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Opinion

SGIs FOR A SUSTAINABLE EUROPEAN COMPETITIVENESS

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Executive summary

- As a cross-sectoral social partner with members active on a local, regional, and national level, SGI Europe recognises the need to strengthen the competitiveness of the European economy. **The EU Competitiveness Deal should be based on a long-term and bottom-up approach in which services of general interest (SGIs) are supported in their provision of the core services and infrastructures which businesses need to innovate and grow**.

- **The Green Deal and circularity should be at the centre of increasing competitiveness.** SGIs are active in fields such as energy and water provision, public transport, postal services, media, telecommunications, waste management, housing, healthcare and education. As such, SGIs provide – on national, regional and local levels – the core services and infrastructures that businesses need to **develop innovative technologies** which contribute to the **green and digital transitions** and create **competitive advantages** for the European economy.

- As specified in Article 14 TFEU, **SGIs play a central role in promoting social, territorial and economic cohesion in the EU**. Therefore, SGIs should be included as an essential pillar of the EU Competitiveness Deal to ensure that it does not only increase the overall competitiveness of the EU but also **strengthens the single market and local economy in all European territories**. This will boost social cohesion and the long-term sustainability of Europe's economic growth and competitiveness. For this reason, **SGIs must be considered as a structural component of Europe's competitiveness rather than as actors which only come into play in situations of market failure.**

- The EU Competitiveness Deal should build on the rapid uptake of Projects of Common European Interest (IPCEIs) to establish European Public Goods in areas such as healthcare, energy, and physical and digital infrastructures. **SGIs are central to the realisation of European Public Goods** through their provision of the services which all citizens benefit from and their bridging of the public and private sectors.

- To enable SGIs to fulfil their potential as drivers of European economic competitiveness, SGI Europe calls for:
  - **A paradigm shift in EU competitiveness policies, through which SGIs are to be considered as a structural component of competitiveness and productivity**, as opposed to a 'necessary evil' intervening only in case of market failure;
  - **A targeted public investment plan for SGIs**;
  - **Better access to private investment for SGIs** through a strengthened EIB and National Promotional Banks and the creation of a **level playing field for public and private companies**;
  - **An enabling environment for providers of SGIs to join Important Projects of Common European Interest (IPCEIs) and contribute to the realisation of European Public Goods**;
  - **Full reflection of Article 14 and Protocol 26 TFEU in all secondary legislation**, taking into account **local, regional and national specificities in the provision of SGIs**;
  - **A reduction in administrative burden**;
  - **Equal treatment for all small and medium-sized enterprises, regardless of their ownership status**, guaranteeing a **level playing field between public and private market actors** and preventing discrimination against public SMEs stemming from the application of the 2003 SME Definition (Commission recommendation 2003/361).

Competitiveness – the European way

Being a cross-sectoral social partner whose members are active at local, regional and national levels**, SGI Europe acknowledges the need to strengthen the competitiveness of the European economy**. The establishment of an EU Competitiveness Deal is also an opportunity to develop **a European brand of competitiveness based on the EU's strengths and values**.

The EU Competitiveness Deal should build a strong economy for years to come. To create a European economy which can compete in the long run with countries such as the United States and China, structural improvements of the single market are required. Too strong a focus on immediate price competitiveness vis-à-vis other countries encourages short-term economic policy which risks limiting innovation, research and development.[1] Instead, building long-term competitiveness should be seen as a process, and should constitute a sustainable growth strategy. This growth strategy should be based on the realisation of long-term competitive advantages through innovation and skilled workers.[2] This means investing in the SGIs which provide the foundation of all innovation: education for the training and upskilling of workers, and physical and digital infrastructures for providing the foundation on which the rest of the economy is built. Only by building competitiveness from the bottom up can it be sustainable and long-term.

The EU Competitiveness Deal should put the Green Deal and circularity at the heart of its growth strategy. As a global leader in the green transition, the EU must use its potential competitive advantages in the areas of sustainability and circularity to boost its economic competitiveness. As highlighted by the index developed by the OECD, the EU already generates more economic output per unit of raw materials consumed than any other region.[3] Taking into consideration the geopolitical risks linked to global value chains and Europe's reliance on the import of commodities and raw materials, more circularity will deliver more autonomy and a stronger economy that is more resilient in the face of external shocks. For example, as China currently controls most of the world's battery production due to its abundance of lithium, recycling batteries that have entered the single market will boost the EU's strategic autonomy, feed the European industry and foster the creation of quality jobs across the EU. Therefore, the green and circular technologies developed in the EU in the past years should be used as the basis for further innovation and growth. Investment security and economic resilience are the main preconditions for a sustainable and competitive economy.

