These expenditures play a crucial role in ensuring that the transition to a greener economy is fair and impartial, with no one left behind. Likewise, investing in **social dialogue** is essential for strengthening social cohesion and preventing further societal fragmentation. Strengthening the European mindset in trade unions is a key part of this, ensuring that labour movements align with and support broader EU goals and policies. The Belgian Presidency is devoted to furthering this dialogue and has been doing so through its preparation of the **La Hulpe Declaration** and the upcoming **Val Duchesse Summit**, both committed to the continued engagement and social dialogue between workers, businesses, and civil society. A citizen-centred approach, prioritizing

social investment and dialogue, is pivotal for ensuring that the EU's transition is not only economically viable but also socially just and inclusive.

III. CONCLUSION

At the heart of these discussions is the alignment of the **European Green Deal's vision** with broader **industrial policies and competitive strategies**. This alignment represents Europe's commitment to environmental sustainability, economic resilience, and climate action. It necessitates a unified approach to **policy formulation and implementation** across Member States, ensuring adherence to the EU's ambitious sustainability targets. However, achieving this synergy raises questions about **budgetary allocations** and the effectiveness of these policies in practice. There is a growing recognition that overcoming these challenges will require breaking free from **siloe thinking** and adopting a more integrated, holistic approach. Moreover, the paper underscores the need for **strategic innovation and investment** as fundamental pillars of the EU's **global competitiveness**. This includes fostering **technological self-reliance**, diminishing reliance on **fossil fuels**, and diversifying **critical raw materials** and imported technologies. The transformation of the **single market towards greater cohesion** is crucial in establishing a more resilient, unified economic entity. Concurrently, addressing the EU's **labour and skills shortages** is identified as a vital component of fostering inclusive growth and empowering the workforce. **Social dialogue** emerges as an indispensable element in ensuring a **just transition**. The emphasis on **social investment and dialogue**, as championed by the Belgian Presidency through initiatives like the La Hulpe Declaration and the Val Duchesse Summit, underlines the necessity of integrating economic objectives with the comprehensive welfare of society.

Looking forward, the strategies outlined in this paper pave the way for a vision of Europe that is **sustainable, competitive, adaptable, and inclusive**. They set a precedent for future policymaking that advocates for collaborative efforts and strategic foresight in tackling emerging challenges. As Europe moves into a new era,

the role it will play on the global stage will largely depend on how effectively it navigates these transitions, while balancing internal cohesion with external competitiveness. The success of these endeavours will define Europe's future – as a leader in sustainable development, technological innovation, and social equity, shaping a green and competitive future for all.

In summary, the **digital and green transitions represent more than just pathways to sustainability**; they can be catalysts for economic **competitiveness in the EU**. The challenges surrounding budgetary considerations and effective implementation call for innovative approaches and cross-sectoral collaboration. Moving beyond siloed thinking, the EU is poised to forge a path that harmonizes environmental sustainability with economic growth and social justice, setting a precedent for future generations. The successful scaling of businesses in this context relies on a multifaceted approach, encompassing regulation, implementation, strategic alliances, investment, fiscal alignment, and skills development. This comprehensive approach will be pivotal in shaping a green and competitive future for all in Europe.

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