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Subject: External Dimension of European Competitiveness

Delegations will find in Annex a Presidency Note on the External Dimensions of European Competitiveness, in view of the Competitiveness Council on 28 November 2019.

External Dimension of EU Competitiveness
Competitiveness Council (Internal Market and Industry)
28 November 2019

1. The EU, as a globally connected economy and the world's largest free trade area, is faced with unprecedented number of new challenges and megatrends. These range from a slowdown in global trade to digital disruption and climate change. Moreover, due to the recent changes in the great power dynamics, the EU's relations with the other major trading blocks, particularly China and the United States (US), have become more complex. In particular, the lack of a level playing field is a problem that the EU should address effectively.
2. The capacity of European industries and businesses to compete successfully in global markets and their access to global value chains are the major prerequisites for sustainable growth and competitiveness of Europe. Therefore, we should ensure that Europe will be a leader in future technologies, innovation and sustainability, thus serving also the strategic autonomy in a forward-looking way. This also implies that the conduct of industries and businesses must be environmentally and socially responsible.
3. There are two aspects related to the external competitiveness of Europe. Firstly, we need to make sure that we have competitive home markets, capacity to innovate, sufficient skills, a level playing field in the European markets and a business environment that is favourable for companies to scale up and attract investments. These prerequisites are closely related to European growth policy and the visions presented in the Finnish Presidency paper: *Vision for Sustainable Growth*. Secondly, it is crucial to be able to ensure a level playing field, globally, for European industries and businesses.

4. This paper focuses mainly on the latter aspect of the EU's external competitiveness i.e. ensuring a level playing field globally to make it possible for European industries and businesses, including SMEs, to access global markets, maximise their value creation as well as support the creation and development of value chains and their integration to global value creation networks.
5. The level playing field in the global markets is heavily affected by the following megatrends:
 - Climate change and transition to climate neutral economy,
 - Digitalisation and new technologies as well as their implications on the level playing field, especially in the online platform economy,
 - Market distorting practices by third countries which provide their own companies with unfair advantages, such as state aid and limiting market access for foreign companies

Climate change and transition to climate neutral economy

6. Climate change has a huge impact on the global economy. It is a challenge but should also be seen as an opportunity from the global competitiveness perspective for Europe. In many cases, the fastest to act will have an advantage in shaping and conquering a rapidly developing market. Therefore, the EU should develop a comprehensive and consistent plan how to take an early and leading role in the markets related to transition to climate neutral economy.
7. Innovative climate-neutral technologies and solutions will be in high demand in the global markets in the near future. Europe should be the first to introduce these technologies and make every effort to develop European standards that the market will adopt as global standards. These efforts should be supported by private and public investments in innovations and technologies as well as forward-looking regulation and standards. This would pave the way to socially and economically viable and just transition, which creates a competitive edge for the European clean industry.

Digitalisation and new technologies and their implications to the level playing field, especially in the online platform market

8. To enhance its productivity and competitiveness on the global markets the EU needs to be a frontrunner in developing the digital economy. This is not easy as other major trading blocks are in many business areas ahead of the EU in the development and, in particular, commercialisation of several crucial digital technologies and solutions.
9. This applies especially to the online platform economy as a small number of non-European platform companies dominate the global as well as the European markets. Their excessively strong position in the market is, to a great extent, based on their capability of collecting, combining and governing vast amount of data in such a way that they are able to offer completely new types of services for businesses and consumers. This creates a cycle where these big platform companies become more and more dominant and the market access of competitors may be hampered or even impeded, or where activities of other businesses in a number of sectors can become strongly dependent on the behaviour of these big online platforms.
10. Against this background, it is of utmost importance that the EU is capable of intervening in harmful behaviour of big online platform companies when they operate in the European markets. We should continue to chart, the various policy responses through which the issue can be tackled and whether these existing policy tools are fit for purpose. For example, competition rules have proved efficient and powerful in checking market behaviour of dominant firms or in prohibiting mergers detrimental to competition in the European market. It should be further examined, whether the enforcement of EU competition rules alone is enough in addressing issues in the digital platform economy. Furthermore, it would be important to explore whether we can come up with or whether there is a need for possible new policy tools to intervene in harmful behaviour of online platforms in order to ensure a level playing field in the EU.

11. Data has become a valuable asset for many companies and it forms the basis of their business activities. Moreover, as already mentioned, gaining a strong position in access to data and processing data has become an efficient tool to dominate the market. The EU should develop a comprehensive roadmap for the regulatory landscape on data as well as fair and innovative use and reuse of data to maximize the benefits, for example, related to data sharing and to ensure the SMEs' access to data. This should include clarity on which data assets are needed by whom for which pro-competitive purpose. An innovative consistent approach to data policy could also accelerate the development and adoption of artificial intelligence in the EU.

Market distorting actions by certain third countries which provide their own companies with unfair advantages, such as state aid and limiting market access for foreign companies

12. Certain third countries with a lot of economic power are known to interfere actively the functioning of the markets by providing their own companies with advantages, which distort competition and a level playing field. These activities consist, for example, of state subsidies or restricting market access for foreign companies.
13. This behaviour has led to a situation where the EU needs to take a firmer stance and proactively advocate the interests of EU companies. Openness in trade based on competition and strong innovation plays a key role in supporting economic growth and competitiveness. Open markets have consistently proven more efficient and resilient to crises than economies with high barriers and restrictions. Therefore, the EU must actively promote the need for a level playing field at home as well as globally and by continue to uphold openness, transparency and a multilateral rules-based trading system. Additionally, common global standards regarding export credits are urgently needed. The EU should continue to push the process within the International Working Group on Export Credits (IWG) with the aim that the reporting and transparency of export credits on the level of individual projects is achieved.

14. It is evident that global market access problems should be solved primarily through trade policy. However, if this is not an option due to the other party's unwillingness to solve the problem, we should be ready to consider other means of strengthening the level playing field to improve EU's competitiveness for the benefit of European industries and businesses. Such measures should meet the following requirements: the actions can be decided and implemented unilaterally by the EU and they do not adversely affect market openness and the functioning of the European market or European industries and businesses. It is important to note that as these actions would be taken unilaterally by the EU, they would only cover unfair practices that distort the level playing field in the European market.
15. The unfair behaviour of certain countries and the lack of level playing field have drawn a lot of attention and are seen as one of the main obstacles for the European competitiveness and growth. Many Member States have already expressed their concerns of this difficult situation. Some Member States are of the opinion that a level playing field could be restored by relaxing EU competition rules to compete in the global markets. On the other hand, there are Member States, stressing the importance of open markets and vigorous competition in the European markets, which ultimately benefit European companies and consumers. They hold the view that companies from third countries are welcome to the European markets but should be subject to the same rules as European companies. The Member States' contributions and the reasoning behind these contributions are valuable as they provide input for further discussions.

16. The EU has every opportunity to succeed in global competition and to take its place as frontrunner in the global markets and as a defender of open trade. However, we must admit that some of the geopolitical changes may be permanent in nature and the EU has to continue to be proactive and able to react quickly to the recent changes and the implications of these changes. This requires new skills as well as investments in education, continuous learning, reskilling, upskilling. The EU must remain united and act decisively to meet the challenges and to turn them into success.

Question:

What is the best mix of policies and measures within the EU through which we can ensure a level playing field for our companies?
