



September 2019

AN AMBITIOUS EU INDUSTRIAL STRATEGY

WHY? → DEEP TRANSFORMATIONS AND FAST-CHANGING WORLD

The EU's future is closely linked with the future of its industry. Internal and external challenges are placing growing pressure on our societies, while also creating new opportunities. Deep societal transformation, and a fast-changing world call for an urgent change in attitude. As the world's second largest economy, the EU should aim to master these challenges while improving the EU's industrial competitiveness. The time to do so is now.

The need to tackle climate change involves fundamental societal and industrial transformations that can happen only through strong collaborative efforts between business, governments, science and society at large. The challenge is to develop climate-neutral solutions and technologies, while preserving Europe's competitiveness, prosperity and jobs. EU industry plays a key role in the transformation to a climate-neutral economy and society, by offering practical and concrete solutions to reach the common objectives.

Another major trend is the ongoing deep and disruptive transformation of our economy through digitisation and the application of artificial intelligence, which are putting pressure on Europe's competitiveness. Besides this, Europe also faces unprecedented technological competition and aggressive industrial strategies from major competitors like the US and China, as well as the emergence of economic powers such as India. Europe must carve out its future position within a more competitive, less rules-based international environment, characterised by emerging economies moving rapidly up the value chain. The situation is exacerbated by growing geopolitical tensions, affecting access to raw materials and critical infrastructures.

A strong and competitive EU industry delivering value for EU citizens, the environment and the economy is the basis for an inclusive society that enables us to deal with current and future challenges and grasp opportunities that arise. The way we will develop our industry's competitiveness, in which direction we take it, will to a great extent determine Europe's future relevance as a global player.

Hence, a new sense of urgency for an industrial strategy that brings a forward-looking competitiveness agenda for Europe is very welcome and needed. The report of the Industry 2030 high-level industrial roundtable provides a valuable contribution to this debate.

WHAT? → A MORE PRO-ACTIVE AND COMMON STRATEGIC APPROACH

Europe needs to become more pro-active and strategic than in the past. This does not mean that Europe should move towards protectionism. Becoming inward-looking would be harmful for Europe. With half of European business in global value chains, a closed Europe would only hurt us. This does also not mean that it is just about reacting to what is happening in other parts of the world. It calls for making sure that we collectively do everything we have agreed to do, implementing the right reforms, taking more strategic decisions, positioning ourselves stronger in international competition and looking more closely into strategic value chains.

Businesses need enabling conditions and, in some cases, public authorities will need to support and co-invest more intensively in strategic areas for Europe's future global



competitiveness and stronger autonomy in critical technologies and infrastructure. In particular timing and agile frameworks are crucial for the EU to become more dynamic in mobilising the necessary resources rapidly. While this close collaboration between public and private actors is key, we must not enter into a new era of interventionism where the state “picks winners”, thereby limiting and hindering other business action and competition as a whole.

The new EU industrial strategy needs to build on two pillars. First, a solid set of framework conditions that incentivise companies of all sizes to improve their performance, invest and safeguard the EU’s economic resilience. Second, a more strategic approach to value chains that are key to EU industrial competitiveness and technological leadership.

Better framework conditions for all

The basis for success will be to ensure that all sectors and companies in Europe are strong enough to operate in an environment that enables them to face foreign competition. For this to happen, European legislation must be clear, simple and fit for purpose. European companies can see their competitiveness being undermined by burdensome rules and bureaucracy, high taxes and competitors that do not operate on a level playing field. Improving the framework conditions (i.e. trade, competition, research and innovation, energy, intellectual property, investments, skills, etc.) will be crucial to enable companies to grow and prepare themselves for fierce competition and must therefore be at the core of the action. A key instrument is a competitive and well-functioning single market, and there is much to be done in terms of implementation and compliance, not least on services and the digital economy¹.

Focus on strategic value chains

A more pro-active approach is necessary to make the EU more strategic than in the past. It should foster industrial cross border cooperation and networks around value chains that are key to the EU’s industrial competitiveness and strategic autonomy. For instance, the work around microelectronics, batteries, low-carbon industries, hydrogen or cybersecurity is important to position the EU in areas of key technologies and to find solutions to societal challenges.

In particular, the strategy should smooth the way for a pooling of public and private resources, including investments, at the critical phase of moving technologies from labs to first industrial deployment and commercialisation. This is the moment where public support may be necessary to fill the financial gap to overcome market failures.

Therefore, the on-going work by the Strategic Forum on Important Projects of Common European Interest (IPCEI) should be further developed, in a clear and transparent process. Building on the first experiences, the IPCEI instrument should be kept in check to make sure it is agile enough to cope with a fast-changing global playing field.

