

***Comments by the Federal Government on the Communication from the
European Commission: “Investing in a smart, innovative and sustainable Industry
– A renewed EU Industrial Policy Strategy”***

Please note: Germany can only position itself based on a mandate given by a new Federal Government. This means that the position stated in the following is subject to approval by the new Federal Government.

The Federal Government welcomes the industrial policy strategy tabled by the European Commission on 13 September 2017. In presenting this strategy, the European Commission has made an important commitment to the European industrial sector.

In its Communication, the European Commission has successfully taken stock of the current initiatives and individual projects that are under way. This can now be used as a starting point for drawing up specific, strategic, and long-term steps to be taken. Our ultimate goal, however, must be to design an industrial policy that takes a long-term view whilst also putting forward specific proposals on how to safeguard our competitiveness, thereby allowing for inclusive and sustainable growth within the European industrial sector.

In our view, the Communication from the European Commission is a good base for the decisive work before us, which is to draft a complete and forward-looking strategy for the European industrial sector. The Federal Government will be playing a constructive role in this work. Our objective is to create a framework that allows the industrial sector to thrive and to be resilient and flexible enough to cope with future challenges.

1. The European industrial sector in a new industrial era

As was highlighted in the Berlin Declaration signed by the ‘Friends of Industry’ on 30 June 2017, Europe needs a strong industrial basis if it is to cope with future social, economic, and technological challenges. The industrial sector, including the services industries associated with it, are closely linked with Europe, and both sides benefit each other tremendously. Since the very early days of the European Union, the industrial

sector has made a major contribution to growth, prosperity and progress within the EU.

Up until now, we have been united in our efforts to raise the industrial share in the EU's GDP back to 20% by 2020. Between 2009 and 2016, the contribution by the manufacturing sector to the EU's GDP rose from 15.5% to 17.1%, providing proof of the fact that some good steps have already been taken.

Our goal is to define a new strategic target for European industry for 2030. Not only would this synchronise the efforts made under our European energy, climate and industrial policies – it would also put our European industrial policy higher up on the European agenda.

2. Strengthening the European industrial sector

We share the European Commission's view that sensible legislation is needed to create the level of legal certainty companies need in order to be able to prosper. But whilst some sector-specific action has been taken (e.g. for the steel, space and defence industries), the European Commission has so far failed to establish specific sector-specific targets for cutting red tape in those areas that are particularly affected by it. This is despite the fact that the Competition Council, in its Council Conclusions 'Better regulation to strengthen competitiveness' (9580/16), once again called for this to be done. In the Federal Government's interpretation, cutting red tape always means simplifying existing regulation – whilst upholding existing standards. This also means that existing requirements need to be constantly reviewed as to whether they are still justified.

Excess regulation harms our industrial competitiveness. We must continue to eliminate it. We call upon the Commission to explain how the cost of bureaucracy resulting from duplicate regulation (*ex post* and *ex ante*) can be reduced.

3. A deepened and fairer Single Market: Strengthening people and companies

The Single Market is one of the most important achievements of the EU and essential to growth, competitiveness, and innovation in the European industrial sector.

The Federal Government welcomes the many measures that have already been taken at European level in order to harness the potential of the Single Market for the industrial sector. In our view, the task of completing the Single Market – not least by cutting red tape – is essential.

In this context, the Federal Government very much appreciates the fact that the European Commission has adopted a ‘holistic’ approach, seeking to strengthen companies’ competitiveness whilst also taking into account the social, economic and environmental challenges we face and the issue of education and training.

The pressure resulting from technological change that affects the European industrial sector and the world of work as a whole must be seen as a call to make best-possible use of the opportunities afforded by this change. This also means that more must be done at European level to foster skills development in new fields.

We therefore welcome the fact that the European Commission wants to continue to make the European Social Fund more focused on outcomes when it comes to fostering resilience and competitiveness on the labour market. We also welcome the fact that the Communication calls for the challenges associated with access to the welfare system to be addressed. In this context, it is important that national welfare structures remain free from interference and that any negative impact on companies’ competitiveness be avoided.

4. A modern industrial sector for the digital age

Digitisation is at the heart of the fourth industrial revolution and as such is changing the world. It is important that we successfully steer this change. For this reason, there is nothing wrong in the fact that the European Commission is listing the negative impacts resulting from a lack of adjustment to digital change. However, this alone will not be enough.