The EU Competitiveness Deal should fully utilise the efficiency and resilience of local and regional economies. Local production and service provision proved the most resilient during the pandemic. Well-organised local economies are in the best position to use investments efficiently and in a manner which contributes not only to overall economic growth but also to the creation of local economic opportunities and to social cohesion. The EU should strengthen the single market and continue to be an open economy but needs to ensure that all regions contribute to and benefit from the single market and trade with third countries. The main way to do so is to invest in local SGIs and infrastructures, which create economic opportunities in all parts of the EU, strengthening its overall competitiveness as well as social cohesion in and between all European regions.

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[1] Aiginger, K. (2006). Competitiveness: From a Dangerous Obsession to a Welfare Creating Ability with Positive Externalities. J Ind Compet Trade 6, 161–177. https://doi.org/10.1007/s10842-006-9475-6.
[2] Ibid.
[3] OECD (2024). Material Productivity (Indicator). Doi: 10.1787/dae52b45-en.

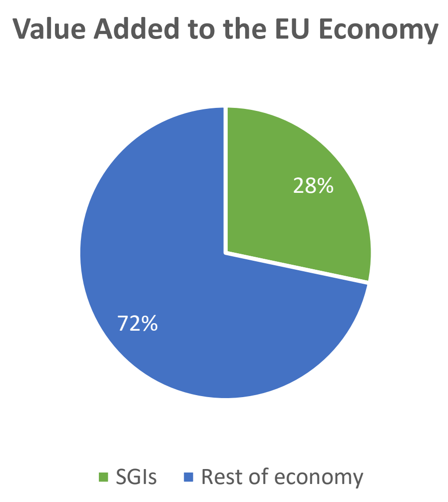
SGIs: the backbone of a competitive economy

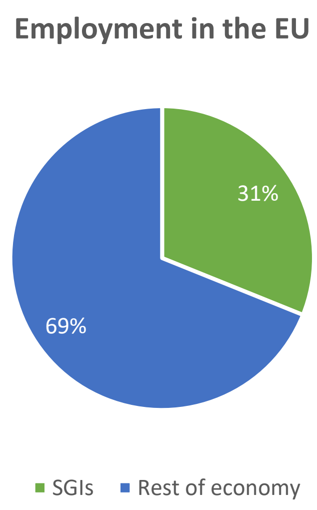
SGIs are the foundation on which a competitive economy must be built. Any investment in SGIs is a long-term investment in the infrastructures at the base of a competitive economy and in the people who drive all growth and innovation. This creates long-term competitiveness from the bottom up, based on sustainability and strong local and regional economies.

In terms of infrastructure, **SGIs provide the affordable and green energy, the reliable access to water, the circular waste management solutions, and the transport and digital infrastructures which other businesses need to innovate, expand and contribute to a competitive economy**. This positive impact of critical infrastructures on competitiveness is reflected in the data: investment in both transport and energy infrastructure increases regions' GDP and with that their economic competitiveness.[4] These and other infrastructures, housing in particular, also need to be developed to allow for the growth of expanding industries and the local increases in population that they bring.

Regarding people, **SGIs enable the development of a workforce with the right skills to innovate and boost Europe's competitiveness**. In particular, greater numbers of skilled workers are trained as a direct result of investment in education and training for the entirety of the workforce, from high-skilled to low-skilled workers. As is the case for infrastructure, there is a clear statistical relationship between accessible high-quality education and a competitive economy: higher levels of education in any region are directly connected to greater competitiveness.[5] SGIs also provide the public service media which ensures that citizens have access to educational content, as well as high-quality news coverage, in their national or regional language.

These specific contributions to competitiveness are reflected in the overall figures regarding SGIs' contribution to a competitive economy. According to the Belgian Federal Planning Bureau's update of the Cambridge Econometrics study on public services in Europe, SGIs and public services generated € 3,721 billion of value added across the EU economy in 2021 and employed 65.2 million people. That means that **SGIs account for 28.4% of all value-added and 31.1% of employment in the EU economy** (see graphs below).[6]





[4] Despotović, D., Cvetanović, D., Nedić, V., & Cvetanovic, S. (2021). Infrastructure as a Factor of Competitiveness of the Selected European Countries. Teme, 575-599.
[5] Baumann, C., & Winzar, H. (2016). The role of secondary education in explaining competitiveness. Asia Pacific Journal of Education, 36(1), 13–30. https://doi.org/10.1080/02188791.2014.924387.
[6] Kegels, C. (2024). Statistical update on Services of General Interest (SGIs), based on the 2013 Cambridge Econometrics Report. Federal Planning Bureau.

