

Concept Paper
Informal Compet



July 8-9, 2024
Hungarian Presidency
Ministry for National Economy
Budapest

INTRODUCTION

The 2019-2024 institutional cycle will be completed under the Hungarian Presidency and the new institutional period will begin, which is a major and complex task not only for the Presidencies but also for the European Union as a whole. The primary objective of the Hungarian Presidency is to facilitate a smooth institutional transition following the 2024 European Parliament elections, to ensure continuity of the Council's work and to support the smooth functioning of the Union through constructive cooperation and dialogue with Member States and new institutional actors.

The increasing number of more complex challenges the EU is facing require a stable framework to guide EU policies in the coming years for the period 2024-2029 and to start implementing the priorities set out in the new Strategic Agenda. The European Union has been losing its competitiveness in recent decades. This problem needs to be tackled not only in the short term, but also in the long term. A strong emphasis should be placed on strengthening European competitiveness by addressing this issue in a horizontal way.

The Hungarian Presidency aims to reach a new European Competitiveness Deal, for which a good basis is the Antwerp Declaration for a European Industrial Deal and is to follow up on the conclusions of the comprehensive report of Enrico Letta ("Much More Than a Market"), and to draw conclusions on the forthcoming Mario Draghi report on the future of European competitiveness.

Session 1: EV transition: How can we meet 2035 deadline?

Background:

The European Union has made a significant commitment to achieve carbon neutrality through green transition by 2050. To achieve carbon-neutrality, the EU pledged to significantly reduce emission from cars and vans, which are responsible of the 15% of the total CO₂ emissions in the EU¹. From 2035 all new cars and vans registered in the EU are set to be zero emission. It means a clear shift in investments and production towards electric vehicles as a dominant technology.

The automotive industry is a key driver of economic growth in Europe, contributing 7% to the EU's GDP and maintaining a healthy trade balance of over €100 billion. Moreover, it generates more than €390 billion in government revenue and employs directly and indirectly 13 million people. The EU is the 2nd largest automotive manufacturer in the world, and the automotive industry is the largest private investor in research and development.²

According to the European Alternative Fuels Observatory 14.6% of all cars sold in Europe in 2023 were fully battery electric (BEV). The market share of BEVs increased by 2.5 percentage points in 2023, which is less than the 3 and 3.6 percentage point increase observed in 2020 and 2021 respectively. However, early numbers for 2024 indicate that the share in new registration has slightly gone down and was around 12% which is close to the registration numbers from 2022, reflecting changes in public support schemes in some Member States but also delays with the market entry of new models in the medium and small cars market.³

As regards charging infrastructure, over the last three years, there has been a notable increase in the number of AC and DC chargers in the EU, although with significant imbalances, since 3 Member States (DE, FR, NL) are accounting for 60% of charging points: the number of AC chargers has tripled since the end of 2020, with over half a million points available at the end of 2023. In the same timeframe, the number of DC chargers has quadrupled to almost 90,000. Today (mid 2024) the numbers of increased to 610,000 AC and 97,000 DC recharging points. Member States are roughly on track to meet the objectives stipulated in the Smart and Sustainable Mobility Strategy from 2021, which is to have 1 million charging points by 2025, although the target of 3 million charging points by 2030 is extremely ambitious, considering today's pace of deployment, the criteria will not even be met until 2035. According to ACEA, the right amount of EV charging points should be around 8 million across the EU in 2035, to sufficiently cover the need and future demand of EVs and to have the expected demand increasing effect. On the other hand, concentration of deployment in a handful of Member States remains a challenge.

Context:

Against this background, the Presidency invites Member States and the European Commission to discuss the status of the green transition of the automotive industry, particularly of electric

¹ https://climate.ec.europa.eu/eu-action/transport/road-transport-reducing-co2-emissions-vehicles_en

In case of light duty vehicles. ca. 12% of emissions coming from road transport specifically, and the remaining ca. 3% from non-transport sectors.

