
Brussels, 21 December 2023

# Orgalim recommendations – European Economic Security Strategy


## Executive summary

Orgalim takes note of the increasing focus of the European Commission on economic security and of the publication of the European Economic Security Strategy (EESS) in June 2023. While acknowledging the importance of economic security, we firmly believe that the process of de-risking industrial value chains should remain primarily market driven. The EU should avoid excessive public interventions in industrial value chains, and place more emphasis on creating the best possible framework conditions for companies to achieve technological leadership and remain competitive internationally in the long term.

We therefore wish to put forward the following key priorities as regards the implementation of the EESS:

- Focus on reducing the regulatory burden created by overly prescriptive legislation, to promote the competitiveness of Europe's industrial base.
- Refrain from excessive state interventions in industrial value chains, especially those that artificially reallocate resources from areas where the EU is competitive to areas where it does not enjoy a comparative advantage (and relies on imports).
- Prioritise the delivery of commercially meaningful outcomes under the EU-US TTC, such as the negotiation of a Mutual Recognition Agreement on Conformity Assessment for machinery and electrical equipment.
- Proceed to a speedy implementation of the EU-Mercosur FTA.
- Swiftly conclude negotiations of other FTAs, such as those with India, Indonesia and Australia.
- Develop a wide network of international partnerships on critical raw materials with strategically important CRM supplier countries, such as, among others, the US and Australia.
- Refrain from presenting a proposal for the revision of the FDI Screening Regulation and for the revision of the EU dual-use export control regime.
- Exercise extreme caution in evaluating a potential future Outbound Investment Screening Mechanism to avoid increasing the regulatory burden for Europe's technology industries.

# Introduction

Technology companies in Europe are part of complex international value networks that thrive on an open and rules-based international trade environment. We export approximately €745 billion worth of goods annually, accounting for over 25% of our turnover and almost a third of the EU's goods exports.

In recent years, our industries have experienced supply chain disruptions and raw material shortages, for example due to the Covid-19 pandemic and the Russian invasion of Ukraine. This has made evident the need to de-risk our value networks and address existing dependencies to ensure security of supply and remain competitive internationally. To achieve this, our industries need maximum flexibility to source raw materials and other manufacturing inputs from a diversified global network of suppliers at competitive prices.

Orgalim takes note of the Commission's increasing focus on economic security, and of the publication of the "European Economic Security Strategy" (EESS) in June 2023. While acknowledging the importance of economic security, we stress that the process of de-risking of European industrial value chains should remain primarily market driven. The strongest driver of Europe's economic security is technological leadership based upon a strong, internationally connected industrial base, which enables the creation of mutual strategic dependencies. The EU needs to be the world's most attractive place for RD&I, where new leading technologies are created – not just regulated.

Any legislative intervention aimed at promoting the EU's economic security should create the best framework conditions for market operators to build resilient value networks, safeguarding an open and rules-based international trade environment. "Protective" measures should only be used as a last resort, whereas the "promote" and "partner" approaches should be the starting points for enhancing economic security. This is why our industries urge the Commission to accelerate ongoing negotiations on Free Trade Agreements (FTAs) with third countries (such as India), and the entry into force of concluded FTAs (e.g. Mercosur[1]). Our assessment is that the EESS places too much emphasis on protective measures and public interventions in industrial value networks, and not enough on "promote" and "partner" policies that would safeguard our competitiveness and strengthen our role in the global economy. This could be detrimental to the overall economic security of the EU.

This paper aims to provide a set of key recommendations for the successful roll-out of the EESS. In general, we call on the Commission to maintain a structured and meaningful public-private dialogue at every step of the process: before, during, and after the implementation of possible measures under the EESS. This will be essential to avoid unintended consequences and ensure an overall positive impact on Europe's economic security.