SGIs: drivers of the green and digital transitions

Through their provision of – amongst others – green energy, clean water, circular waste management, sustainable public transport, high-speed internet and training for skilled workers, **SGIs are the core of the development of a green and digital economy**. SGIs enable the development of innovative technologies through the services and infrastructures they provide, whilst also independently developing both green and digital technological solutions. Simultaneously, **SGIs ensure that all regions are able to innovate and be a part of these twin transitions**.

There are many practical examples of how **the infrastructural foundations and services provided by SGIs contribute directly to the technological innovations made by other actors in the economy**. Technologies initially developed by other industries rely on SGIs to become competitive, as it is through testing in SGIs' renewable energy plants that technologies such as the Energy Dome in Italy, which uses CO2 batteries to store renewable energy in between production peaks, can be scaled up and made profitable. Similarly, technologies such as Robot Picking, which uses AI to sort waste, rely on SGIs to be developed and made ready to be used in practice. Without high-quality SGIs such as these, critical new technologies would not be able to be developed as quickly or effectively.

Storing renewable energy using CO2 batteries in Italy: Italian SGI A2A uses its renewable energy plants to allow for testing of start-up Energy Dome's technology. Energy Dome uses CO2 batteries to store renewable energy. One of the main challenges of using more renewable energy is its intermittency: production levels of solar energy in particular vary enormously throughout the day. In order to be able to move away from using fossil fuels between peak production hours, innovative storage technologies such as Energy Dome are crucial. As part of its Corporate Venture Capital initiative, A2A uses its plants to help such critical green technologies to develop.

SGIs also independently develop technologies which are crucial to the completion of the green and digital transitions. For example, in the broadcasting sector, SGIs are a leader in the creation of audiovisual convergence technologies such as HbbTV, DVB-I and 5G Broadcasting and in deploying broadcasting technologies such as UHD TV. In public transport, railways are developing new rolling stock that uses less energy and is more recyclable, as well as trains powered by batteries and hydrogen for use on non-electrified lines. Regarding waste management, the French local public enterprise Semardel was the first company to capture biogas from its landfill and convert it into heat for on-site use and electricity for the public grid. SGIs are also pioneers of urban mining, which allows for the collection of discarded products and the return of secondary raw materials to the economy. By treating waste as a resource, urban mining is crucial to meeting the increasing demand for raw materials.

Biogas from waste in France: Semardel is based in Vert le Grand, France. Its 150 hectare ecosite is home to several facilities dedicated to waste recovery. Semardel was the first company to capture biogas from its landfill. Originally converted into heat for use on its site, this gas is now used in part to fuel waste collection trucks, with the rest fed into the public gas network. The site's production amounts to 40,000 megawatts/hour, which is equivalent to the consumption of a town of 30,000 inhabitants.

Urban mining in Heidelberg, Germany: The 'Circular City Heidelberg' project is creating a digital building material register which provides information on which recyclable materials will become available when a building is demolished or undergoes extensive renovation in future. Doing so allows for the identification of materials which can be used in other construction projects ahead of time. In the light of an ever-increasing demand for raw materials, it is crucial that waste can be used as a resource in this way.

Moreover, **SGIs ensure that local and regional economies are strengthened** all around the EU. For example, SGI Europe's Bulgarian branch has developed skills qualification frameworks to better align workers' skills to those which are needed by the industry in the area. By providing high-quality services and infrastructures, **SGIs also enable regions to attract the workforce which enables innovative industries in the area to grow**. For example, city broadband networks provide high-speed and low-cost internet connections to all citizens, even in less populated areas where this is hard to motivate commercially.

Upskilling in Bulgaria: SGI Europe's Bulgarian branch directly works to fulfil the Porto targets for labour market participation, poverty reduction, and adult engagement in education and training. It does so by bringing together all the Bulgarian social partners to analyse the digital skills required to boost the competitiveness of the Bulgarian economy. The digital skill levels of employees were tested along with the creation of 450 profession-specific digital skills profiles, which allowed for the development of 90 digital skills qualification frameworks that cover the whole economic spectrum in Bulgaria.

High-speed internet in Sweden: In Sweden, SGIs realised a current broadband coverage of 93,3 % of households (100 Mbit/s). This is particularly impressive given the fact that many parts of the country are scarcely populated. These services are often offered at a lower price than similar networks provided by commercial actors.