² <https://www.acea.auto/fact/facts-about-the-automobile-industry/>

³ <https://alternative-fuels-observatory.ec.europa.eu/>

Hungarian Presidency

vehicles market road to 2035. The automotive industry is currently experiencing one of the largest transformations in its history. Over the past decade, we've seen a marked increase in the production and demand of electric vehicles (EVs). However, there are concerning signs emerging from the demand side, and there is an increasingly cautious sentiment over not meeting previous expectations.

The pace of capacity expansion and technological development investments for EVs has been faster than the actual demand for them. However, due to deteriorating expectations, adjustments can already be seen. This situation is more pronounced in the European Union since the 2035 regulatory deadline is approaching, from which only zero-emission vehicles can be sold. The withdrawal of the German EV subsidy scheme and the subsequent drop in demand have demonstrated the risks that Europe faces. The green transition may not be smooth, which can have severe consequences on the automotive industry and the green targets. Therefore, diminishing of the above concerns and achieving a smooth green transition should be the EU's most significant priority, requiring joint efforts.⁴

Challenges to be addressed:

Following consultations with the automotive industry, one of the main bottlenecks for EV demand is the lack of sufficient charging infrastructure while operators point to relatively low utilisation rates of existing recharging infrastructure. This problem is hindered by a lack of transparency of capacities in the electricity network and long permitting procedures for grid connections. Without proper infrastructure, widespread usage of EVs will be in peril. However, more electric cars are needed to make a larger infrastructure economical.

According to available studies and statistics, the reduction of total cost of ownership has the greatest potential to increase demand in developed and developing countries. This may be because the operational and direct financial benefits are often difficult to fully understand and calculate, unlike fixed public subsidies, which reduce the purchase price and thus make car purchases nominally less expensive for consumers. If the price of EVs is competitive with Internal Combustion Engine (ICE) vehicles, consumers are more likely to buy an EV. Earlier studies have shown that most consumers would be satisfied with the pricing of an electric car if they could buy it for the same price as a car with an ICE, or if they had to pay up to 20% more for an electric model. This is also confirmed on empirical facts from European examples: the demand for Battery Electric Vehicles (BEVs) increased when public support (i.e. purchase subsidy, taxation easing, toll exemption) has been given to citizens, therefore they could realize a significant reduction of total cost of ownership.

Furthermore, the competitiveness of the European vehicle industry is at stake. The previously globally dominant automotive industry of the EU is being pushed back by the other countries gaining ground. The industry is under pressure to keep up with the global market in battery electric vehicle (BEV) technology and production, requiring heavy investments in research and development. It is therefore crucial to preserve and enhance the competitiveness of our industry on the global scale. It also means, that – in line with the climate goals – the demand for the EVs has to be strengthened, thus increase their production. In addition, component dependency is a strategic vulnerability for the automotive industry. Sourcing of semiconductors, printed circuit boards, and other electronics components remains an increasing vulnerability, especially for EVs who have a significant dependency on electronics to function. Hence the supply chain for

⁴ The Hungarian Presidency wishes to draw attention to the attached Background Paper with initial proposals for discussion how to boost electro mobility in consultation with the automotive industry.

Hungarian Presidency

the whole electric vehicle industry should be handled with special attention, mining of raw materials and battery production is therefore utmost important. Nevertheless, the importance of recycling and reusing the batteries and other components of the used EVs, or the ability to repair them has to be also emphasised. To enhance the competitiveness of the industry, the manufacturing and recycling processes necessitate improvements.

However, decisions are influenced by factors other than price. Consumers who are interested in electric cars also place a high priority on aspects such as the vehicle's driving range and the speed of charging. Electric vehicles should aim to provide equivalent comfort levels compared to traditional internal combustion engine vehicles. This will help alleviate concerns about convenience and practicality associated with electric cars, and encourage more widespread adoption of sustainable transportation options.