The Federal Government would like to thank the European Commission for launching the Digitising European Industry (DEI) initiative. The European platform of national digitisation initiatives ought to be used for developing joint use-case scenarios and test centres for Industrie 4.0 and for exchanging national best practice initiatives – without

building duplicate structures at EU level. Standardisation at European and international level are a key element in this. We are asking the Commission to give a greater role to the issues of standardisation, certification and licensing.

In our opinion, there is also a need for specific action to be taken in the fields of key enabling technologies, cyber security and cloud computing. Where cloud computing is concerned, steps ought to be taken towards the development of pan-European standards and harmonised criteria, which will allow for national certificates to be mutually recognised and for high standards of security and protection to be upheld.

With regard to the details provided on the strategy for modernising public services, we would like to point out to the Commission that there still are some provisions under European law that prevent a further digitisation of public-service processes.

We would like to point out that autonomous driving (Level 5) is not permissible under both German law and the Vienna Convention on Road Traffic of 1968. According to the Annex to the Communication, a measure entitled 'Cross-border corridors for connected and automated mobility' is to be implemented in 2018. This means there is need for clarification.

5. Extending Europe's leading position when it comes to the low-carbon circular economy

The Federal Government is supportive of having the EU continue to assume a leading role where the protection of the climate, the environment, and of natural resources is concerned – an objective stated in the Communication from the Commission. We share the view that we need to strengthen our industrial sector's ability to successfully innovate and adjust to the challenges arising from digitisation and the transition to a low-carbon economy that is also becoming increasingly more circular. We hold that the following points will be indispensable to a renewed EU industrial strategy:

- Raw materials policy: Support for the development of raw materials technologies ought to become firmly embedded in the EU's research programmes. Fair and global competition is indispensable to the raw materials sector, and it needs to be organised in a way that ensures that environmental and social standards are

upheld. For this reason, the Commission ought to insist more on compliance with the relevant WTO rules.

- Ecodesign/the circular economy: The Federal Government welcomes the fact that the European Commission has launched an Action Plan for the circular economy in order to speed up the transition to an economy that uses resources more economically. We are in favour of having the Action Plan reviewed and developed so that it can be extended beyond 2019. The Federal Government is in favour of developing targets on resource efficiency, which would also work in favour of our industrial-policy goals. Germany is willing to share the expertise it has gained under its ProgRes resource efficiency programme. We would like to see close cooperation between the Commission and the Member States. The Federal Government would like to point out that the action planned with regard to establishing a circular economy will require the ecodesign instrument to be designed to carefully balance the needs for resource efficiency and energy efficiency. The Member States and additional stakeholders ought to be involved in the discussions from an early stage.
- 'Clean energy' package: For energy-intensive industries, low energy costs – not least due to an improved energy performance – continue to be essential for their ability to remain competitive. This is an issue that lies at the very heart of industrial policy, and it is an issue that needs to be addressed as part of an overall strategy that creates incentives for innovative technologies and provides for affordable energy costs. It is important for any strategy to reconcile the three objectives of having a reliable, sustainable and affordable energy supply. On the one hand, this means that we need to adopt more of a regional and a European angle on energy security. On the other, it also means that Member States' sovereignty when it comes to organising their national energy supply and using energy resources must be upheld, in a way that is compliant with the objectives set out in Article 194 TFEU. The "Clean energy for all Europeans" package comes with many elements that seek to establish a more market-based and cost-efficient electricity system. These include efforts to strengthen the European single electricity market, more market-based funding schemes for renewables, and a greater focus on energy efficiency. In this context, it is essential to avoid

any additional cost being placed on consumers. As the European Commission draws up the new guidelines on environmental and energy aid for the post-2020 period, care should be taken to ensure that there continues to be scope for easing the financial burden on energy-intensive consumers for as long as their competitors in other countries are not yet subject to similar levies under similar climate protection policies.