Finally, strong **SGIs are crucial to the ability of different EU territories to mitigate and adapt to extreme events**. For example, SGIs are key to ensuring that water provision is consistent and resilient in the face of climate change. Water has become a resource of great strategic importance, meaning that its provision cannot be left to the market alone. **SGIs are best placed to ensure that enough water of the right quality is available in all European territories at the right time.** In order to ensure that SGIs are able to continue to fulfil their role as reliable water providers, **the EU needs a European Water Resilience Initiative or EU Blue Deal**.

The above highlights how SGIs are central to a resilient green and competitive economy. Only turning to SGIs in cases of market failure or crisis is unsustainable in the long run, as one will discover that some territories or entire sectors are not able to perform because of decades of underinvestment and consequent brain and infrastructure drain. SGIs are unique in that they are present in all areas: urban, rural, and everything in between. This means that by strengthening SGIs, economic competitiveness is increased in a manner which benefits all parts of the EU. In the long run, therefore, **strengthening SGIs through a structured approach**

with consistent investment is the only way in which greater competitiveness will be matched by more social cohesion in the EU and a greater quality of life for all European citizens.

SGIs: the foundation of European Public Goods

To be fully competitive, **the EU needs to develop European Public Goods**, such as in healthcare, energy, and transport and digital infrastructures, building on the success of the Projects of Common European Interest (IPCEIs). European Public Goods are those products or services which all citizens benefit from and which drive overall economic competitiveness, such as the creation of a genuine Energy Union. They therefore deserve special attention. In particular, the realisation of European Public Goods relies on making public and private actors and investors work together effectively to achieve the significant investments that are necessary.

SGIs should be at the core of Projects of Common European Interest (IPCEIs) and the provision of European Public Goods. Not only because they deliver products and services which society and the economy as a whole benefit from, but because they bridge the divide between an EU-level economic strategy and its local implementation, as well as between public and private actors.

European Public Goods are location-specific: they cannot be concentrated in one region, but need to be accessible throughout the EU. SGIs are economic actors which are rooted in specific territories and generally cannot be relocated, meaning that they are the key to the realisation of accessible European Public Goods. **Only by strengthening SGIs can it be ensured that European Public Goods are actually present throughout the EU as a whole**, driving an EU-wide strengthening of economic competitiveness.

Moreover, **SGIs unite the key strengths of both public and private actors**. On the one hand, they operate based on public values, as they ensure continuity of the provision of their services, as well as universal access. This strength was particularly evident during the pandemic, when SGIs proved to be the most resilient part of the economy in a time of crisis. On the other hand, many SGIs operate under private law or use a diversified shareholding structure. This combination means that **SGIs are in the best position to aggregate public and private funding to create the economies of scale which are needed for European Public Goods**.

For these reasons, it is essential that an environment is created which **enables providers of SGIs to join Projects of Common European Interest (IPCEIS) and contribute to the realisation of European Public Goods**.

Building a competitive economy from the bottom up by supporting SGIs

Any effort to increase economic competitiveness should be sustainable and focused on strengthening the European economy in the long term. Providing financial support for specific companies or sectors might create short-term competitive advantages, but national measures might fragment and distort the single market. **Long-term competitiveness and growth is based on the creation of an environment which allows businesses to grow and prosper**.

In order to ensure long-term economic competitiveness, it is crucial to build competitiveness from the bottom up through the creation of stronger local and regional economies, effective critical infrastructures, and high-quality services. Therefore, **long-term competitiveness requires substantial and consistent investment in SGIs** in addition to **a reduction of administrative burden.** Most importantly, **SGIs should receive structural support for the essential services that they provide, and not be considered an option to turn to only in cases of market failure**.

Ensuring that investment reaches the local or regional level on which it can have the greatest impact is often challenging. To make this happen, **a targeted investment plan specifically aimed at SGIs is a crucial and necessary part of the EU Competitiveness Deal**. In order to increase productivity and competitiveness, public investment is crucial. The challenge is to ensure that part of public funding will be used for investments leading to future increases in productivity and GDP. The reform of the EU's economic and fiscal governance framework is a step in the right direction, but it can still be improved. Public investments must be differentiated from public costs within public budgets, in order to ensure that parts of public funding will be dedicated specifically to investments in SGIs which allow them to innovate and improve, thus boosting the future productivity and competitiveness of the economy as a whole. Moreover, **strategic public procurement can be used both to boost competitiveness and further the green transition**.

