

French – German Non-paper

The European industrial policy strategy and its Spring-2021 Update

The Union's industrial strategy, since its publication in March 2020, has provided a framework for a coordinated and holistic effort to improve the Union's industrial competitiveness and innovation and to master the digital and green transition.

The announcement by President von der Leyen of a forthcoming update of the industrial strategy is warmly welcomed. Since its publication, the context has dramatically changed due to the COVID-19 crisis. The economic impact on businesses and consumers justifies the update of the strategy, whilst simultaneously ensuring that our efforts strengthen market forces through allowing a free flow of production factors and flexible price mechanisms.

We propose enriching the industrial strategy on four important points:

I. Maintaining the course and accelerating the implementation of the industrial strategy: deepening and fast-forwarding the industrial contribution to the green and digital transition

The priority given to the green and digital transition in the European industry strategy should be expanded. The effects of the COVID-19 crisis since March 2020 have made the case that investments should pick up to boost the economic recovery, while keeping the Union on track towards its climate objectives and serving its industrial competitiveness.

In this respect, the updated industrial strategy should:

Develop a coherent package of proposals for engaging industry in the **green transition**, including:

- **Strengthening the EU-ETS to deliver cost-effective emission reductions** in the industry sector and implementing a carbon border adjustment mechanism in order to limit the risk of carbon leakage in a way that is compatible with WTO rules. Moreover, a revision of the market stability reserve and the introduction of a minimum carbon price should be considered;
- **Updating state-aid rules including CAPEX for investments**, notably in climate-friendly technologies and **setting up a new instrument to support operating expenses (OPEX)** for innovative production in a cost-efficient way, e.g. with Carbon Contracts for Difference in a way ensuring the cost-effectiveness of this instrument and with safeguards as regards risks for public finances;
- **Introducing lead markets initiatives for sustainable and circular products**, including through the revision of the ecodesign regulation;
- Ensuring coherence and combine efforts with strategies published since March 2020, in particular:
 - With **the Sustainable Chemicals strategy**, which should be implemented with a view to minimizing administrative burdens for the industry and safeguarding non-bureaucratic procedures, by ensuring the industrial strategy supports the chemicals ecosystem's transformation and the development of chemical substances that are essential to the green and digital transition;
 - With **the Energy Systems Integration strategy**, linking the various energy carriers and sectors in order to optimize the energy system.
- **Looking for possibility of EU-level-support for IPCEIs**, such as the hydrogen IPCEI or a future IPCEI for low-carbon industry, and **develop new industrial alliances**, for example for aviation biofuels.

Push further the **digital transformation** of industry, thereby strengthening digital sovereignty, through:

- Ensuring that the digital, data and economic values creation derived from data processing activities will be fully unlocked by European industries by **allowing access to a larger variety of services and datasets** while avoiding vendor-lock-in practices;
- Supporting projects currently under discussion, such as **the IPCEI for Microelectronics and Connectivity and the IPCEI Cloud Infrastructure and Services**, with resources and a tentative calendar towards their launch;
- Committing to launch **planned governance structures**, such as the “industrial data and platforms” alliance articulated with the Cloud IPCEI and GAIA-X, creating a high-performance, trustworthy, secure and sustainable digital infrastructure, including a common European industrial cloud, and accompanying regulatory evolutions;
- Developing **AI standardisation and certification initiatives** to strengthen the EU's strategic autonomy on key industrial sectors;
- Launching new initiatives in the digital area to support **industry transformation**, in particular regarding Industry 4.0 work and existing support structures such as the Digital Innovation Hubs;
- Improving **cybersecurity** through the establishment of trust centres for B2B contacts in industry.

II. Reinforcing European resilience and industrial sovereignty as new post-COVID 19 priorities in the industrial strategy update

Supply disruptions due to the COVID-19 crisis revealed the importance of the Union’s capacity to cope with crises and self-determine its economic path and interests. The degree of resilience of specific value chains was questioned. Our conviction is that open markets and rules-based, reciprocal trade allow for diversification, legal certainty for economic operators, and thus supercharge our growth potential. Strengthening rules-based trade with an ambitious trade agenda placing the WTO at its core remains a strong priority. While rejecting protectionism, we must adapt to new developments and address our vulnerabilities where warranted in a WTO-compatible way, as well as safeguard the EU level playing field by upgrading the EU toolbox to address the distortive effects of foreign subsidies in the internal market.