Instruments to tackle these challenges:

The following factors should be considered when developing responses to the problems mentioned above:

- Assess the efforts in Europe to create conditions for a green transition, discuss priorities, and challenges. This includes the development of the infrastructure (both public and household), the transformation of the EU electricity grid (increase the capacity and number of chargers, as well as their installation density: 900 kW, 8 million and 50 kms respectively) and the measures needed to achieve carbon neutrality, i.e. the tightening of the existing legislation: AFIR5 should have more ambitious targets.
- Easing of rules regarding state aid in case of R&D and their industrial implementation and production of carbon neutral vehicles and its supply chain, the significant reduction of administration processes of state aid to support the competitiveness of the European automotive industry.
- Extending the Alternative Fuels Infrastructure Facility (AFIF) under the Connecting Europe Facility which has been successfully leveraging public and private investment through blending of grants with loans for charging infrastructure (AC, DC) while also considering a support scheme for private charging (households, office buildings, depots) as well, coupled with stricter regulation on public charger availabilities and their capacity. Besides, introduction of financial measures for EU citizens to decrease the total costs of ownership of a battery electric vehicle.
- Improving the competitiveness of the European vehicle industry, putting emphasis on the affordability and model availability of European vehicles, particularly to narrow the price gap between electric and combustion engine cars. Furthermore provide skilled workforce for the new challenges.
- Promote green thinking and the idea of the circular economy. Repairing, reusing and recycling used battery cells of EVs has to be ensured in line with the EU's corresponding policy, and the Right to Repair.
- Explore advances in software-based vehicles and strengthen the role of digitalization and artificial intelligence.
- Ensure flexibility in the supply chains of the automotive industry, especially for batteries, and facilitate supply chain networks without compromising sustainability.

⁵ Regulation (EU) 2023/1804 of the European Parliament and of The Council of 13 September 2023 on the deployment of alternative fuels infrastructure, and repealing Directive 2014/94/EU

Hungarian Presidency

Modern logistic solutions and the integration of railways into the supply chain model is crucial to greening the economy and decrease emissions.

The Commission should be tasked to report to the European Competitiveness Council every 3 months on the state of progress on the five key dimensions for a successful transition to zero emission mobility: access to resources, skills, deployment of charging infrastructure, and readiness of the electricity grid, affordability and availability of vehicles.

To start the debate, we have proposed the following questions as a guideline allowing the participants to choose which ones they would like to discuss:

- *What do you think of stricter regulation and financial incentives to boost electric vehicles charging infrastructure?*
- *What is your opinion on demand-side incentives of electric vehicle purchases?*
- *How can the competitiveness of the European automotive industry be improved? What measures should be considered?*

Session 2: Setting the scene for the competitiveness agenda (follow-up to EUCO on the new competitiveness deal, Antwerp Declaration)

Background:

In order to achieve the EU's green and digital transitions (twin transition) and the set climate goals, EU leaders recognised the need for a new competitiveness agreement based on a fully integrated single market. In this context, investment and access to capital are key, with a particular focus on the need to improve access to private finance and de-risking investment for key technologies and their industrial and commercial scale up. Equally important is the need for the EU to monitor and address supply chain risks in sensitive sectors and reduce its strategic dependencies in sectors such as energy, net zero industries, critical raw materials, semiconductors, health, digital, food, critical technologies, chemicals, biotechnology and space.

A modern, well-functioning Single Market is a prerequisite for long-term competitiveness. The Single Market has provided the EU with a strong economic basis: a market of more than 440 million consumers, economies of scale, diversified supply sources, opportunities for innovation and increased production, while promoting strong social rights and decent working conditions. The Single Market has proven to be a powerful tool for building resilient and sustainable European integrated supply chains, by building own European production capacities and diversifying supplies from third countries.