- Emissions trading: It is important that emissions certificates be given for free to those sectors affected by carbon leakage. In addition to this, some sectors also depend on the possibility to receive compensation for the indirect costs incurred. This ought to continue to be possible, to a reasonable extent, under the post-2020 EU state-aid rules.
- Low-carbon mobility / European automotive industry: As the rules on “low-emissions mobility” are drawn up, it will be necessary to pursue the objectives of climate protection, growth, competitiveness and employment, and to do this in a way that continues to provide for affordable, safe, and free mobility. Just like the Commission, the Federal Government feels that moving the transport sector closer towards greenhouse-gas neutrality is a key requirement for us to be able to achieve the EU climate and energy targets. The Federal Government therefore welcomes the Commission’s strategy for low-emissions mobility, which was published in July 2016 and is based on a holistic and technology-neutral approach. In the view of the Federal Government, we will only be able to achieve this goal if we combine greater improvements on efficiency with greater independence from fossil fuels, and do so whilst ensuring that people and goods can still be moved in an affordable way. Our approach to achieving this goal must include not only vehicle-related measures, but also make full use of fuels, driving behaviour, modal split, digitisation and smart mobility concepts. Ambitious environmental standards that are technology-neutral and leave sufficient scope for the industries affected to adjust are in fact a driver of innovation in the automotive industry. They can help strengthen its international competitiveness. As climate targets and CO₂ regulation for cars and light-duty vehicles are being defined, it is important that we do not lose track of the issue of technical and economic feasibility, also with regard to the necessary infrastructure. One

particular challenge here is the need for a roll-out of alternative-driveline infrastructure and alternative fuels. This must be addressed swiftly and at both national and European level. In addition to this, the Federal Government sees great potential in using hydrogen/fuel-cell technology and electricity-based fuels based on renewables to make the transport sector close to greenhouse-gas-neutral. This is particularly true of those areas in which the scope for using electrical power directly has already been exploited. At the same time, however, internal combustion engines of a more efficient kind will continue to play an important role – including as a transitional technology for cars and light-duty vehicles.

- Battery cell production: We hold that there ought to be greater cooperation with industry where research for next-generation battery technologies is concerned. Moreover, the framework, including the investment framework, for battery-cell manufacturing ought to be improved. In this context, we ask the Commission to explore the possibility of realising this as an important project of common European interest.

6. Investing in the industry of the future

In principle, the Federal Government agrees with the European Commission's analysis that more capital investment needs to be stimulated in Europe in order to make it easier for companies to finance investments and to create a favourable business environment in which dynamic SMEs can thrive. Investment is key for strengthening economic growth across Europe.

In this context, the Federal Government supports the European Commission's Investment Plan for Europe and the European Fund for Strategic Investments (EFSI) launched under this Plan, which is an innovative instrument geared towards leveraging private capital for strategic investments across the EU, particularly for the benefit of SMEs. The Federal Government therefore welcomes the considerable expansion and the extension of the EFSI. However, it will be necessary to pay greater attention to the "additionality" of the funded projects and to avoid any displacement of private-sector investment. In addition, any direct competition with other European funding mechanisms, particularly those targeted at SMEs, must be avoided. Beyond the EFSI, it

is important to improve the overall investment climate and conditions for investment in Europe.

The Federal Government welcomes the Commission's Initiative to revise its present SME financing instruments to better adapt them to the needs of SMEs. However, we would like to stress the fact that companies must not be compelled to opt for any particular form of financing. In our view, bank loans will continue to be one of the most important sources of financing for SMEs.

The Federal Government supports the Commission's plans to provide access to alternative sources of financing – particularly for young and innovative companies – as part of the Capital Markets Union. In this context, it needs to be ensured that financial market regulations are proportionate and in line with the principle of subsidiarity, and that existing, efficient markets are not negatively affected. By offering a good mix of financing instruments, including export guarantees, the ability of EU companies to finance international projects should be improved.

Boosting investment is one of Germany's key priorities. However, the Federal Government does not share the view that just because a Member State has leeway in its budget, it has to increase public investment in a disproportionate manner. Strong investment in Member States that are financially strong cannot make up for weak investment in other Member States. Private investment makes up the largest share of total investment. The EU's Industrial Policy Strategy should therefore focus on improving the investment environment for private investors.

7. Supporting industrial innovation on the ground

We agree with the analysis that too few innovative start-up firms succeed in scaling up into bigger firms. Innovation helps develop new markets and new opportunities for creating value and employment. It needs to be ensured, not least under European industrial policy, that apart from promoting cutting-edge research, a special focus is placed on the innovations developed by small, medium-sized, mostly young SMEs, particularly in the stages where they bring important innovations from the lab to the market. This is being supported by the Commission's start-up and scale-up initiative.

The extent to which our industrial sector is able to innovate has a direct impact on the competitiveness of the whole economy. In light of an ever fiercer global race for innovation, the European Framework Programme for Research and Innovation should pay even greater attention to the issue of turning research into marketable products and services. The guidelines on FP9 transmitted by the Federal Government to the European Commission set out a large number of issues that are also relevant for the Industrial Policy Strategy of the EU.

