SVENSKT NÄRINGSLIV
SWEDISH ENTERPRISE

An updated European industrial policy strategy for growth

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- On 16 September 2020, European Commission President Ursula von der Leyen gave her State of the Union speech. She explained that the EU's industrial strategy, which was presented in March 2020, will be updated in the first half of 2021. The reason given for this revision was the effects of the pandemic on the internal market, that the green and digital transition has been further accelerated, while the global competitive situation is undergoing a fundamental change.
- In its Council Conclusions of 16 November 2020, the members of the Competitiveness Council called on the European Commission to present its updated industrial strategy to the European Council in March 2021.
- On 25 November 2020, the European Parliament adopted a resolution on a new industrial strategy for the EU, calling on the European Commission to establish a revised, comprehensive industrial strategy.

The Confederation of Swedish Enterprise welcomed the European Commission's 2020 industrial strategy in March. During the work, we clarified those issues that we believed were particularly important for the business community.

With the European Commission now working to update the industrial strategy, the Confederation of Swedish Enterprise wants to draw attention to the issues and aspects that are particularly pressing from our perspective. Here are five points that we wish to highlight here.

1 Sustainable growth in focus

COVID-19 has paralysed the European economy. The GDPs of many countries have fallen to historic lows and unemployment levels are high. At the same time, Member States have been forced to borrow money to try to save as many companies and protect as many jobs as possible. Central government debt is rising, and the average national debt of EU Member States is approaching 100% of GDP. In addition, the EU is now borrowing money for the first time to finance the NextGenerationEU Recovery Plan.

It is fundamental that the industrial strategy focuses on creating the conditions for sustainable and long-term economic growth for the EU economy. A return to economic growth is a prerequisite for the Member States and the EU if they are to be able to start working to repaying these high debts. Sustainable growth is created by favourable conditions for companies, by an open economy where free movement within the EU and trade with the rest of the world is facilitated, and where investment in education, research and the ability to innovate is further strengthened. The European Commission needs to put a clear focus on growth in the forthcoming update of the industrial strategy.

2 Trade and reliable value chains

Open trade is the main prerequisite for growing companies. The internal market is the EU's biggest asset, but at the same time remains the source of the greatest untapped potential, as many barriers to free movement still exist. In the acute phase of the pandemic, several obstacles suddenly arose. Export restrictions were introduced, borders were closed, and European solidarity was put to the test. It is now important to learn from what happened and why, and to take preventive measures to avoid the same thing happening again. If similar situations arise in the future, they need to be met with greater uniformity throughout Europe; that way, businesses will have greater certainty and a harmonised regulatory environment.

Businesses also need to be given the appropriate conditions to be able to maintain robust supply and value chains. A survey conducted by the Confederation of Swedish Enterprise showed that only 2 percent of Swedish companies intend to shift production back to Sweden as a result of the Coronavirus crisis. Around 6 percent intended to involve more countries in their value chains, while as many as 27 percent stated that they will increase some types of inventory. Businesses need to be able to make their own decisions on how best value chains can be strengthened; for most of them, it is not a question of moving production back to Sweden. Rather, it is through the business-driven diversification of value chains, a process that the EU can best support by increasing the number of available markets for companies, through ambitious free trade agreements that create increased opportunities for trade.

Open trade is the main prerequisite for growing companies.

3 Modern and well-adapted competition rules

EU competition rules are, and have been, a prerequisite for creating the effective competition that currently exists in the internal market. Competition helps drives efficiency, innovation and rewards companies based on merit. The Confederation believes that the EU's current competition rules are broadly adapted to meet the challenges of the future; however, in some area they may need to be supplemented and updated, particularly in how they deal with the ways in which markets are changing through digitalisation and globalisation.

A well-functioning competitive marketplace, where companies can compete through investments and innovation for new sustainable solutions is a prerequisite for achieving the EU's ambitious climate policy objectives. At the same time, however, the scale of green investments required are sometimes so extensive that public support may be required to achieve them. If the European Commission deems it necessary to update its competition rules to further support climate change, in so doing it must not undermine private investment or distort competition so that those companies that have made progressive investments without State Aid are disadvantaged.

Current EU competition rules need to be supplemented to ensure that subsidies arising from outside the EU to companies operating inside the internal market are treated the same as under EU State Aid rules. The European Commission's proposal for introducing an opportunity for ex-post review and examination of subsidies to companies operating in the internal market should be implemented, mainly in accordance with the wording in the White Paper it published in summer 2020. However, the Confederation rejects the proposal to introduce ex-ante control in connection with acquisitions and procurement above certain thresholds.

This would create an excessive administrative burden for all companies operating in the internal market.

4 Industrial ecosystems and alliances

The European Commission is working to analyse the needs of companies, based on dividing them into so-called ‘ecosystems’; 14 areas have been selected for this. As far as the Confederation of Swedish Enterprise understands it, these ecosystems are then analysed on the basis of their existing needs for financing, regulation, trade, research and the possibility for creating so-called ‘industrial alliances’.

For the Confederation, it is still unclear what the work with ecosystems may deliver. The selection process for these ecosystems and the work of analysing them have been characterised by a lack of transparency. However, the attempts to analyse and broadly describe the companies’ need for improved conditions could be successful if they adopted a real ‘bottom-up’ perspective. At the same time, in defining the term ‘ecosystem’, the European Commission has focused on the value chains in the various sectors identified. This creates a risk that those ecosystems that exist across different sectors and that also involve academia and regulatory authorities - and which have been created on the basis of mutual interests and voluntary agreements - may not be adequately captured. The European Commission needs to be open to both revising how ecosystems are defined and used, but also to which sectors are examined, so that the tool is not overly selective.

5 Research, innovation and IPCEI

Ultimately, it is through ambitious investments in R&D and innovation that we can create the conditions to become technological leaders, thus allowing us to meet the current societal challenges such as the digital and green transformations. It is therefore crucial that the public sector increases funding for R&D, primarily with a focus on industry-oriented collaborative research. Public funding of research and innovation should take place through open calls, with the priorities having been developed in collaboration with the actors, and not through targeted initiatives with politicians determining the research areas or which technologies should be prioritised.

In particular, the EU needs to direct work and efforts to investing in open test and demonstration environments and so-called ‘regulatory sandboxes’, which will help develop the regulatory framework to promote new technology and innovation.

In the event where it turns out that there has been a clear market failure, the IPCEI (Important Project of Common European interest) tool can be used to accelerate a development that otherwise may not have taken place. The IPCEI tool enables specific funding through State Aid from Member States for large projects of common interest. However, as we are still unable to evaluate the impact of such projects, they should continue to take place on a limited basis, and should be aimed at such projects where there is a clear market failure and where other opportunities for co-financing are insufficient or unavailable.

In particular, the EU needs to direct work and efforts to investing in open test and demonstration environments.

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