

EPC Task Force ‘An Industry Action Plan for the EU’  
Input paper for discussion in member states

**IN SEARCH OF INDUSTRIAL COMPETITIVENESS:  
From vision to action – better outcomes together**

**The project in a nutshell**

Industry has long been the backbone of the European economy and continues to play a crucial role going forward. It is the driver of productivity, prosperity and competitiveness. It is a source of jobs, innovation and growth. At the same time, the future prospects for European industry are changing and are being challenged. The European industry is transforming of its own initiative but it also needs to adapt further if it is to become future-proof.

While the EU member states are keen to promote national industrial policies, some support their industrial champions and all protect local jobs, uncoordinated action across Europe may trigger unwanted consequences, distorting the single market and undermining the EU’s competitiveness and prosperity in the long term. While the EU aims to promote industrial competitiveness across sectors and policies, arguably more could be done to coordinate member states’ actions to ensure successful industrial transformations.

Through the project ‘An Industry Plan for the EU’, the [European Policy Centre \(EPC\)](#) aims to shape the policy discussion on a revamped strategy for European industry. During the project the EPC engages with member states and other stakeholders to:

- (1) evaluate the drivers of the ongoing industrial transformation;
- (2) review the innovative ways businesses, regions and member states respond to industrial transformations and approach the different challenges;
- (3) define a European vision for the continent’s industry and identify common objectives;
- (4) provide evidence of the added value of a coordinated action plan at the EU level;
- (5) develop a strategy with concrete measures to be implemented across member states;
- (6) suggest ‘carrots and sticks’ to keep member states committed to the action plan.

The Task Force started its work at the end of 2017. To ensure a pan-European discussion and a bottom-up approach, workshops and seminars are held in Brussels and in several EU countries in 2018-19. The project’s main findings and policy recommendations for the EU and member states, including an action plan, will be published in the summer/autumn of 2019.

## **1. DRIVERS OF INDUSTRIAL TRANSFORMATION**

The drivers of industrial transformation can be divided into two categories: trends and commitments.

Businesses across sectors are affected by ongoing trends such as globalisation and growing global competition, not only between businesses, but also over natural and human resources. This has also led to more and more countries adopting mercantilist practices, such as dumping strategies, forced transfers of technology or restricting access to public procurements under the umbrella of industrial flagship initiatives (e.g. ‘Made in China 2025’, ‘Make in India’, ‘America First’). In addition, a growing world population, climate change, mounting sustainability and security concerns together with changing consumer habits are set to impact the future of the EU’s industry.

Technological changes in the communication, energy and transport sectors are also altering the industrial landscape. Digitalisation, automatisisation and new technologies, from robotics to artificial intelligence, are promising higher productivity, increased efficiency and convenience, but will also likely have repercussions for the labour market (jobs, skills and wages) and the nature of work

altogether. Technological innovation also contribute to further integration of manufacturing and services, with value added increasingly generated by the services component.

Industry is also affected by global commitments including 2030 Agenda for Sustainable Development and the Paris Climate Agreement. The world leaders agreed on 17 Sustainable Development Goals (SDGs) in 2015, setting a clear vision and a direction of travel for ensuring sustainable development and prosperity for all. Some of the relevant SDGs for industry include good health and well-being, clean water, affordable and clean energy, decent work and economic growth, inclusive and sustainable industrialisation, responsible consumption and production as well as climate action mitigation and adaptation. The Paris Agreement sets a clear objective to keep the increase of the global average temperature well below 2 °C, while pursuing to limit it to 1.5°C above the pre-industrial level. The long-term goal is to reach net-zero emissions after 2050.

The EU has complemented these global objectives with its own commitments. For example, the ongoing efforts to encourage a transition to a circular economy, where resources would be used in a more sustainable way, should increasingly be seen not as an unavoidable cost but as the means to increase competitiveness. It would encourage the reuse and recycling of resources, save costs for European industries, unlock new business opportunities, contribute to climate mitigation and create new jobs. The transition requires a total economic shift from a linear ('take-make-dispose') model to one where the value of products, materials and resources is kept in the economy for as long as possible, products and materials are recovered and regenerated, and the generation of waste is minimised.