In order to implement the **new European Competitiveness Deal**, it is important to actively consult with key players of various sectors and the Council should push for a decisive and rapid move forward based on the guidance provided by the **European Council** ⁶this April, especially the following:

- Significantly reduce the administrative and compliance burden on companies and national authorities, prevent over-regulation and ensure the enforcement of EU rules
- Investments in key strategic sectors and infrastructures require a combination of public and private funding. The EU budget and the EIB Group will continue to play an important role, more can be done to support scale-ups and industrial deployment. Deepening the Capital Markets Union is key to leverage private capital.
- Removing remaining barriers and fully implementing and enforcing free movement rules, especially in the area of services;
- Improving interconnected transport /infrastructure and mobility;
- Reinforcing European connectivity and telecoms infrastructure
- Discontinuation of unfair practices, such as the production and distribution of dual-quality of foodstuff.
- Developing a new horizontal strategy for a modernised Single Market by June 2025 addressing competitiveness challenges for businesses of all sizes, in particular SMEs and start-ups.
- Building a fully integrated Single Market. This will require efforts at both EU and Member State level and across policy areas to close the growth, productivity and innovation gap between the EU and its main international competitors. To this end, policy measures should be further geared towards strengthening the European

⁶ <https://www.consilium.europa.eu/media/m5jlwe0p/euco-conclusions-20240417-18-en.pdf>

Hungarian Presidency

economic, manufacturing, industrial and technological base, notably in the markets of the future, thereby ensuring the Union's economic resilience and industrial renewal, global competitiveness, technological leadership and attractiveness as a business location. In this context, it is essential to strive for a level playing field, both at global level and within the Single Market.

On 20 February 2024, in Antwerp, Belgium, 73 leaders from almost 20 industrial sectors signed the “**Antwerp Declaration for a European Industrial Deal**”⁷. To date, the declaration has been signed by 845 companies and more than 342 trade associations (24 June 2024).

The dialogues, like the Social Partners Summit in Val Duchesse and the discussions at the Antwerp Industrial Summit, showed that industry and social partners are firmly committed to climate goals and are involved in the implementation of the European Green Deal. They also demonstrated that our industry is firmly committed to prosperity in Europe while generating growth through access to global markets and diversified value chains.

The “Antwerp Declaration” is a call to the governments of the Member States, the next European Commission and Parliament, indicating the need for clarity, predictability and trust in the EU and its industrial policy. Therefore, Europe should not only be a continent of industrial innovation, but also a continent of industrial production. In difficult economic conditions, the Declaration outlines 10 urgent actions to restore competitiveness and maintain jobs in Europe, while making European industry more resilient and sustainable, further supporting the climate goals set out in the Green Deal.

Industry must be kept in Europe because it will provide the solutions to the climate change and digital transformation that Europe needs.

The statement highlighted, inter alia, the need for removing regulatory incoherence, complexity and excessive reporting obligations, which would include corrective measures. It is also essential to make better use of the Single Market, revitalise it and remedy its shortcomings. The so-called “industrial deal” is a necessary condition for the successful delivery of the Green Deal, but not in contradiction with it. Overall, it is considered necessary to develop a comprehensive strategy. Energy infrastructure, in particular smart grids and interconnections, would deserve much more investment. In addition, competition policy, including merger rules, should be updated and state aid rules better aligned with EU's strategic public policy goals and needs.”

Context:

Against this background, the Presidency invites Member States and the European Commission to discuss and respond to the economic, trade and social challenges posed to the competitiveness of the Single Market and the economic, trade and social challenges resulting from climate change and geopolitical crises, and to explore ways to boost productivity and sustainable and inclusive growth to build a robust, innovative and resilient economy.

While we witness the 31st anniversary of the Single Market in 2024, it is time to acknowledge what has been achieved and to learn from the mistakes made in order to strengthen our competitiveness. We must aim to create a more competitive Europe that respects the principles of the Single Market and has an industry and agriculture capable of facing major international challenges.

