

EPP Group Position Paper on

THE APPROACH TO AN INTEGRATED INDUSTRY POLICY

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EPP GROUP POSITION PAPER ON THE APPROACH TO AN INTEGRATED INDUSTRY POLICY - 1

Europe is taking fundamental decisions on its economic future for the coming years. The Commission has set out clear ambitions for the green and digital transitions, as well as for a renewed Industrial Policy. To achieve these objectives they need to feed into each other: we need a balance between the different priorities, and we need to align public spending and incentives along these lines. While all the ingredients for this approach are present in the Commission proposals, there is no overarching 10-year strategy that will get us to our 2030 objectives and beyond. However, this is indispensable for Europe's Small and Medium-sized Enterprises (SMEs) and large business to maintain planning, and investment security.

The Green Deal is the supposed Growth Agenda, but as we have seen subsequently, we need digital and industrial objectives on an equal footing, as all are dependent on each other. An approach that would bring all these objectives together in concrete strategies for industrial ecosystems would be the right integrated approach and this is what the EPP Group would like to see. It should be clear that this is not supposed to be a Plan Economy. What we need is to offer all industries a consistent public policy across different policy instruments that will support them through these complex transitions.

We need to get these strategies in place as soon as possible. If we would have the strategies now, we could adjust the spending and legislative priorities for 2022. That would leave us about 8.5 years for a monumental transformation. That is an extremely short timeline, which can only be achieved with concerted and dedicated efforts from both policymakers and businesses. To put it clearly: without a complete and integrated strategy, that directs all our instruments, policies and spending, it is unlikely Europe

will achieve its industrial, digital and green objectives in 2030. This is due in particular to the fact that the short time frame and the tasks ahead can be a challenge, especially for Small and Medium-sized Enterprises, the backbone of the European economy.

In this paper, the EPP Group sets out the broad lines of its views on how the Commission's strategy should be completed.

Ecosystem at the core

The EPP Group supports the ecosystems approach of the Industrial Strategy. Digital and climate objectives will impact each ecosystem differently and Europe's position in the global market varies across ecosystems as well. To remain competitive and achieve strategic autonomy, each ecosystem needs its own approach.

According to the **Annual Single Market** Report 2021 (ASMR) "industrial ecosystems encompass all players involved in the achievement of a certain socioeconomic goal: from the smallest start-ups to the largest companies cooperating to satisfy a new market need, the research activities industrial supporting innovation, regulators steering economic activity through conducive policies, services providers and suppliers." comprehensive definition of an ecosystem clearly demonstrates the importance of a fully integrated approach. We need a strategy in which effective measures across all these elements of ecosystems work concertedly towards strengthening the ecosystems' competitiveness and growth. These measures must be both tailor-made for the individual stakeholders, e.g. SMEs, and have a universal character that is applied horizontally across the ecosystems.

An important question raised by the update of the strategy is whether the 14 ecosystems selected in 2020 are still the relevant ones. Due to important developments, the Commission added the perspective of dependencies as driving criterion to its strategy but it failed to convincingly outline why these developments would not impact the selection of the 14 ecosystems.

Aligning instruments

The Union has a full arsenal of instruments to achieve its objectives. The Industrial Strategy relies on Industrial Alliances as core instrument. That is an example of an agenda-setting instrument, which should be at the core of the strategic approach. However, agendas for competitiveness can only succeed if they lead to an integrated approach of other instruments.

- Agenda-setting instruments: Industrial Alliances, Industrial Technology Roadmaps, European Partnerships, HEU Strategic Plan, Sectoral Climate Partnerships, TEN, Pact for Skills.
- > Funding instruments: IPCEIs, Horizon Europe, European Partnerships (particularly Joint Undertakings), Digital Innovation Hubs, InvestEU, CEF, Smart Specialisation Strategies, national recovery plans, Innovation Fund, Just transition fund, Structural and Regional EU funding, Digital Europe Programme, Single Market Programme, Erasmus+.
- Regulatory instruments: Better Regulation, state-aid and competition rules, Climate Law, Taxonomy, REDII, EED, ETS, AI Regulation, Data Act, DGA, DMA, DSA, standardisation, foreign subsidies distorting the Internal Market.
- > International instruments: CBAM, Trade agreements including FTAs and PCAs, WTO rules, standardisation, dependency analysis, global climate commitments (global ETS?), Partnerships with Neighbourhood countries, Energy Charter Treaty.

Fully integrated strategy

As stated in the ASMR, the ecosystem approach "incorporates the systemic importance of all the horizontal and vertical links among economic actors". However, we

also need to fully incorporate the horizontal and vertical links between all relevant instruments of support for those ecosystems. The current Industrial Strategy lacks this policy integration and concrete action. This creates the risk that the effectiveness of measures is undermined. Measures through one instrument usually need to be supported by measures in other instruments. This support might be lacking when we do not have an integrated approach.

