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From: Trio Presidency
To: The High Level Working Group on Competitiveness and Growth
Subject: A holistic approach to EU agenda - interlinking Industrial and Single Market policies including services

Delegations will find in Annex a note on a holistic approach to EU agenda - interlinking Industrial and Single Market policies including services, in view of the meeting of the High Level Working Group on Competitiveness and Growth on 11 April 2019.

A holistic approach to EU agenda - interlinking Industrial and Single Market policies including services

1. Smart and forward-looking Industrial policy and Internal Market policy are vital for the growth and competitiveness of Europe. In order to succeed, competitive European companies need access to strategic global value chains. The March 2019 European Council calls for an assertive Industrial policy allowing the EU to remain an industrial power and for a deeper and stronger Single Market. In addition, a well-functioning Single Market with a uniform application of rules is an essential element in creating a level-playing-field for businesses in the EU. The latter enables quick scale-up and development of new businesses paving the way to extend EU goods and services to the global marketplace. To this end, a holistic approach to the EU agenda interlinking Industrial and Single Market policies is crucial for the global competitiveness of the EU.
2. There are important links between Industrial policy and Single Market policy. These policy areas complement each other and highlight the same topics but often from different perspectives. Therefore, it is of utmost importance that these policy areas are structured and developed in a manner that they strengthen each other, offer synergies and are more effective together than separately. In addition, the EU should reflect on how to better link Industrial and Single Market policies with other key policy areas and enablers such as Trade and Competition policies as well as digitalisation and innovations with a view to fostering sustainable growth (including economic, environmental and social sustainability).

3. It is evident that Europe should not be naive when facing the current global uncertainties. In this context, we should not underestimate the unfair practices of our global trading partners and the harmful effects of these practices on the European economy and European industries. As this phenomenon is not going to disappear in the near future, effective, forward-looking and integrated Industrial and Single Market policies at the EU level need to be reinforced. We also need to ensure that European industries continue to benefit from the openness of the European economy that enables our industry to access global markets. The global competitive pressure as well as the harmful practices of e.g. China call for a unified and determined response by the EU – at the same time they underline the need for Europe to be at the forefront of innovation and to fully exploit the opportunities offered by the European-wide home market.
4. Despite the challenging situation in international trade, global competition, technological development as well as digitalisation should be seen as opportunities rather than as threats. Therefore, the future EU policy approaches should better promote the European companies' access to global markets and facilitate their chance to maximise value creation in these value networks. In addition to joint action to strengthen key strategic value chains¹ the policy approaches chosen should also enable the development of entirely new businesses and the scaling up of businesses in these same sectors as well as other sectors that may hold the potential to become key players in the future. This is important since, for example, in the field of digital economy the markets are very dynamic and new attractive business models and value chains emerge constantly. The regulatory solutions and the various policy approaches chosen should evolve in tune with market developments. Therefore, in order to succeed, the European companies (of different sizes) need to be agile and adapt quickly to new situations. The EU policies should enable and encourage this.

¹ In January 2019, the Strategic Forum on Important Projects Common European Interests (IPCEI), identified six key strategic value chains, for example cyber security, smart health and low-carbon industry to prepare joint or well-coordinated investments and actions, in addition to ongoing efforts in microelectronics, batteries and high-performance computing.

5. In recent years, the Industrial policy debate has expanded and deepened Industrial policy links to other policy areas such as Digital transformation and Artificial Intelligence, Trade policy, Single Market and Competition policy as well as Environmental policy. The next Commission will be well placed to prepare a modern, ambitious and forward-looking comprehensive and long-term EU Industrial Policy Strategy as called for by the European Council and the Competitiveness Council. The Member States widely agree that there is a need for a new Industrial policy strategy and it seems that they also have a shared view on many of the future priorities in this area. Member States generally highlight the importance of innovation policy and the need for increased speed in adopting new ideas and models, the development of new disruptive technologies, artificial intelligence and platform economy as well as related businesses. However, Member States have different views and priorities about the efficient means and policy measures as regards this important policy area. Some Member States stress the importance of the creation of ‘European Champions’ by adapting the EU’s regulatory framework including EU competition rules in order to improve Europe’s global competitiveness,² while some Member States emphasize that developing a well-functioning Single Market fit for digital era and creating a competitive business environment is the key for the future competitiveness of European industries³

² A Franco-German Manifesto for a European industrial policy fit for the 21th Century.