⁷ <https://antwerp-declaration.eu/>

Hungarian Presidency

A functioning and flexible Single Market is the cornerstone of Europe's competitiveness. Both the Commission and the Member States should play a key role in building a single and internationally competitive European economy. Strengthening the Single Market is key to maintaining the EU's international competitiveness.

Preserving the achievements of the Single Market, competitiveness and security of supply require the strengthening of EU industry and it is therefore in the common interest to align the European industrial policy framework with the overarching long-term policy priorities of the Union, with the broad involvement of stakeholders. We can only achieve the goals set along in the twin transitions by not only supporting the future, but also developing the right answers to the problems of the present.

Instruments to tackle the challenges:

We need to strengthen our joint work and commitment and pay special attention to the following areas:

- Mitigating regulatory burdens is crucial for the European businesses to remain competitive. Targeted efforts should be made to improve and simplify the implementation and enforcement of the agreed rules.
- The issue of promoting new technologies and markets of the future needs to be addressed across industries, horizontally, in order to encourage their uptake, including through a more agile standardisation system, valorisation of IP rights (Intellectual Property rights) and swift adoption of the proposed regulation on standard-essential patents, improved access to finance, more strategic use of public procurement, including innovation public procurement subject to sustainability, resilience, cybersecurity and social criteria.
- Industrial digitalisation needs to be stepped up in order to harness its potential and boost industrial competitiveness.
- Industry and stakeholders need to contribute to the rapid implementation of strategic actions, in all sectors, e.g. steel industry and automotive industry.
- Monitoring and reducing strategic dependencies as well as strengthening security of supply is essential.
- The Union must be prepared for the future and equipped with the means that may be necessary in a crisis situation with a serious impact on the Single Market. This requires a swift implementation of IMERA.
- While reducing energy dependency, we must ensure that the European production capacities of all economic activities that are essential to maintaining quality of life, remain sufficient to deal with crises.
- The protection of European economic security and level playing field should be ensured.
- Promoting the European Union's digital preparedness, overcoming the digital divides, harnessing the potential of digital technologies and the use of artificial intelligence are key competitiveness factors.
- The Commission and the Member States, bearing in mind the energy security of individual Member States and the European Union, should step up their efforts to promote a more efficient interconnection of energy systems as well as modernising and adapting energy grids to new needs.

Hungarian Presidency

- The Commission and the Member States should continue to prioritise building a genuine and deep Capital Markets Union in order to facilitate access to private finance, not least venture capital, de-risk investments in key technologies so as to accelerate their industrial and commercial scale up and to allow for further growth of European companies, while responding to the specific needs of SMEs.
- In light of the Next Generation EU and REPowerEU, continued public investment is needed to ensure Europe's competitive advantage in key priority areas. Efficient use of EU funds, such as cohesion policy funds, can contribute to a level playing field and increase regional convergence within the Single Market, as well as help increasing investment in strategic technology areas covered by the STEP Regulation.
- Steps should be taken to further prioritise research efforts, and strengthen the transfer of research results into practical business applications and incorporate the development of standards already into research and innovation.
- To ensure that EU businesses can continue to thrive in digital, clean technologies and other strategic sectors, the EU should continue to support fair and open trade and use trade defence instruments to protect the Single Market whenever necessary.
- To ensure smooth green transition towards a sustainable economy, and to successfully achieve the zero-emission goals set for 2035⁸, we urge the Member States to emphasise the importance of individual industries helping to carry out these goals, with a special attention on the electric-vehicle sector.
- Skills and labour shortages need to be given increased attention in the context of broader demographic trends, in particular through efforts in education and training, but also by facilitating the mobility of skills and talents within EU and to the EU.