The Ecosystem fiches in the ASMR offer a very good starting point, but they need to be completed for all ecosystems. We have only six dependency analyses, we have only two pilot Industrial Technology Roadmaps, the details on how the Taxonomy will impact a specific ecosystem are often lacking and the word 'could' appears often in the fiches. Moreover, due to a spill over effect of the Taxonomy, the Corporate Sustainability Reporting Directive (CSRD) now also seems to apply to SMEs with a potentially significant administrative burden. To achieve a transition we need to know the needs of an ecosystem and make a strategy on how to deliver them. This calls for, on the one hand, ambitious Technology Roadmaps for all ecosystems in order to direct the R&D needed for new technologies. On the other hand, we need close monitoring of the infrastructural and skills needs of the ecosystems.

the example of quantum technology, we have managed to introduce an earmarking for quantum technology of €1bn in the Horizon Europe Programme. In addition, significant funding is coming from the Digital Europe Programme and several JUs are relevant; for instance, the Key Digital Technology Joint Undertaking. Together with the recently formed Quantum Industry Consortium (QuIC), we now need to ensure that a common governance structure is created, including relevant Commission services and stakeholders, to steer the investment with clear 2030 targets. This will allow us, not only to achieve the so important technological advancement in this field, but also to constitute a decisive innovation infrastructure for many other sectors.

Additionally, as the ASMR points out, the ecosystems "evolve against the same background: an integrated Single Market". When we set overarching ambitions for that Single Market and its participants, like a taxonomy for sustainable investments or a revision of state-aid rules, without an integrated strategy for the ecosystems, these big ambitions might be counter-productive as they could close essential doors for specific ecosystems. Another element to

be considered is the impact of choices in one ecosystem for other ecosystems (e.g. high reliance on hydrogen in one transport sector will impact the availability of hydrogen in other sectors). Lastly, clear plans for minimising red tape and the administrative burden should be included. Related to this is the revision of the state-aid framework. The revision is too slow and too fragmented. The revision proposals of the IPCEI rules appear still too conservative. Public and private investments will be held up if Europe does not provide clarity on state-aid rules, especially for SMEs. Given the complexity and urgency of the moment, we need to leave behind dogmatic attitudes towards state-aid and consider the full range of possibilities, from temporary suspension of state-aid rules in specific sectors to a full legislative revision of state-aid rules in other sectors.

What we want to do

As a last step, we need clear operationalisation of all the solutions. Completing the analysis would put us on the right track, but the implementation details will be key. To move from the Commission's Strategy to the EPP approach, a number of steps are necessary:

- > The Commission should finalise the analyses for all ecosystems as soon as possible.
- The Commission needs to reassess the selection of the 14 ecosystems.
- > The Commission needs to annually monitor the infrastructure needs.
- The ecosystems need to deliver a clear Technology Roadmap.
- > The budgetary authorities need to show flexibility in the annual budgetary procedure and in the mid-term reviews of the Union Programmes to ensure Union funding priorities can respond to the outcomes of the Roadmaps and infrastructure needs.
- > The legislators need to critically assess legislation, and apply all necessary better regulations tools, especially the SME test, notably for the 'Fit for 55' package and the digital files (DGA, DSA, DMA), to ensure its alignment with the outcome of the analysis.
- The Commission, together with Member States, needs to present a roadmap towards achieving a reduction of at least

- 30 percent in administrative burdens affecting European businesses and especially SMEs, in order to decrease cost pressure and promote competitiveness.
- > The state-aid framework needs to be reviewed to be fit for global competition with extreme urgency.
- > The Commission needs to continue the evaluation of strategic dependencies and present an action plan on how to strengthen global interdependencies of European ecosystems.
- > The Commission needs to deliver on a strategic package of strengthening the Single Market, dealing with foreign subsidies and take-overs and making public procurement rules fit for the future so that what we produce and develop in the EU is also protected by the EU.

Example: Clean aviation

The aviation sector is currently caught in a perfect storm: economic activity collapsed due to COVID-19, the sustainability objectives for the sector are immense, and the implications of digitalised global transport will challenge existing business models. This makes it a perfect case to illustrate the need for an integrated approach.

Under the Industrial Strategy, the sector is included in the Aerospace and Defence Ecosystem. However, the sector is also intimately linked with other ecosystems, for instance the "Energy - Renewables Ecosystem" and the "Mobility - Transport and Automotive Ecosystem". Investments now in carbon neutral technologies most likely will not result in the emission reductions needed in 2030 and are tied to decisions in other ecosystems. If we want to use synthetic fuels implemented by 2030 to achieve those objectives, this will put pressure on the availability of energy and raw materials for the production of electric aircrafts and other sectors. If we put energy towards the production of zeroemission hydrogen to decarbonise the energy-intensive industries, this will put pressure on the energy available for the aviation industry. The Joint Undertaking on Clean Aviation, established under Horizon Europe, will deliver cleaner technologies for 2030, but that will need to be aligned with investments suggested by the Alliance. Meanwhile, the JU and the Alliance will need to receive funding from the same coffers in

the private sector, which are currently being hit hard by an unprecedented crisis in the sector. Meanwhile, the proposed Union funding under Horizon Europe for this partnership fell short of the level needed in this area. Therefore, complementary funding sources must be identified and be connected to the Partnership to optimise the use of the wider MFF financial envelope towards the key "Green Deal" objectives pursued under the Partnership and to stimulate the private investments needed. Are additional targeted IPCEIs needed? At the same time, plans to possibly integrate aviation into the ETS are not mentioned in the strategy yet and there are concerns that the EU Taxonomy is not designed in a way to allow finances for all options to decarbonise aviation. This puts pressure on private R&D investments at a time we most need them. Furthermore, like many other ecosystems in the strategy, aviation needs to be integrated in the Union's international trade activities, in funding and state aid schemes, as well as in the educational initiatives to improve the skill set. The update of the strategy made an important start for the sector, but this short overview indicates where we still need significant work to come to a truly integrated approach.