³ Joint letter of seventeen Member States, 22 February 2019: Preparing the March European Council – The future development of the Single Market and European digital policy in view of preparation for the next Strategic Agenda.

6. In addition to industrial policy, there is a strong call for a holistic and forward-looking Single Market policy. The Commission published on 22 November 2018 a Communication ‘The Single Market in a changing world’⁴. The Commission Communication as well as the European Council Conclusions of 13 and 14 December 2018⁵ highlight the importance of a well-functioning Single Market for the competitiveness of Europe and stress the urgent need to develop the Single Market in such a way that in the future it will be able to react quickly enough to the technological development and changes on the market environment as well as to embrace fully the potential of digital transformation in terms of productivity. To be a solid basis for growth and competitiveness for Europe in a challenging global environment, the Single Market policy and related concrete policy actions must also complement other policy areas and strengthen the coherence with all related policies, especially the Industrial policy.
7. Against this background, it is clear that both mentioned policy areas would require a broader and more holistic approach to better meet the challenges of global competition, in particular, as some global market players do not comply with the generally accepted rules of international trade. Moreover, both policy areas tackle the same issues such as how Europe can become a leader in the field of artificial intelligence and how to develop and exploit disruptive technologies in such a way that enhances the productivity of the European industries. Furthermore, strengthening the EU’s role in setting global standards would have a positive influence on the EU’s competitiveness.

⁴ Doc. 14633/18, COM(2018) 772 final, 22.11.2018.

⁵ EUCO 17/18, Chapter II.

8. It is evident that there is no single correct answer to this difficult issue. Instead, a wisely constructed combination of policy measures from different policy areas could be the way forward. However, to carry out this work successfully, it is crucial to understand how the markets actually work and how the important value chains function. We need to find out where the greatest possibilities lie for value creation. In addition, we need a vision where EU is seen as a leading global market place for businesses and that enables scaling up and commercialisation of innovation.
9. A dynamic market place and vibrant competition are essential elements of a strong European response to the overall European challenge. Also evidence⁶ points clearly to this direction. If our home market did perform better, the European firms could scale up, thus enabling them to reach out to global markets in an easier way. Moreover, functioning and integrated European capital markets would be critically important for the ability of the European industry to succeed in global competition. However, market dynamics cannot be an answer to everything. In addition, e.g. EU funding can play a very significant role in financing breakthrough innovations, for instance, through the European Innovation Council (EIC) framework under the upcoming Horizon Europe programme.
10. In relation to the functioning of value chains it is important to note that services and especially digital services play a key role in most value chains in terms of value creation. This also applies to many traditional industries and the value chains that are vital for their businesses, regardless of whether they are low-tech, medium-tech or high-tech companies. Services are also an important means to closer customer relations and may become the main value creation vehicle or platform. It is also important to note that in an international comparison EU manufacturing and EU manufacturing exports are more servitised than, for example, in the USA.

⁶ International Trade and Domestic Competition: evidence from Belgium, Maria Caterina Bramati, Alberto A. Gaggero, Edna Solomon, 2015.

11. Therefore, the servitisation of EU manufacturing, its opportunities and untapped potential should be better understood to be able to choose the best and the most efficient policy measures improving the global competitiveness of Europe. Therefore, a strengthening of the European services sector and digitalisation including an efficient and ethical European data policy should be seen as a priority alongside with the industrial policy in pursuit of economic growth and a more competitive Europe.
12. This is a perfect timing for the debate as, following the discussions in the March European Council, we need to pass a clear message for the preparations of the EU's next strategic agenda as well as the work programme of the next Commission. The EU needs an ambitious but realistic agenda to be more competitive on the global markets. The agenda should combine wisely chosen elements from different EU policies so that they, together and separately, support the sustainable growth of the EU and strengthen the competitiveness of EU industry and EU economy in general. This should be done without sacrificing the fundamental principles of the EU such as competition and a level-playing-field for all European companies including SMEs.

Question for discussion:

What are in your view the important interlinkages between Industrial policy and Single Market policy and which should be the key priorities and policy measures in relation to these interlinkages between the two policy areas in order to improve Europe's competitiveness?