# Our views on the European Economic Security Strategy

## Promoting the competitiveness of European industry

Orgalim welcomes the fact that the EESS stresses the need to promote the competitiveness of Europe's industrial base. To achieve this, the EU needs to focus on removing barriers and strengthening framework conditions for a well-functioning single market, with reliable access to cost-efficient sourcing from global markets. The Commission must

[1] The EU and Mercosur reached a political agreement on an FTA in 2019. However, the agreement never entered into force. The parties are currently carrying out negotiations on an additional protocol including sustainability commitments on the Mercosur side.

uphold competition and maintain a level playing field while ensuring an innovation-friendly legislative framework, based on the principles of the New Approach. This would ensure that investments flow to industry-relevant research and innovation based on excellence, driving technological advances while facilitating market uptake.

EU industrial policy should create the right framework conditions for companies to compete internationally and achieve technological leadership by building upon European areas of strength, thereby incentivising excellence in innovation to develop the necessary competence and capabilities. By enabling European companies to secure strategic positions in global value chains, Europe will reduce its exposure to economic coercion. At the same time, EU industrial policy should avoid any disruption to the smooth functioning of markets and industrial value networks. For this reason, Orgalim is fundamentally sceptical about public interventions in industrial value chains to address import dependencies. Legislative measures to support sectors where European industry relies on imports often reallocate scarce resources (financing, skilled labour, energy, etc.) from areas where European industry is competitive to areas where it does not enjoy comparative advantages, for no added value in terms of supply chain resilience.

A key priority to promote the competitiveness and innovation capacity of European industry is to reduce the regulatory burden created by disproportionate and excessively prescriptive legislation presented during the current legislative term, which is particularly difficult for SMEs to navigate.

For example, the Carbon Border Adjustment Mechanism (CBAM) will impose a carbon tax on imports of key raw materials such as steel and aluminium, thereby increasing the cost of manufacturing inputs for technology companies. This will result in a loss of competitiveness vis-à-vis third country manufacturers, which will still be able to access raw materials at competitive prices and market downstream products (e.g. industrial machinery) at lower prices, both in the EU market and in third country markets to which EU companies export. Furthermore, EU technology companies importing steel and aluminium from third countries will be subject to extremely onerous obligations to report on embedded carbon emissions in imported goods.

Similarly, the Commission's proposal for a Directive on Corporate Sustainability Due Diligence (CS3D) will impose an obligation on companies to conduct due diligence throughout their value chains, including all direct and indirect upstream and downstream business partners. In some cases, companies could be liable for adverse impacts that they do not cause directly. The requirements of the CS3D are in practice likely to be unmanageable for European companies and could undermine their resilience and security of supply by severely hampering their ability to diversify their value networks and quickly react to supply chain disturbances.

Finally, our industries have witnessed the increasingly political management of the European Standardisation System (ESS), which restricts the ability of the EU legislative framework to adapt to the latest technological advances and creates diverging technical requirements between European and international standards. This limits market access for European industry, hindering its ability to diversify and de-risk industrial supply networks.

In the light of the above, Orgalim strongly urges the Commission to reduce the regulatory burden for companies, ensuring that the process of de-risking European industrial value networks remains primarily market driven. The EU should enable access to the broadest possible supplier base for European companies, limiting one-sided overreliance on single sources while creating favourable conditions to be competitive in the long term.

In this respect, our industries welcome the efforts by the Commission to reduce the bureaucratic burden associated with permitting procedures for strategically important projects, via legislative initiatives such as the European Critical Raw Materials Act and the Net-Zero Industry Act. Speeding up permitting procedures in key industrial value chains can contribute to reducing the overall regulatory burden for technology companies and will be essential to ensure the success of the green transition in Europe.

**Key recommendations:**

- Focus on reducing the regulatory burden created by overly prescriptive legislation, to promote the competitiveness of Europe's industrial base.
- Refrain from excessive state interventions in industrial value chains, especially those that artificially reallocate resources from areas where the EU is competitive to areas where it does not enjoy a comparative advantage (and relies on imports).