As a contribution to the implementation of the Paris Agreement, the EU has adopted climate targets for 2030. They include a 40% reduction in greenhouse gas emissions (compared to 1990 level), having a 32% share of renewable energy sources in the energy mix, and a 32.5% target for energy efficiency. The long-term strategy for greenhouse gas reductions, currently being drafted by the European Commission, is expected to suggest a net-zero emission goal for 2050. Meeting the global and European commitments for climate mitigation requires an unprecedented shift in investment strategies, business models and behaviours.

## 2. TOWARDS A SHARED VISION FOR EUROPEAN INDUSTRY

These trends and commitments help to paint a picture of what the world may look like in the decades to come, and should help to create a shared vision for the European industry of the future. Industry can only be competitive in the long-term if it can address the before-mentioned challenges and build on the business opportunities that the ongoing trends might present. Industry that provides products and services, which are in line with the political aspirations and commitments for the future, has the basis to succeed.

Thus, a vision for the European industry of the future could build on the following principles and objectives:

1. **Sustainable:** European industry should be a key driver and beneficiary of the transition to a circular, net-zero emission economy. It should be smarter in the use of existing resources, adapt climate and environmentally-friendly business models, and develop products and services to the global market that contribute to sustainable production and consumption.
2. **Innovative:** European businesses should be able to adopt innovative practices to better adapt to the evolving environment. They should be leaders in bringing innovative solutions to the market, and help to set the standards also for others.
3. **Digitalised:** European businesses should be able to benefit from existing and new technologies and digitalisation (including the Internet of Things, blockchain and sharing platforms) when developing and deploying solutions. They should contribute to developing and setting standards for new technologies and processes (e.g. artificial intelligence).

4. **Strategic:** European industry should contribute to strengthening the EU's strategic capabilities. It should help the EU to promote peace and security within and beyond its borders. It should contribute to ensuring that the European industry overall has the necessary human (e.g. skills<sup>1</sup>) and material resources (e.g. via recycling of rare earths) to develop products and services of high-value.
5. **High-value:** For Europe to deliver the kind of living standards Europeans have come to expect, European businesses need to prosper in those segments of the global value chain that generate the highest added value.

### 3. STATE OF PLAY

European industry has the basis to be sustainable, competitive and add value to societies and economies across the world in the long-term:

- i. The EU has strong a basis in promoting the knowledge economy. It is also a preferred destination for global investment.<sup>2</sup>
- ii. European industry continues to be a global leader in particular in medium and some high-tech sectors, such as pharmaceuticals, chemicals, mechanical engineering, aeronautics and fashion industries. In addition to large companies, the European small and medium-sized enterprises are front runners across a number of sectors.
- iii. A properly functioning EU single market would be the largest in the world. It is designed to allow goods, services, capital and people to move more freely across borders within the EU. Creating a level playing field and a continent-wide market for European firms would allow them to benefit from economies of scale, and higher efficiency and profitability. The EU single market should provide European businesses 'a home market', allowing them to innovate, test and compete with new products and services.
- iv. The European industry is integrated in global value chains, and the openness of the European economy, and being open to international trade and investment, provides a strong basis for growth and job creation.
- v. Through policy initiatives such as the EU's Smart Specialisation Strategies, the EU has encouraged regions across the European continent to identify and build on their potential in light of their specific endowments (including e.g. historical and geographical specificities).<sup>3</sup> These efforts lend a helping hand to those regions that are at risk of falling behind, thereby contributing to economic, social and territorial cohesion, and they can also mobilise regions across the EU to perform better in a globalised economy.
- vi. The principles of sustainability (e.g. climate mitigation, environmental protection, circular economy) are often higher on political *and* business agenda in the EU than elsewhere in the world. The European economy is substantially less energy-intensive and less CO<sub>2</sub>-intensive than the Chinese or American economies. The EU remains a global leader in renewable energy investment and has the potential to lead the way in the transition to a circular economy.