To start the debate, we have proposed the following questions as a guideline allowing the participants to choose which ones they would like to discuss:

- *What should be the main points of a new European Competitiveness Deal?*
- *What policy measures do you see to increase productivity, where do you see specific intervention points?*
- *How to make sure that the green and digital transitions are balanced, fair and contribute to competitiveness?*
- *What are the areas where the application of connectivity solutions is becoming critical to productivity, how can their deployment be supported?*

⁸ https://climate.ec.europa.eu/news-your-voice/news/fit-55-eu-reaches-new-milestone-make-all-new-cars-and-vans-zero-emission-2035-2023-03-28_en

Session 3: How AI affects European competitiveness?

Background:

Artificial Intelligence (AI) is considered as one of the most important and impactful development of the recent years. Discussion on AI usually focuses on the technical, ethical, legal and security aspects of the technology. Looking at it however from a competitiveness and economic growth angle, we look at AI in a different way: **AI is tool that can achieve unprecedented efficiency in almost any field in the economy and society.**

AI will be a **very important driver of economic growth and competitiveness**. According to recent studies⁹ on the economic potential of AI, “conventional” and generative AI solutions could add the equivalent of 17.1 trillion to 25.6 trillion USD to the global economy annually. Those who are adapting to this technological change and are able to incorporate AI into their internal processes will be more efficient, more productive and more competitive. On the other hand, those who are lagging behind in this progress will struggle to compete with the adapters.

This potential of competitiveness and growth is in a strong relation with the **labor market** on which AI will also have a significant impact. According to recent research¹⁰, almost 40 percent of global employment is exposed to AI. However, it is important to underline that at the same time **AI will create new jobs** as well – jobs which require higher skills and which potentially will provide higher salaries. Jobs which will offer way more added value than the ones which were supplemented by the AI. We think that the overall balance between the lost and created jobs can be positive – skills and education will play, however, a significant role in the success of this transition at individual level.

In order to be successful in the competing global market, European enterprises should utilize all benefits of this technology. Member States recognized this and included the economic and labor-market related aspects in their national strategies. For example Hungary’s recent AI Strategy aims for 15% GDP growth and 26% productivity growth in the SME sector coupled with 1 million AI related new workplaces¹¹.

Context:

There is no doubt that at this point the United States are leading the global AI race, mostly thanks to big tech. US is followed by China, which is quickly catching up in this race by already surpassing US in some figures (most notably in adoption of AI systems¹²). Compared to these competitors, **the European Union is for the time being lagging behind**, mainly in terms of investment and enabling computing infrastructure such as the cloud. The EU however does have some significant strengths, such as a large single market, strong industrial sectors, computing capacity through a world-leading public network of supercomputers, a number of

⁹ <https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/the-economic-potential-of-generative-AI-the-next-productivity-frontier#business-value> According to the study, the figures here are short to mid term estimates without determining any specific timeframe.

¹⁰ Gen-AI: Artificial Intelligence and the Future of Work (International Monetary Fund – Staff Discussion Note of January 2024.)

¹¹ <https://mik.neum.hu/wp-content/uploads/2024/03/Magyarorszag-Mesterseges-Intelligencia-Strategiaja.pdf>

¹² <https://datainnovation.org/2021/01/eu-drops-behind-in-the-global-ai-race-as-china-challenges-u-s-lead-new-report-finds/>

Hungarian Presidency

innovative startups, as well as a very high number of (AI) scientists and highly skilled engineers.

The level of adoption of AI solutions varies greatly between Member States. For example according to the latest Eurostat figures¹³ the gap between the first and last Member State in terms of AI usage of European enterprises is more than 13 percentage points.

This means that, beyond strengthening development, the EU needs to speed up its adaptation progress of the technology in both the private and public sectors.

AI Innovation Package: AI Factories and GenAI4EU

In this context, the Commission launched the AI Innovation Package in January 2024. This initiative will support European startups and SMEs in the development of trustworthy AI, including through providing them with privileged access to supercomputers; and, most importantly, by substantially investing in AI optimized supercomputers and in AI factories, bringing together the necessary resources around these supercomputers, namely computing power, data and talent, to offer a wide and comprehensive range of services to European AI start-ups.

