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Press release

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Complex regulation is hindering long-term investment in the European industry, according to new Deloitte scorecard

Deloitte has bundled its research on the competitiveness of the European industry into a scorecard, revealing key insights into the state of the European industry and key enabling areas

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Almost one in three European companies (32%) considers regulation a major barrier to long-term investment. That is one of the conclusions of Deloitte's recent research. The research has been structured in a scorecard, which provides an overview of several priority areas. It reveals that the complexities of the European industry are posing significant challenges, which is also reflected in Belgium. The scorecard aims to increase transparency and provide fact-based insights into the competitiveness of the European industry, as well as the impact of upcoming policy measures. Another conclusion from the scorecard is that permit procedures for industrial projects take the longest in the EU, with lead times for large projects reaching up to nine years, around 1.5-2 times longer than the US average. In contrast, China has a streamlined process that is often 3-5 times faster than in the EU, with permits being completed within months for priority sectors. The research also highlights Europe's strengths and opportunities for advancement, which is crucial in a time where industries are grappling with substantial difficulties.

European and Belgian industry in perfect storm

EU industrial production has dropped with more than 10% in the past 2 years and net imports of energy intensive products have risen in recent years within the EU. In the steel industry, for example, over the span of a decade, the EU has transitioned from a net exporter to a net importer. With a drop of 12,7% of industrial production in the past 2 years, the decline is even larger in Belgium. In the Belgian chemicals industry, production capacity utilization is currently around 70%, significantly lower than the historic trend.

"We hear these challenges every day when talking to our clients. Companies in Belgium have been treading water for some time now. The situation is critical. If we fail to uphold a strong manufacturing industry in Belgium and Europe, we risk eroding our economic foundations and losing our competitive edge on the global stage. Major industry players moving away would not only result in job losses but would also disrupt entire supply chains and smaller businesses that depend on these larger companies," says Rolf Driesen, CEO at Deloitte Belgium. *"Action is needed. But targeted action requires data. Therefore, we have developed a comprehensive scorecard that helps equipping companies with the knowledge and foresight to anticipate, understand, and navigate industry complexities. Focusing on both challenges as well as opportunities."*

The scorecard illustrates the perfect storm that the industry is facing, and the impact of high energy prices and energy dependence. Frederik Debrabander, Industry Leader Energy, Resources & Industrials at Deloitte, states: *"The recent alert by Essenscia about the potential doubling of Elia's high-voltage grid tariffs underscores the critical challenges Belgian companies are facing in this area during a time when electricity prices for industrial users in Europe are on average two to three times higher than in the US and twice as high as in China. For natural gas, Europe even pays four to five times as much as the US. The EU is also heavily dependent on energy imports, with 63% of its energy coming from abroad. China has a significantly lower dependency of 21%, while the US has been a net energy exporter for five years, with an export surplus of 7.5%. Moreover, the transition towards more renewable energy sources presents additional challenges and uncertainties. Not in the least the reliance on non-EU sources for essential critical raw materials. For instance, 98% of the*

EU's rare earth metals come from China. Companies must balance the need for greener energy options with the realities of cost and availability. It is crucial that they get support during this transition, ensuring that they remain competitive while also contributing to our shared sustainability goals."

Johan Deburchgrave, CEO of Europe's largest family-owned brick manufacturer Vandersanden that recently made a significant investment in a new production facility for CO_2-negative façade bricks, underscores the importance of tailored support and strategies for medium-sized companies. *"They don't always have access to infrastructure comparable to that of large companies, and they have more difficulty realizing scale advantages. This makes dealing with the increased costs for energy, labor, and raw materials more challenging. Looking at our operations, our labor costs have increased by nearly 20% since 2020, our raw material costs have risen by about 25% and our energy costs have more than tripled in the same period. In addition, the rising emission costs of the EU-ETS also pose a threat, due to the phasing out of free allocations and the rising carbon price. This combination could create an existential crisis as the costs linked to the EU-ETS system will rise much faster than the speed at which we can execute our net-zero strategy."*

Harnessing Europe's strengths

Amidst the difficulties, Deloitte does highlight that the EU has significant strengths and opportunities for advancement that position it favorably for future growth and competitiveness on the global stage. Specifically for innovation in green technologies, the EU leads the way, with €18 billion of venture capital raised by 2023, compared to only €12 billion in the US. Next to that, the EU has a substantially higher proportion of renewable energy in its energy mix (29%) than the US (19%) and China (13%). On a related note, the EU leads in emission intensity of its industrial products, achieving for example 13% lower emissions than the US & China in steel production and substantially lower emissions in aluminum production — 50% below the US and 66% below China. Additionally, the EU's plastic recycling rate is almost three times higher than the one in the US.

"Belgium boasts strong industrial ecosystems, such as the chemical sector in Antwerp, the biotechnology cluster in Charleroi, the tech communities around Imec in Leuven, the tech start-up hubs in Ghent and Liege, and the cybersecurity center in Redu around the Euro Space Center, amongst others. These are essential for employment and create innovation power. That is crucial as advancements in technology present opportunities. Generative AI for example can help boost productivity in Belgium without requiring additional working hours. By optimizing work processes and increasing added value per hour worked, companies in Europe can remain competitive with those in the U.S. and China," says Driesen. "*Embracing new technologies will be needed to remain relevant at the global level. To achieve this, Europe has a role to play as well. It must address its structural challenges to attract capital and avoid unnecessary restrictive regulations around R&D. This is much needed: R&D investments in the EU are lagging: energy-intensive industries spend €19.2 billion on R&D, only 85% of the US level and just 6% higher than China, that is on track to soon surpass the EU."*

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Towards a fit for purpose Monitoring Framework

Deloitte, in partnership with Cefic, is developing a Monitoring Framework based on the structure of the Declaration of Antwerp, inspired by Ursula von der Leyen's motto: "*What gets measured, gets done.*" The framework focuses on key indicators such as energy costs, access to raw materials, investments in innovation, and regulatory complexity to measure the impact of policy measures on European industry and enhance competitiveness. Through research, workshops and events like the *Future of the European Industry event* last November, insights are being gathered and have been translated into a preliminary scorecard. The final Monitoring Framework, of which the design, positioning, final selection of indicators, and other elements, is to be further developed through extensive consultation with experts and the broader Antwerp community starting in 2025, will provide policymakers and businesses with key insights on the state of European industry while serving as a strategic tool for targeted action.

Deloitte in Belgium