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<sup>1</sup> Regularly, the World Economic Forum business surveys refer to the right skills as a key factor for industry. See for example Desjardins Jeff (2018), "10 skills you'll need to survive the rise of automation", World Economic Forum, Geneva, <https://www.weforum.org/agenda/2018/07/the-skills-needed-to-survive-the-robot-invasion-of-the-workplace>

<sup>2</sup> European Commission, Direction General for Trade, 'Investment', <http://ec.europa.eu/trade/policy/accessing-markets/investment/>

<sup>3</sup> European Commission, 'Smart Specialisation Strategies', [https://ec.europa.eu/commission/news/smart-specialisation-european-regions-2017-jul-18\\_en](https://ec.europa.eu/commission/news/smart-specialisation-european-regions-2017-jul-18_en)

**The following challenges will influence the prospects for European industry:**

- i. The weakening of the international economic order. The revival of protectionist strategies such as ‘America First’, ‘Made in China 2025’ or ‘Make in India’ and the inability of the World Trade Organisation to uphold the global, multilateral trade framework as well as to reform could adversely affect European players embedded in global value chains and their trade prospects.
- ii. Heightened competition with other global players, including in market segments with highest added value. For example, the ‘Made in China 2025’ strategy relies on a total budget of about EUR 700 billion to propel Chinese manufacturing to the higher segments of global value chains.<sup>4</sup> The European share of the number of largest companies in terms of market capitalisation has already decreased and is now well below the US share. At the same time, the prospects for European industry are closely tied to the availability of human and natural resources, and its possibilities to benefit from innovations and new technological solutions.
- iii. First-mover advantage vs disadvantage. Finding the opportune time to invest, develop and deploy new solutions is a gamble. Uptake of new products and services can be affected, not only by global competition, but also by policy priorities, regulatory framework and consumer preferences.
- iv. Turning sustainability into a source for competitiveness. As long as global competition encourages cheaper prices, based on lower labour and environmental standards, this has impacts on industry. This can put industry that upholds social and environmental standards at a disadvantage on the global market.
- v. Lack of investment and regulatory barriers. The EU is lagging behind the US and China in Research & Development (R&D) spending as a share of GDP.<sup>5</sup> Patent applications have stagnated in many European countries, including France and the United Kingdom, while their numbers have surged in the US, Japan and China.<sup>6</sup> At the same time, remaining barriers to the completing of the single market, the digital single market and lack of regulatory incentives (e.g. taxation) hinder businesses’ growth and innovation potential.
- vi. Risks of economic fragmentation inside the EU. Uncoordinated national responses aimed at protecting industrial champions and local jobs risks leading to a fragmentation of the EU single market. In the absence of EU coordination, diverging national rules (e.g. on the screening of foreign direct investment) and standards (e.g. on plugs for electric cars) raise costs for businesses, reduce opportunities to grow beyond national borders and reduce the attractiveness of the EU’s economy to foreign investment.
- vii. Risks of political fragmentation inside the EU. Uncoordinated industrial transformations will impact different segments of the population unevenly. While highly qualified workers will be able to use their talents internationally, lower qualified workers risk falling behind when work changes. The gap between leading and laggard regions in terms of investment levels and productivity growth is already widening across the EU.<sup>7</sup> Failing to address growing divergences could result in a political backlash, including the rise of nationalist parties,<sup>8</sup> and unknown consequences for the industry.

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<sup>4</sup> The Economist (2017), “China sets its sights on dominating sunrise industries”, London, <https://www.economist.com/news/finance-and-economics/21729442-its-record-industrial-policy-successes-patchy-china-sets-its-sights>.

<sup>5</sup> European Political Strategy Centre (2018), “10 Trends Shaping Innovation in the Digital Age”, European Commission, Brussels, p.3, [https://ec.europa.eu/epsc/sites/epsc/files/epsc\\_-\\_10\\_trends\\_innovation.pdf](https://ec.europa.eu/epsc/sites/epsc/files/epsc_-_10_trends_innovation.pdf), p.10.

<sup>6</sup> Ibid, p.10.

<sup>7</sup> Rosés, Joan and Wolf, Nikolaus, “The return of regional inequality: Europe from 1900 to today”, VOX, CEPR’S Policy Portal, March 2018, <https://voxeu.org/article/return-regional-inequality-europe-1900-today>.