This priority in resilience and strategic autonomy, as reaffirmed by EUCO Conclusions and COMPET Industry conclusions, must include diversification of international supply chains, fostering production and investment in Europe, reaffirming support to strategic investments and value chains through innovative financial instruments such as InvestEU, and ensuring innovation and technological leadership. As such, the updated industrial strategy should:

- Materialise the first results of **the Commission’s analysis of the Union’s strategic dependencies** launched following the EUCO’s conclusions as a starting point for future work;
- Propose a first set of measures designed to enhance market-driven responses to **reduce, where relevant, strategic dependencies**;
- Launch **new common industrial initiatives**, including by fostering innovation in mature sectors while ensuring that only companies economically sustainable under market conditions are supported. This is particularly relevant in ecosystems that are essential to the Union’s resilience and strategic autonomy. New European initiatives for the health industry, such as an IPCEI, should in particular be explored.
- Continue to strive towards **effective reciprocity** through bilateral and plurilateral negotiations and the adoption of the International Procurement Instrument, as well as by clarifying the EU public procurement framework;
- Further improve the application of the **European framework for the screening of FDI**.

III. Strengthening framework conditions for European Industry with the Single Market as a cornerstone

The groundwork of an ambitious industrial strategy is an optimal set of enabling framework conditions, established through a future-proof regulatory environment fostering competitiveness and sustainability. The European Single Market provides such a set of enabling conditions. For industry, it provides an economic area that fosters innovation, including through appropriate funding and efficient standardization process, and thereby favors the development of new, especially green and digital, business models. We aim for:

- A **strong and deep Single Market** while drawing lessons from the COVID-19 crisis to address remaining fragmentation, unjustified barriers and weaknesses, including at the local level, and to increase our ambition. More specifically, Single Market rules should be implemented and strictly enforced, in line with the European Commission's Single Market Enforcement Action Plan and along with the French-German initiative for the European Recovery from the Coronavirus Crisis of 18 May 2020 setting-up a new roadmap for a fully integrated market in key areas (esp. digital, energy, capital markets) with clear milestones and an accelerated legislative agenda.
- Strengthening **the investment climate in the EU internal market** according to the Capital Markets Union Action Plan of 24 September 2020, especially against a backdrop of economic recovery after the COVID-19 pandemic. To this end, financial institutions should be able to increase their funding capacity of long-term industrial projects. Furthermore, in line with the Commission's expected initiative in 2021, precise and clear rules on investment protection and effective enforcement mechanisms are needed to secure the flow of intra-EU investments in the future.
- A stronger integration of **industry-related services essential** to key European industrial ecosystems.
- An **effective and modernized competition framework** to enable European businesses to innovate, become more productive, offer better products to consumers and compete on a level-playing field with non-European companies.
- As regards digital markets, we will constructively engage in negotiations on **the Digital Markets Act** and beyond with the aim to conclude these with an ambitious outcome at the beginning of 2022.

IV. Providing the tools for managing industrial policy: reinforcing and complementing the Union's industrial governance framework

In order to speed up the implementation of the EU industrial strategy, a more transparent and inclusive governance is required. Existing structures are useful to steer the Union's industrial strategy –the Industrial Forum- and to coordinate work on specific segments –industrial alliances-. There is need, however, for a stronger coordination within the European Commission in order to align regulatory and investment undertakings with the digital and green transition's priorities. We must likewise evaluate our industrial strategy's implementation more closely to ensure it reaches its desired results. Reinforced governance structures, finally, should also provide the opportunity for dedicated support to ecosystems, particularly to those presently unable to properly achieve their green and digital transformation given the crisis' effects. The industrial strategy should, as a result:

- Improve the **IPCEI instrument** to allow for more certainty regarding the requirements in the 2014 guidelines and strong SME inclusion. RRF funds should also be considered for future IPCEIs.
- Efficient and transparent work of **the new Industrial Forum** in monitoring the industrial alliances and IPCEIs, supported by an online information offer to ensure transparency and inclusion;
- Build upon **existing sectorial expert groups** with a workable governance configuration allowing for co-construction of regulatory and industrial proposals by all stakeholders in an ecosystem;

- **Determine key performance indicators** upon which to formulate milestones and objectives to monitor the implementation of the industrial strategy and its contribution to the dual transition and resilience and establish regular reporting mechanisms;
- Develop **ecosystem-specific support** through comprehensive industrial policy toolboxes as announced by the Commission.