Additional financing options are needed, not least for bridging the “valley of death” phase when new products are being brought to the market. This also means that the EU’s state aid rules need to be readjusted. Improving the existing framework could help make it easier for companies to work with research institutes.

8. The international dimension

In light of growing protectionist tendencies around the world, we welcome the European Commission’s ambitious efforts on trade policy.

In order to ensure the competitiveness of European industry, it will be key to protect global industrial value chains against unauthorised interference and to safeguard and expand free and fair access to global markets in a lasting manner.

It is important for the EU to develop an adequate response to the industrial strategies of third countries – a response that is based on the principle of reciprocity in the field of trade and investment and on rules-based trade at the multilateral and bilateral level. The strategy presented tries to strike a balance between market openness and the protection of European values and legitimate interests.

The Federal Government welcomes the Commission’s proposals to swiftly modernise its trade defence instruments (TDIs) and the agreement it has reached on the new anti-dumping calculation methodology.

As far as public procurement is concerned, the Commission is calling for the swift adoption of its revised proposal for an International Procurement Instrument (IPI). In the view of the Federal Government, this proposal needs to be further discussed and improved. The Federal Government regards the revised IPI proposal as a starting point

in the search for a compromise that is acceptable for all sides.

We greatly welcome the new proposal for the screening of foreign direct investment. The proposal for an enabling framework to screen foreign direct investments that may pose a threat to security or public order provides a good basis for further discussion. We welcome the fact that the final decision will still be left to the Member States. The Federal Government will assess the proposal in detail.

9. Partnership with Member States, regions, cities and the private sector

We welcome the Commission's remarks on cooperation between stakeholders at all levels of responsibility.

The different presentations that were given at the European Industry Day have made very clear to us the role that regional stakeholders in particular play in the successful implementation of industrial policy measures. Stakeholders at European, national, regional and local level need to engage in active dialogue and address and implement industrial policy measures in a way that ensures maximum benefit.

The Federal Government welcomes the fact that the Commission has appointed 'investment envoys' who serve as a contact point to national and regional authorities, project promoters, investors and civil society, and provide a platform for engaging in dialogue and sharing information about the joint work with European industry.

In the 2014-2020 programming period, the areas of 'innovation and research' and 'low-carbon economy' play a key role for the European Structural and Investment Fund (ESIF), and particularly the European Regional Development Fund (ERDF). In this period, Germany has earmarked nearly 60 per cent of its ERDF funds for these two areas. In these two areas, ERDF funds can be used not only to help SMEs, but also to promote investment by large firms. Germany is placing a particular focus on the regional strategies for smart specialisation that serve as the basis for the regions' decisions about the design and priorities of their innovation policies, and on the Federal Government's efforts to make more use of the synergies and complementarities that exist with EU instruments in this area.

We welcome the European Commission's plans to provide targeted support for regions that are affected by structural crises or are in economic decline and to remove barriers to growth. Here, close cooperation with the Member States and regional and local players is crucial.

10. Conclusions (or rather Governance and Communication)

The Federal Government greatly welcomes the information provided by the Commission in point no. 10 of its Communication relating to Governance and Communication. However, we would like to point out that point no. 10 does not provide any general conclusions on the strategy or its implementation and that therefore, the title is misleading.

The Federal Government believes that the future of European industry and the services sector related to it depend to a very large extent on the results achieved as part of the dialogue between the different stakeholders. The regular dialogue between the stakeholders and the social partners, including companies, employees, trade unions, employers' associations, policymakers, scientists and teachers, is necessary in order to pro-actively drive forward political decision-making. We therefore welcome the launch and holding of the annual Industry Day. We want to actively drive forward the dialogue process that has been started. It is important for civil society and the social partners to be involved in this process. Ensuring that this process is visible will be key for the public to adopt a positive attitude towards industry (public acceptance of industry).

The Federal Government would like to point out that the information provided by the Commission about the envisaged High Level Industrial Roundtable, which will be made up of representatives of national, regional and local authorities, industry, social partners and civil society is still too vague to comment on it. In principle, the Federal Government agrees that it needs to be ensured that the persons selected to take part in the High Level Industrial Roundtable will be sufficiently independent, so as to allow for the identification of creative and new ideas and for the feeding in of practical knowledge.