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From: Presidency
To: Permanent Representatives Committee/Council

Subject: *Preparation of the Competitiveness Council on 18 September 2020*
Resilience and recovery: Strengthening international competitiveness of
European industry
Policy debate

Delegations will find attached a Presidency note on "Resilience and recovery: Strengthening international competitiveness of European industry" with a view to the policy debate at the Competitiveness Council on 18 September 2020.

Resilience and recovery: Strengthening international competitiveness of European industry

Discussion paper

The economic impact of the COVID-19 pandemic represents one of the greatest challenges in the history of the European community. The crisis has also demonstrated the strengths and weaknesses of our interconnected global economy. In view of its field of competence, the Council for competitiveness and growth can provide an important stimulus to help us cope with these challenges. This stimulus can embrace the Recovery Plan and the various interwoven topics, which include the issues of ‘strategic autonomy’ and ‘technological sovereignty’ that are addressed by the new EU Industrial Strategy.

Achieving resilience, a key objective of the European Recovery Plan, needs to be accompanied by efforts to sustainably strengthen our international competitiveness. European industry should be supported in managing the transition towards a digital, green and resilient economy that also takes into consideration social concerns. This requires finding a way of reconciling open markets and fair trade based on enforceable international rules with greater independence for particularly critical sectors and the investment in reskilling and upskilling. In future, therefore, progress in industrial resilience should be more closely monitored.

Internal industrial resilience

Strengthening the Single Market

The European Single Market is the centrepiece of European integration. It is not only a common market for all EU Member States, but also provides an important basis that allows European companies to be successful on international markets. The COVID-19 pandemic and the ensuing restrictions such as border closures have had a disruptive effect on the functioning of the Single Market. If Europe's economy is to recover, the operability of the Single Market must be fully restored. Moreover, enhancing the Single Market is key to strengthening the international competitiveness of European industry to ensure it is fit for the future.

Harnessing the potential for innovation, fostering the IPCEI tool

In order to meet the current challenges, more investment at EU level is needed, particularly in technological innovations that are relevant to industry. In this context, market-driven cross-border and cross-sectoral cooperation between companies can generate added European value. In addition to the promotion of basic and applied research, key enabling technologies also need to be supported in the development of products or services. To this end, further use should be made of IPCEIs (Important Projects of Common European Interest), a valuable tool that is intended to promote highly innovative European industrial projects. Their effectiveness can be further improved by the revision of the Communication on IPCEIs, to be completed by the end of 2021.

Moreover, the new Industrial Forum should provide a platform for co-designing solutions with stakeholders, supporting the Commission in its systematic analysis of the ecosystems and in assessing the risks and needs of industry as it embarks on the twin transition and the strengthening of its resilience. Fresh impetus will also be given by funding measures, including Horizon Europe, InvestEU, COSME as part of the Single Market programme, and the upcoming measures of the new Strategic Investment Facility.

Using the opportunities provided by the green and digital transformation of industry

A successful transformation of industry towards a green and digital future will lay the foundation for Europe's long-term competitiveness. Of the wide range of projects that are intended to help attain the climate targets of the European Green Deal, it makes sense to identify those which are also capable of strengthening Europe's competitiveness. Also, if energy-intensive industries are to have a long-term future in Europe, they need to be supported on their path towards transformation. One possible solution consists in a WTO-compatible carbon border adjustment mechanism that complements the existing measures against carbon leakage. Promising ideas are also raised by the strategy on smart sector integration and the European Hydrogen Strategy.

Digital sovereignty is an essential aspect of resilience. Projects such as the establishment of an efficient European digital infrastructure such as GAIA-X, the strengthening of cybersecurity and the development of the 5G network all help to advance digital sovereignty. These processes rely on safe and readily available microelectronic components. Therefore, strategic autonomy also needs to be enhanced with a view to reducing Europe's reliance on suppliers from third countries. Moreover, an adequate legal environment must be created for new digital business models in the EU.

External industrial resilience

Strengthening rules-based trade

Cross-border investment, open markets and fair trade are needed in order for European industrial companies to be successful on international markets and to be able to increase the resilience of production structures by means of globally diversified supplier relations. The efforts being made by the European Commission to modernise and strengthen the WTO and to reduce trade barriers, bilateral and plurilateral trade and investment agreements, and the comprehensive EU trade policy review that was launched in June 2020 all play an important role in this context.

Apart from that, the COVID-19 pandemic has highlighted the crucial role that an active trade policy has to play in times of global crisis in safeguarding resilient and sustainable value chains as well as market access opportunities. In such times, securing market access can turn into a competitive advantage or disadvantage for European market players. A stable supply of critical raw materials is another key aspect of industrial resilience, which is why the Action Plan on Critical Raw Materials is of particular importance.

Ensuring a level playing field for investment, protecting security-relevant companies, achieving technological sovereignty

The EU is known for its promotion of open markets and of trade and investment based on enforceable international rules, and this should not change in the future. It may be helpful to establish greater independence for particularly critical sectors – either for strategic reasons, or wherever distortions of international competition constitute an impediment to open trade. The current deliberations on open strategic autonomy are giving attention to this matter.

In its White Paper on Levelling the Playing Field as Regards Foreign Subsidies, the European Commission proposes a range of modules that are intended to address the competition-distorting effects of foreign subsidies by third countries in the Single Market. These modules provide for a new form of general market scrutiny instrument, a new form of merger control and a new option to exclude bidders from public procurement procedures. Distortions of competition are also increasingly frequent in international export financing, which is largely due to massive funding activities by a small number of third countries. The planned International Procurement Instrument could help in opening access to procurement markets in non-EU countries. Apart from that, a major breakthrough will be achieved if the EU-China Investment Agreement is brought to a successful conclusion.

As a result of the economic aftermath of the COVID-19 pandemic, European companies may also be increasingly affected by strategic foreign acquisitions. In certain critical sectors, such acquisitions might constitute a threat to Member States' security interests. In its guidance on foreign direct investment, the European Commission has called on Member States to make full use of the available review mechanisms for foreign direct investment in order to assess potential security risks in times of crisis. Particular emphasis is placed on companies in the health sector, but also on maintaining strategic capacities including critical infrastructures, and on the risks stemming from an undervaluation of stock markets.

Strengthening the resilience of industrial supply chains

The experience of the COVID-19 pandemic will encourage European industry to reassess current supply chains in terms of their risk potential in order to be able to enhance their resilience. Improving the resilience of the EU industrial ecosystems would benefit from a coordinated approach for highly critical supplies, as it calls for multiple suppliers on different territories and a pooling of demand when reshoring of production implies substantial investments. Industrial companies must take their own decisions as to the location of production and as to the companies they choose as partners or suppliers. Member States and the EU may assess which instruments of Single Market policy – in addition to the trade policy toolbox – are suitable to support industry in its efforts. This includes ensuring continuous improvements in the overall framework for attracting industrial production to the EU.

Moreover, policy-makers have to address the question of how to safeguard a stable, EU-wide supply of essential goods such as medicine and medical protective equipment in the face of potential future crises. The planned Pharmaceutical Strategy and efforts to strengthen research, development and production in Europe can make an important contribution towards this goal. Some Member States have already taken action to support the temporary domestic production of certain goods or to increase the level of public procurement and stockpiling in certain areas. Using the vast potential that is offered by European cooperation will allow further progress to be made.

Question for discussion:

What actions at Member State and EU level can ensure that measures presented in the Industrial Strategy and the Recovery Plan contribute to the resilience and technological sovereignty of the European economy?