## Partnering on economic security

To retain competitiveness and ensure security of supply, European companies need maximum flexibility to build more resilient and sustainable value networks. The EU must therefore pursue an ambitious free trade policy agenda, leveraging economic relations with a broad range of trading partners in the Americas, Africa and the Asia-Pacific area. This would reduce overreliance on a reduced set of trading partners and create a network of mutual dependencies and multilateral collaboration. In a world where dependencies are increasingly weaponised, developing a wide network of trade partnerships would mitigate the risk of third countries imposing export restrictions on essential inputs such as critical raw materials.

Orgalim regrets that progress in this respect has been painfully slow. For example, the US is the largest export market for Europe's technology industries, and the EU's second largest overall trading partner after China (2021). We have therefore welcomed the establishment of the EU-US Trade and Technology Council (TTC) as a positive forum for EU-US cooperation in important areas such as emerging technologies, standards and technical barriers to trade. While we consider the TTC to have greatly improved the transatlantic dialogue, we have so far failed to see tangible outcomes that have brought concrete benefits to our industries. The EU should therefore urgently prioritise the delivery of commercially meaningful outcomes from the EU-US TTC, addressing key trade barriers that technology companies face in the transatlantic marketplace, such as those associated with conformity assessment. In this respect, Orgalim strongly supports the negotiation of a Mutual Recognition Agreement on Conformity Assessment between the EU and the US, covering machinery and electrical equipment[2]. In the longer term, our industries remain supportive of reviving negotiations for a broader trade agreement with the US, including with the objective of eliminating industrial tariffs and harmonising technical product requirements based on international standards.

Similarly, the EU-Mercosur FTA is the largest ever negotiated by the EU and will bring a considerable reduction in the tariffs that apply to EU exports of goods such as machinery, while addressing technical barriers to trade, for example in the field of conformity assessment. The Mercosur FTA would also strengthen Europe's link to key suppliers of raw materials that are of strategic importance for the green transition. Despite the significant benefits that the EU-Mercosur FTA would bring to European companies, its implementation is currently being delayed due to unproductive discussions on sustainability requirements that do not belong in an FTA framework. We strongly urge the Commission to proceed to a speedy implementation of the agreement.

We also call for the swift conclusion of other FTAs currently being negotiated, such as those with India, Indonesia and Australia, as a matter of priority. All of these countries are major suppliers of critical raw materials that are essential inputs for the technologies that enable the green transition in Europe and beyond. Finally, we strongly support the

---

[2] Orgalim position paper available at this link.

conclusion of additional international partnerships on critical raw materials with strategically important CRM supplier countries, such as, among others, the US and Australia.

**Key recommendations:**

- Prioritise the delivery of commercially meaningful outcomes under the EU-US TTC, such as the negotiation of a Mutual Recognition Agreement on Conformity Assessment for machinery and electrical equipment.
- Proceed to a speedy implementation of the EU-Mercosur FTA.
- Swiftly conclude negotiations of other FTAs, such as those with India, Indonesia and Australia.
- Develop a wide network of international partnerships on critical raw materials with strategically important CRM supplier countries, such as, among others, the US and Australia.

## Protecting against economic security risks

Orgalim has several concerns related to the protective measures envisioned in the EESS, such as the revision of the Foreign Direct Investment (FDI) Screening Regulation and the proposed initiative on Outbound Investment Screening (OIS).

As regards FDI Screening, Regulation 2019/452/EU was adopted approximately four years ago, and some Member States have to date not implemented a screening mechanism at national level. Orgalim does not oppose in principle the screening of FDI, which can in some cases help to create more transparency and a better awareness of critical incoming investments, and thus contribute to achieving a level playing field. However, we remain sceptical about the proposed revision of the Regulation after only four years from its entry into force. This will only increase legal uncertainty for companies and appears unjustified without a comprehensive assessment of the performance of the current mechanism and the need for stricter rules. A more restrictive FDI framework could have a negative impact for industry, including on access to finance and manufacturing equipment, as well as the general investment climate in the EU. A steady flow of international investment is vital to support Europe's technology industries, and it is therefore essential to ensure that the EU remains an attractive market for international investors.