AI Factories developed across Member States should be linked to the national AI strategies, including providing access to public data, European data spaces as well as connecting talent. AI factories in each Member State will be connected to those of other Member States and to other relevant AI initiatives, such as testing and experimentation facilities and the “Digital Innovation Hubs”, thus creating a closely interconnected AI ecosystem across the whole of the EU.

In addition, the GenAI4EU initiative will stimulate the uptake of generative AI across a set of different strategic industrial ecosystems of the Union, such as robotics, health, aerospace, energy or mobility to mention just a few, thus supporting the transition pathways outlined in the EU Industrial Strategy. Such an approach will boost the deployment of generative AI technologies in the private and public sectors across key European industrial ecosystems. The “AI Factories Act” was endorsed by the Competitiveness Council on May 23 and will be implemented as of this summer.

AI Act for trustworthy AI

The recent **adoption of the AI Act is an important step to enhance trust** in the technology across the EU.

At the international level, the Commission promotes its approach to trustworthy AI through collaboration with its strategic partners in the context of the Trade and Technology Councils and the digital partnerships, as well as in multilateral contexts with the G7, the OECD, the UN and the safety summits. The objective is to ensure progress towards a human-centric, trustworthy, and sustainable AI. Moreover, it is working with Member States on a risk assessment exercise aimed at identifying AI-related risks and mitigation measures.

However, further, non-legislative measures may be necessary to fully exploit the AI-induced competitiveness potential in Europe.

- Drafting and updating national strategies in AI allows the assessment of strengths, weaknesses, opportunities and threats. It offers a structured framework for

¹³

https://ec.europa.eu/eurostat/databrowser/view/isoc_eb_ai__custom_10785496/default/table?lang=en

Hungarian Presidency

understanding the internal and external factors that can influence a country's success in AI development and deployment.

- Defining key assets helps in recognizing the nation's existing strengths, such as a robust tech industry, skilled workforce, strong research institutions, and supportive government policies. Competitive advantage can be maximized by understanding what the country excels in, the strategy can focus on areas where it already has a competitive edge, ensuring resources are allocated efficiently and effectively.
- Identifying early internal weaknesses, such as skill gaps, inadequate computing and cloud infrastructure, or lack of funding allows for targeted interventions to overcome these barriers.
- A thorough mapping of opportunities can identify external opportunities, such as emerging markets, potential partnerships, and untapped applications of AI. This helps in shaping a forward-looking strategy that can capture new markets and drive innovation.
- Understanding global trends and opportunities ensures that an AI strategy to boost competitiveness is aligned with international developments, enhancing the country's position in the global AI landscape.
- Identifying external threats, such as third-country competition and dependencies, regulatory changes, ethical concerns, and weaponisation of AI allows for the development of strategies to mitigate these risks. This proactive approach ensures resilience against potential disruptions. To facilitate the achievement of common goals, join forces and avoid duplication of efforts, national strategies further need to be consolidated at European level in line with the EU industrial strategy on AI as reflected in the Innovation Package of January 2024.

Challenges to address:

Our main challenges are the development of a competitive offer of (generative) AI solutions “made in Europe” and their integration into innovative applications across the European economy. This includes the digitalisation/AI adaptation capabilities of European enterprises and of the public administration and the upgrade of the skills of the European workforce.

1. A competitive offer of (generative) AI solutions “made in Europe”

Dedicated programs jointly funded by EU, Member States and industry/private sector, should be carried out both at EU and MS level to swiftly implement AI Factories and support GenAI4EU through:

- Development of advanced, state of the art AI models:
 - Joint forces between national and EU efforts, including public and private funding, to foster and facilitate European research and development in order to strengthen the European technological sovereignty and reduce the dependence on the US and Asian technology-import;
 - Support the development of Large Language Model(s), ensuring coverage of all national languages within the EU;
 - Support the development of EU multimodal models as they are currently lacking
 - Foster and facilitate the development and application of a shared computing infrastructure, supporting and building on the AI Factories, and complement with cloud to edge continuum.

