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Prime Minister of the Republic of Latvia



GOVERNMENT OFFICE
OF THE SLOVAK REPUBLIC

1st March, 2023

Dear Ursula, dear Charles,

With geopolitical tensions, challenges to our security of supply and a global technology race, Europe's future competitiveness and global influence rest on making our economic and regulatory model fit for a sustainable future. The European Union must be at the technological forefront to stay competitive and ahead of the game. At the same time, we need to avoid going from a dependency on import of fossil fuels to a new dependency on raw materials for the green transition.

In many ways, we are on the right path in decarbonizing our economies in Europe. Looking for strengthening of our strategic resilience, we remain dedicated to ensuring secure, stable and sustainable supply chains for the green and digital transitions. We will engage open-mindedly in developing a more robust and sustainable, yet free and fair trade and industrial policy, creating growth, prosperity and social cohesion while ensuring Europe's role in the technologies of tomorrow.

Ursula von der Leyen, President of the European Commission
Charles Michel, President of the European Council

To contribute to the preparations for the March European Council, we address this letter to you to highlight the importance of implementing measures to improve the long-term competitiveness of the EU.

Political attention has been focused on short-term measures in view of high energy prices and more assertive global competition in the clean tech sector. What the European Union needs now is a strategy on long-term competitiveness to keep up with our main global competitors in terms of economic output and productivity. Covid, Russia's war on Ukraine, soaring energy prices and the Inflation Reduction Act made this more visible, but strengthening our competitiveness should be a priority at all times, not only during times of crisis. There is a significant productivity gap when comparing European firms with for example its US counterparts. Between 2014 and 2019, European firms grew on average 40 percent slower than their US peers and spent 40 percent less on R&D.

The challenges of the past few years have forced us to adjust well-proven policies, and we have demonstrated that our common strength is greater than the sum of all the Member States. However, crisis management and reactive measures do not in themselves build a robust and future proof economy that secures European prosperity and global leverage. Indeed, there might even be a risk that the combined effect of short-term measures distorts the level playing field and changes and potentially weakens the fundamentals of our economy.

Therefore we urge that we give due consideration to securing the long-term economic growth needed for the future well-being of citizens, for the creation of more and better jobs, for the green and digital transitions and open strategic autonomy. We need this to address successfully the mounting challenges, without obliging future generations to foot the bill.

Europe needs a long-term strategy for competitiveness and productivity, which complements the Commission's latest initiative of the Green Deal Industrial Plan. We should give the Single Market a strategic overhaul, addressing its fragilities with the aim of boosting competitiveness and productivity, ensuring equal opportunities for all, and promoting the green and digital transitions. The services sector is particularly important and should feature prominently in the updated strategy. Our compass should point in the direction of

improving our current toolbox and policies that are conducive to growth, fully embracing the opportunities offered by the new innovative technologies, including green solutions.

In the long-term, it is competition and free movement on the Single Market that constitutes the basis for future growth. Clean tech industry has a vital role to play, not least in meeting our climate goals. However, a competitiveness strategy needs a broader approach with a view to increasing productivity and growth across the whole economic base of our continent.

We are convinced that a comprehensive strategy based on our own strengths, deepening the Single Market, emphasizing better regulation across the board and reducing unnecessary regulatory burden, ensuring faster permitting and approval procedures, removing barriers to private capital flows, improving the EU investment climate, having a stronger focus on innovation and R&D and stakeholder-driven standards, acceleration of green and digital transition, ensuring data flows, implementing real-time economy solutions at EU level and fostering a skilled European workforce, while reducing our strategic dependencies, will put us in a better

position to ensure our long-term competitiveness at the frontier of innovation and growth. The long-term strategy should be based on a needs analysis to have a better understanding of the impact of ongoing challenges and the strategic sectors that need our attention.

We also need to promote a more ambitious trade policy, continue supporting the multilateral rules-based system and cooperate with key partners to support the EU's competitiveness, resilience and prosperity. It is important that the EU is able to swiftly negotiate and conclude trade agreements, not least as an important tool in the strengthening and diversification of our supply chains. The EU should remain open for trade and investment, while defending our interests when facing unfair trading practices.

Furthermore, a strong and fully functioning Capital Markets Union is crucial to improve EU's growth potential. Reducing barriers and improving functioning of capital markets would improve capital allocation and support our (SME) companies and hence EU's competitiveness. At the same time, the CMU is also of vital importance in ensuring necessary private capital investments for the green and digital transition. There is still significant

untapped potential for private investments, both in emerging fields and in mature technologies, such as offshore wind and solar. It is critical that we unleash this potential across Europe. We should improve conditions and structures for investments, strengthen ecosystems that are the key for the twin transition and channel investments into connecting a larger portion of our supply of green energy across the EU.

Our wish is that the European Council can adopt such a strategy this spring and look forward to continuing discussion with you on this important issue.

Yours sincerely,

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