To CONCLUDE

The governance and policies of European institutions during the new political cycle will need to fully capture the urgent need for a more proactive and strategic approach to industrial policy, building on a fair, competitive and agile business environment, aiming at global leadership in technology, innovation and sustainability and focusing on strategic value chains.

¹ a shortlist of key actions related to these policy fields is presented in annex.



Annex: shortlist of key industrial policy actions

Trade

- put in place a legal framework that effectively protects investments and assets in the EU by safeguarding a level playing field for European investors as compared to foreign investors, also in view of the termination of the intra-EU bilateral investment agreements by the end of the year.
- ensure the EU and its companies have effective mechanisms to settle trade disputes both at multilateral level in the WTO but also bilaterally through our free trade agreements or other bilateral-plurilateral arrangements.
- develop legal tools to enable EU businesses to address the distortive effects of foreign state ownership, foreign state financing and other trade distortive practices, insofar as these create unfair competition which cannot be adequately tackled by current EU or WTO rules.

Competition

- ensure that the market definition is based on a proper economic analysis and merger rules define markets in a realistic way, taking account of global market conditions and adopting a dynamic analysis and long-term view to assess the existence of competitive pressure.
- consider the need for further checks and balances in competition procedures to assure a proper due process and an independent objective check of both the procedural and substantive aspects of cases; ensure more legal certainty for company cooperation and joint research projects.
- ensure that EU State aid policy supports good aid and investment in research and innovation projects that contribute to growth, jobs and EU global competitiveness; promote IPCEIs more broadly and accelerate approval procedures.

Research and innovation

- allocate at least €120 billion to the Horizon Europe programme and >60% of the budget to pillar II 'Global challenges and European industrial competitiveness'.
- fully implement the Innovation Principle across the whole policy-cycle, from evaluation to implementation. An important step to achieve this would be to make a mandatory use of the 'innovation tool' in the impact assessment process for all relevant new EU legislation.

Energy and climate

- coordinate more strategically the use of the different EU funding instruments - and national funding where appropriate - to support public and private investments in the development and deployment of innovative low carbon and circular technologies and in unlocking the full potential of sectorial integration;
- Initiate a strategic mapping process linking future industry low-carbon energy needs to infrastructure development through a bottom-up approach to ensure sufficient and affordable low carbon energy.
- ensure that major trading partners also live up to their responsibilities and consider additional global safeguards to keep industrial production in Europe and prevent carbon and investment leakage.

Digitalisation

- focus on uniform implementation of cyber-security framework and address cyber-threats globally, as cyber-security is the base to invest upon safely for industry.
- Digital trust: should go hand in hand with industrial innovation. A harmonised application of GDPR is now needed along with a coherent framework that enable Europe to lead in AI.
- support uniform industrial standards and promote efficient rules for data security and data protection.

**Single market**

- to fully benefit from servitisation of industry, update the inventory of barriers to cross-border provision of services contributing to industry, such as engineering, logistics or cloud services, and look into solutions improving productivity.
- secure sufficient funding for market surveillance of goods from the Single Market Programme under the new MFF – to ensure level playing field in view of large numbers of illicit and unsafe products circulating in the Single Market.

Better regulation

- continue focus on regulatory simplification and burden reduction, ex ante and ex post, as this directly impacts competitiveness, so the Better Regulation agenda with its concrete instruments (such as the Better Regulation Toolbox, the REFIT Platform or strong independent oversight by the Regulatory Scrutiny Board) needs to continue and be reinforced.

Intellectual property

- develop a more coordinated and more strategic approach to IP, focusing on how IP policy can contribute to European industrial competitiveness as a whole. IP should be key any discussions about innovation and competitiveness, for instance in the High-Level Working Group on Competitiveness and Growth.
- raise awareness of the benefits that IP offers. Information campaigns and education initiatives aimed to highlight the positive impact of IP on various aspects of EU economy (e.g. competitiveness in current and future technologies, growth, jobs, solutions to implement UN's sustainable development goals, climate change) should be promoted and organised all over Europe.

Skills

- develop a future communiqué on EU level cooperation in vocational education and training post 2020 – ongoing revision of the Bruges communiqué of 2010. The future cooperation on vocational education and training post 2020 should prioritise actions that support companies' competitiveness through better synergies between research, development and innovation.
- strengthen all levels of education and training to establish a new “data culture” and awareness of digital, AI and cybersecurity.

Access to finance

- ensure that prudential rules strike the right balance between increasing financial stability and supporting companies' need for capital for investment (bank loans and equity investment)
- review the rules on securitization as they discourage the use of this important tool to increase lending
- complete the Capital Markets Union, integrating EU capital markets to increase financing options for businesses, such as Venture Capital provision, and removing barriers to cross-border investment.

* * *