Regarding the potential future initiative on OIS, such a mechanism would be unprecedented in the EU. Orgalim wishes to stress that investments abroad are necessary to improve the local or global market position of investors, and they are an important means for technology companies to survive in a competitive international environment. If implemented, an OIS mechanism would certainly generate a significant administrative burden for technology companies and hinder their ability to diversify and invest abroad, at a time when they are increasingly committing to establishing local production sites in other countries to serve foreign markets, as part of wider de-risking efforts. Furthermore, in the light of the EU's existing dual-use export control regime, which already prevents technology outflows in safety-critical areas, the added value of an OIS mechanism is far from proven. For these reasons, Orgalim remains fundamentally critical of a potential OIS mechanism, which we consider unnecessary. We urge the Commission to carefully assess the possible negative impacts on European industry of any potential future OIS mechanism. Such negative impacts would be likely to occur even if the mechanism is designed exclusively as a measure of last resort, to be used in exceptional circumstances, with surgical precision and only when security interests are considered to be at stake.

Finally, Orgalim takes note of the Commission's intention to start a new attempt to revise the EU's dual-use export control regime by the end of 2023. We also take note of the publication of the Commission's Recommendation on critical technologies in October 2023, which will be subject to further risk assessments with Member States. We remain strongly critical of a possible revision of the current dual-use export control regime only two years after the Dual-Use Regulation 2021/821/EU was published in the EU Official Journal. Such a revision would increase the regulatory burden on European companies and create further legal uncertainty, at a time when these have already become major obstacles to investment and competitiveness in the EU. In general, we would like to stress that overly restrictive export controls could lead to major disruption and uncertainty in our value networks. Moreover, restrictive export controls also risk depriving European companies of opportunities for international expansion, undermining their ability to invest in RD&I and supply chain resilience. Therefore, we call on the Commission to strictly follow targeted and evidence-based methodologies in any potential future revision of the EU's dual-use export control regime – or any risk assessment under the Recommendation on critical technologies. Any potential future attempt to harmonise national export control regimes and create a level playing field for companies could be considered only following a significantly longer period of implementation of the current framework, allowing for a thorough evaluation of its performance. In any case, it must absolutely not generate additional and unnecessary regulatory burdens for companies, which would further hinder the competitiveness of Europe's industrial base. We also wish to stress the importance of systematically integrating industry stakeholders in consultation procedures on technologies risk assessment.

**Key recommendations:**

- Refrain from presenting a proposal for the revision of the FDI Screening Regulation and for the revision of the EU dual-use export control regime at this time.
- Exercise extreme caution in evaluating a potential future Outbound Investment Screening Mechanism to avoid increasing the regulatory burden for Europe's technology industries.

# Conclusions

To build resilient and diversified value networks while maintaining international competitiveness, our industries need a reduced regulatory burden and the systematic elimination of existing trade barriers in key markets.

We therefore call on the EU to pursue an ambitious trade liberalisation agenda, working with key like-minded partners worldwide to eliminate harmful trade barriers that result in additional costs for companies. At the same time, we urge the EU to take proactive steps to reduce the regulatory burden that hinders the competitiveness of Europe's industrial base. The EU should also refrain from implementing protective measures that lack a clear rationale and overlap with existing instruments, such as the revision of the FDI Screening Regulation or a possible initiative on Outbound Investment Screening. These would only increase the regulatory burden and create new frictions in global value networks, thereby limiting the potential for companies to diversify and build more resilient value networks.

Orgalim represents Europe's technology industries, comprised of 770,000 innovative companies spanning the mechanical engineering, electrical engineering, electronics, ICT and metal technology branches. Together they represent the EU's largest manufacturing sector, generating annual turnover of €2,819 billion, manufacturing one-third of all European exports and providing 11.9 million direct jobs. Orgalim is registered under the European Union Transparency Register – ID number: 20210641335-88.



**Orgalim aisbl**
BluePoint Brussels
Boulevard A Reyers 80
B1030 | Brussels | Belgium

+32 2 206 68 83
secretariat@orgalim.eu
www.orgalim.eu
VAT BE 0414 341 438