<sup>8</sup> Rodríguez-Pose, Andrés, “The revenge of the places that don’t matter”, VOX CEPR’s Policy Portal, Centre for Economic Policy Research, 6 February 2018, <https://voxeu.org/article/revenge-places-dont-matter>

## A growing emphasis on industrial strategies in Europe:

The EU aims to ‘mainstream industrial competitiveness’ across policies. On the one hand, various policies and programmes have been put into place to try and shape the business environment of firms operating in the single market. The EU has used initiatives such as the Energy Union, the Digital Single Market or the EU’s Investment Plan to promote the transition to a “smart, innovative and sustainable industry”. On the other hand, the EU also promotes industrial transformation by helping member states and regions to carry out needed reforms. EU tools such as the European Semester (which aims to improve economic governance in the EU) or EU Cohesion Policy (the first investment line of the EU budget) have been increasingly used to support EU member states’ efforts to enact reforms that will restructure their economies in line with the new global trends.

By-and-large, the distribution of responsibilities between member states and the EU level has worked, even though the system has been far from perfect. The tools of competition and single market policy have, until recently, broadly been effective in keeping the detrimental excesses of state intervention in check. The EU’s structural reform agenda has shown more mixed results: most EU member states show a poor implementation record of the reforms identified by the Commission in the context of the European Semester.<sup>9</sup> In the context of on-going industrial transformations and heightened pressure from international competitors, many fear that the approach pursued at EU level may not be sufficient.

Changes in the global business and regulatory environments have prompted EU member states to take action. A number of national strategies (e.g. the ‘Industrie 4.0’ plan in Germany or ‘Industrie du Future’ in France) have emerged. However, there is also a growing recognition that national strategies alone cannot fully address the ongoing changes and that more coordination would be welcome at the EU level. But the views on what this coordination should entail and what the focus of EU policymaking should be in this respect are diverging.

The German-Dutch non-paper published in September 2017 points out the necessity of “activating future-oriented industrial policy strategy”, highlighting that “industry’s most urgent task is to face digitisation and climate change in a successful manner.”<sup>10</sup>

In another paper, the French government called for “a renewed political ambition for Europe’s industrial policy”, one that can address innovation, digitalisation and sustainability challenges. It also stresses the need for “a global open and fair level playing field.”<sup>11</sup> This implies the need for a response to the lack of reciprocity in gaining market access to countries outside of the EU.

Russian aggression, terrorist threats and the uncertainty regarding the US’ position on the global stage have also prompted some member states to call for further EU cooperation and joint action to strengthen the EU’s security and defence.<sup>12</sup>

Issues such as the perceived distortion in global competition or the unease with regard to the rise of the levels of Chinese investment in the EU<sup>13</sup> could exacerbate the concerns of those that perceive the EU as too “naïve” vis-à-vis other global players. As a result, divisions across member states on the ways to support European industry may continue to widen and lead to an increase in protectionist measures.

The European Commission published a proposal on an industrial strategy for the EU in September 2017 called a ‘Renewed European Union (EU) Industrial Policy Strategy’. The Commission’s proposal, which brought together existing and new initiatives, provides a step in the right direction in getting the EU institutions, member states, industry and other stakeholders to the table to discuss the role for further

<sup>9</sup> European Parliament (2017), “In Depth-Analysis – How to strengthen the European Semester?”, Brussels, [http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/602113/IPOL\\_IDA\(2017\)602113\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/602113/IPOL_IDA(2017)602113_EN.pdf)

<sup>10</sup> Koninkrijk der Nederlanden (2017), German-Dutch non-paper on Industrial Policy, <https://www.permanentevertegenwoordiging.nl/actueel/nieuws/2017/09/14/german-dutch-non-paper-on-industrial-policy>

<sup>11</sup> French non-paper on European industrial policy.

<sup>12</sup> See e.g. ‘Maas: Europe can no longer rely on the United States’, Deutsche Welle, 16 July 2018, <https://www.dw.com/en/maas-europe-can-no-longer-rely-on-the-united-states/a-44701663>. Also ‘Macron urges EU to Boost Defense, Finance Autonomy From U.S.’, Bloomberg, 27 August 2018, <https://www.bloomberg.com/news/articles/2018-08-27/macron-urges-eu-to-boost-military-financial-autonomy-from-u-s>

<sup>13</sup> Heide, Dana, Hope, Till, Scheuer Stephan, Stratmann, Klaus (2018), “EU Ambassadors band together against Silk Road”, Handelsblatt, <https://global.handelsblatt.com/politics/eu-ambassadors-beijing-china-silk-road-912258>

coordinated EU action. This agenda calls for co-creation, between EU actors, of a shared vision for a European industry.