Public funding should also aim to leverage private investment in SGIs. High interest rates, high levels of uncertainty, and – despite the growth rebound after the pandemic – large fiscal deficits are likely to keep public debt levels high, limiting fiscal space for growth-enhancing investments. This increases the importance of leveraging public funds to crowd in private capital, maximising the impact of financing initiatives for SGIs. Such financial leverage can best be achieved by:

1) **Working with a wide range of Implementing Partners (IPs), including the EIB Group as well as National Promotional Institutions (NPBIs) and organizations such as the EBRD and the CEB.** These IPs can provide long-term financing, as well as the required signalling effect to crowd in the private sector. Through their knowledge of specific local, regional and national needs, they can play a significant role in the deployment of the EU budget in a targeted way, providing custom-made solutions and aligning national and EU policy priorities with the diverse market conditions across the EU.
2) **'Doing more with less': activating public spending by choosing the budget implementation modalities that best crowd in other resources to achieve the various policy objectives.** Financial instruments are best used to finance projects with a business model, while grants are important to finance projects and initiatives that lack commercial viability as well as to de-risk and incentivise ambitious investments, especially in those cases where private investment is still nascent. The leveraging effect of grants can be increased by using blending instruments that combine grants under direct management with debt and equity financing provided by Implementing Partners (IPs) and EU Financial Instruments under indirect management. These blending instruments often lead to multiple crowding-in effects on public spending by catalysing private and other public investments.

Additionally, some **legislation must be improved and harmonized across the EU to ensure better access to investment for SGIs**. For example, private companies can deduct the cost of an investment during the projected life span of the investment, while SGIs and public organisations are unable to do so in some Member States. In order to ensure a level playing field and allow SGIs to fulfil their full potential as drivers of competitiveness, this option needs to be open to SGIs as well.

Regarding administrative burden, public authorities do not always have sufficient capacity to handle legislative requirements and permitting procedures, particularly on a local or regional level. In order to allow local and regional economies to drive economic competitiveness, it needs to be ensured that they are not unduly burdened by the legislative requirements on companies or public authorities. **Faster permitting procedures and reduced administrative burden will be critical in mobilising both public and private investments.**

Besides the need to reduce the burden of legislation overall, **legislation with a strong local or regional impact needs to take into account local, regional and national specificities in the provision of SGIs**. As is stipulated in Article 14 and Protocol 26 TFEU, Member States and their local authorities are responsible for the provision of SGIs and can therefore choose how to shape their organisation. Efficient and fair delivery of SGIs builds trust between citizens and the government. At local, regional and national levels, there are many ways of meeting this objective. The EU can best provide support to decision-makers at these levels by sharing best practices and introducing mechanisms that can help local, regional and national authorities identify the best solutions.

Furthermore, the creation of European Public Goods relies on the cooperation of public and private actors. For this to work, **the traditional classification of public and private actors in European law needs careful consideration**. Local public enterprises offer a modern tool adapted to the challenges of the 21st century. They combine the values of the public sector and a territorial rootedness with the advantages and efficiency of corporate management and represent some 1.5 million jobs and cumulative sales of over 300 billion euros. However, in many cases, the public sector is currently at a disadvantage compared to the private sector in areas where private providers also operate. For example, public entities must navigate complex procurement laws to acquire necessary technologies for energy system transformations, which also leads to higher costs and longer procedures. In addition, many small SGIs are currently excluded from SME status based on their (partial) public ownership, which results in higher administrative burdens. For all SGIs to be able to fulfil their full potential in terms of both implementing the Green Deal and the Competitiveness Deal, **equal treatment for all small and medium-sized enterprises, regardless of their ownership status, is essential**. Only this way can a **level playing field between public and private market actors** be guaranteed, preventing discrimination against public SMEs stemming from the application of the 2003 SME Definition (Commission recommendation 2003/361).

SGIs as a central pillar of the EU Competitiveness Deal

To conclude, modern SGIs are at the heart of creating a competitive European economy for the years and decades to come. Investing in SGIs means investing in the infrastructures upon which a competitive economy must be built and in the people who drive this economic growth. **Only by taking a bottom-up approach to competitiveness, based on strong SGIs, will this competitiveness be sustainable and contribute to the prosperity of EU regions.** SGIs are unique in the way that they unite the strengths of the public and private sectors. On the one hand, **SGIs are crucial to the development of local and regional economies, increasing social cohesion and allowing all EU territories to benefit and contribute to the single market**. On the other hand, **SGIs are indispensable for the development of the innovative technologies which make the green and digital transitions possible**. Given this crucial role which SGIs play as the foundation of a competitive economy that is rooted in the twin transitions and in social, territorial and economic cohesion, SGIs should be included as an essential pillar of the EU Competitiveness Deal.