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Subject: *Preparation of the Council ("Competitiveness") of 2-3 March 2015*
EU Industrial Competitiveness
a) Communication from the Commission on "Annual Growth Survey 2015"
b) Industrial policy within future Digital Single Market strategy
- *Presentation by the Commission*
- *Policy debate*

Competitive Industry is a precondition for ensuring EU growth and jobs. Streamlining industrial policy within other EU policies is of pivotal importance, especially with a view to raising productivity and integrity of EU industry. Streamlining and incorporating Industrial policy within future Digital Single Market strategy is one of the examples.

Digitalisation of industry has a cross-fertilising effect on all sectors of the economy and on society in general. From the business perspective, digital transformation has an impact on all its areas, functions and processes.

At present, 60% of EU businesses and industry are digital, however still 40% of EU companies are not yet benefiting from the digital transformation. Meanwhile only 1,7% of all enterprises can be categorized as fully digital enterprises.¹ Today we are lacking coherent development across Europe in sphere of digitalization. As a consequence the lack of uptake of the benefits offered by the digital transformation has a negative comparative impact for the competitiveness and growth of EU companies.

This is even more important seen in the context that manufacturing plays a key role in driving research and innovation and generates 80% of the EU's innovations and 80% of its exports.²

Since 2008 the share of manufacturing in GDP has fallen from 15.4% to 15.1% in the last year³; and the EU's productivity performance continues deteriorating in comparison to that of our competitors.⁴ Widening productivity gap with economies such as the US and slowing economic growth are the indications EU must react and immediately.

As identified in Annual Growth Survey 2015, progress at national and EU level in areas like services, energy, telecoms and the digital economy, as well as in improving conditions for business create new opportunities for jobs and growth. Enormous potential of digital tools would complement and even catalyse improvement of business environment, boost of innovation, resource efficiency, effectiveness of public administration, etc. It would result in strengthening commitment towards structural reforms.

¹ Source: IDC on IDC European Vertical Markets Survey 2012

Note: Data refer to companies with 10+ employees and are weighted by number of enterprises

² COM Communication on Industrial Renaissance 2014

³ It is worth noting that while in some countries (Slovakia, Lithuania, Austria, Germany and the Netherlands) the share of manufacturing in GDP has increased since 2007, it has fallen in the rest.

⁴ See reference no.2

Europe's competitiveness and growth is based on a thriving European industry both in products and services. Capacity to innovate and accelerating growth by using advantages offered by digital technologies, solutions and products is crucial. Enablers include smart electronics, advanced communication networks and cloud computing. New business opportunities, but also new challenges, arise as traditional industrial sectors go digital, revolutionising not only production processes but also the access to- and delivery of products and services. Every business is concerned with the digital transformation, including not only traditional industries, but also the ecosystem of start-up facilitation is a must. Innovative enterprises and enterprises exploiting digital opportunities are the future of a modern economy, a precondition for growth and jobs.

The President of the European Commission, Jean-Claude Juncker, has identified the potential of the digital age as one of the key priorities of the European Commission in 2015, especially recognising this as a significant stepping-stone to the future⁵. The up-coming Digital Single Market strategy is planned to be issued before the European Council in June 2015.

Several challenges need to be tackled: not only technical and legal barriers within the EU internal market, but also lack of interoperability, fragmented infrastructure, insufficient level of investments, as well as insufficient level of innovation and lack of skills. Europe needs to modernise its digital infrastructure, encouraging use of open data, open platforms and big data, while at the same time ensuring security and privacy at the level European citizens expect. Trust and confidence of consumers and businesses in new ICT products and services are indispensable for a digitalisation of our economy and society. The current opinion polls and statistics show an increasing reluctance for the uptake of new ICT models as a result of numerous security breaches and market rules that are open for interpretation.

⁵ http://ec.europa.eu/commission/2014-2019/ansip/blog/europe-goes-digital-how-move-forward-2015_en

In order to reap the full benefits of digitisation process, public policy should aim to establish scalable internal markets for the benefits of both the demand side (consumers, business, but also the public sector as a major part of the economy) as well as and the product and service supply side. This should, in particular address new fast-growing sectors with strong European potential such as smart cities, smart mobility, energy, resource efficiency and digital health and well-being.

These are just a few examples of the challenges identified by the European Commission in creating a functioning Digital Single Market and a level playing field for industry to boost competitiveness and employment and ensure higher growth of European industry in the global markets.

Latvia has defined a "competitive and digital EU" as one of the main horizontal priorities for its Presidency of the Council of the European Union, and invites the Council to support this initiative and to contribute to the achievement of its ambitious targets.

The Competitiveness formation of the Council, as backbone for fostering competitiveness in Europe, is invited to discuss on 2nd March 2015 the industry priorities for the future Digital Single Market Strategy as a contribution on identifying the activities and priorities to the ongoing work of the Commission on this initiative.

In the light of the overall context described above, the Presidency invites the Council (Competitiveness) on 2 March 2015 to address the following questions:

- *What could be the impact and spill over effects as a result of incorporating industry within the future Digital Single Market Strategy?*

- *What prevents all industry (including traditional and non-ICT sectors) from embracing digital innovations to boost their competitiveness and growth? What can governments do about it?*
 - *What can national governments and the EU do to grow a fertile digital start-up ecosystem? More start-ups and more high-growth companies are often seen as the panacea for Europe. What are concrete measures and best practices, which can be translated into a European context quickly?*
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