## 4. NECESSARY ACTION

It is abundantly clear that the EU would benefit greatly from a clearer narrative and a more strategic and comprehensive industrial strategy at EU level. This would also help the EU policymakers to make adequate legislation that would address on-going industrial transformations and prepare industry for the future. This, however, requires a shared understanding of the implications of the trends and global and European commitments (mentioned above) for European industry. It requires defining a vision for the industry of the future. It requires recognising and building on the EU's strengths, as well as addressing its weaknesses. It requires giving European industry actors the tools they need to prosper in this fast-changing environment. It requires specifying the necessary measures, including coordinated action at the EU level, and implementing the agreed measures.

The following principles could provide a starting point for a discussion on a future action plan for European industry:

1. **Long-term vision:** The scale of the challenge is unprecedented and so the policy actions will have to be transformative. This requires a long-term, holistic vision that puts the objective of a sustainable and competitive industry at the heart of EU development. The European industry of the future needs to remain/become sustainable, innovative, digitalised, and it should contribute to achieving the EU's strategic objectives. It should be able to prosper in those segments of the global value chain that generate the highest added value.
2. **Coordinated EU action:** The implication of this unprecedented challenge is that governments will be forced to act. Unless this is done in a coordinated fashion at EU level, there is a real risk of fragmentation of the single market and a political backlash against the EU integration projects.
3. **'Business-as-usual' is not an option:** When it comes to policies and instruments to be used, there is a need to take a holistic approach, recognising the inherent cross-connectivity. Energy policy, trade and investment policy, transport, innovation, digital and single market policies are all connected to industrial competitiveness. Frank discussion about the role of competition policy, state aid and taxation is also needed.
4. **Industrial competitiveness should be integrated in the 'stronger and more competitive Europe' agenda:** The prospects for industrial competitiveness depend on a number of factors, many of which go beyond the scope of what the industry itself is able to influence. In a hostile global environment, the EU should consider how industries can be better protected from unfair trading practices and how innovation can be kept and commercialised within Europe. (Note: this does not mean protecting failing, uncompetitive industries.)
5. **A new EU Industry Action Plan should contribute to achieving the EU's economic, social and sustainability objectives:** An industrial strategy coupled with an action plan should contribute to delivering EU objectives related to jobs and sustainable growth, circular economy, climate action, environmental protection and security/geopolitical objectives, while ensuring that European industry can prosper in a changing global environment.

## 5. QUESTIONS FOR DISCUSSION

During the events in different member states in the course of 2018-19, the EPC seeks to gather answers to the following questions. The responses will feed into the project findings and the final publication.

### ❖ From drivers of industrial transformation to a shared vision/common objectives:

1. Do you agree with the list of drivers of industrial transformation (section 1), and as a result, the suggested vision for the European industry (section 2)? If not, what would you change?
2. Should the vision be complemented with concrete targets, and if so, what should these be?

### ❖ State of play:

3. Do you agree with the overview of the EU's strengths and challenges (section 3)?

### ❖ Needed action and the added value of EU cooperation:

4. Do you agree with the suggested principles for an action plan (section 4)?
5. What is the added value of EU coordination? Which challenges are better dealt in coordination, together with other member states?
6. In which areas could EU coordination be improved? / What are the main EU policies and instruments that should be used to prepare the European industry for the future (e.g. role for the single market, public procurement rules, sustainability agenda, investment, trade, taxation, energy, competition policy, regional and urban policy, R&D/innovation, education and the skills agenda, digital instruments, etc.), and how could these be further improved? In which areas could the EU be given more competences to act?
7. What should be the respective roles of the EU, member states and regions?
8. Which measures should be taken to ensure the mainstreaming of industrial competitiveness is carried out across sectors and policy areas?

### ❖ Implementation:

9. Which indicators/metrics should we use to measure progress?
10. What tools (including narrative, governance, policies, funding, etc.) would help to keep EU member states and regions committed to the implementation of a coordinated industrial plan?

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