Hungarian Presidency

- Development and deployment of AI-based solutions
 - Create a strong pool of innovators around AI Factories ecosystems all over Europe, developing (generative)AI-based solutions, based on EU models, for the various sectors and use-cases.
- Creating a supportive environment for the development of AI infrastructure:
 - Strong AI (cloud) infrastructure enables developers to effectively create and deploy AI and machine learning applications. Enterprises of all different sizes and across a wide range of industries depend on AI infrastructure to help them realize their AI ambitions. Investing in strong AI infrastructure provides better return on investment on AI initiatives than trying to accomplish them on outdated, inefficient IT infrastructure.

2. More focus on the European competitiveness and SMEs

- We should put a special emphasis on the AI adoption by the European enterprises, particularly by SMEs. The Digital Decade policy programme, which guides Europe's digital transformation, declares: by 2030 75% of EU enterprises will have to use AI and/or Cloud and/or Big Data technology. This is not an easily attainable target, by this indicator the EU27 value 7,9% was in 2021.
- Reinforce the entire AI value chain, from the semiconductors to the provision of computing capacity to generative AI and industrial applications of AI;
- Foster the adaptation of AI technologies of European enterprises (especially SMEs) through GenAI4Eu initiative; Hungary (and other member states) uses EU funds, launches programmes (within the EDIOP Plus and DROP Plus operational programmes) for the support of development / introducing AI based business solutions by the companies, AI focused European Digital Innovation Hubs (EDIH-s funded by Digital Europe Programmes and other sources including national state budgets) are already contributing to this goal

3. Talent and human resources – cooperation in education

Besides the application of the technology the AI-induced transformation of the labor market is also largely affecting European competitiveness. AI will both supplement existing jobs and create new ones with higher added value. On the one hand it is possible that some European jobs may disappear in the long run, but on the other hand there will be a demand for a skilled (or maybe even more) workforce to develop, maintain and operate the new solutions derived from this technology.

Having the necessary skills in time is the key to be successful in this transition – therefore the possibility to gain these skills shall be provided. EU funded dedicated programs could support:

- Launching awareness campaigns on AI's impact on the labor market and the future possibilities.
- Creating and publishing on-line trainings and educational materials on the basics of our best practice, an AI awareness-raising program called "AI Challenge"¹⁴. By reaching more than 4.5 million individuals and more than 118k participants, we believe that AI Challenge successfully passed the test – and we are working on its 2.0 version with updated content and multi-language accessibility).

¹⁴ See more details here: <https://neum.hu/en/mi/>

Hungarian Presidency

- Creating an AI and technology oriented advanced course with unified exams and EU-wide recognized certificates, whilst respecting Member States' exclusive competence for education.
- Creating AI training modules for non-IT curricula (e.g., medicine, law, economy and finance) to equip the specialists of the future with the knowledge on how AI can support their professions, its risks and limitations.
- Upskilling and reskilling the present workforce in the private and public sectors to boost the deployment of AI and promote its safe and responsible use.

To start the debate, we have proposed the following questions as a guideline allowing the participants to choose which ones they would like to discuss:

- *Focusing on the proposed instruments above, especially AI Factories and GenAI4EU initiatives, what do you think about the actions proposed and which instrument(s) do you see as most relevant? Which measures should be taken to achieve the goal of AI to become a key driver of economic growth and competitiveness in the years to come?*
- *The AI Board gathers Member States' high-level representatives to steer the EU policy approach in the field of AI and has just started its operation. Would you see any merit in the AI Board providing regular updates to the relevant Council configuration on matters regarding competitiveness in AI?*