

New EU Industrial Strategy Update

Position paper

Foreword

Summary of France Industrie's proposals

1. Aiming at an operational approach to ecosystems

- Draw inspiration from the French experience in the framework of the National Industry Council (CNI) based on sectoral approaches and committed to sectoral roadmaps.
- Align the objectives, roles and functions of alliances, IPCEIs, ecosystems and "joint undertakings" (Horizon Europe) working on the same topic.
- France Industrie proposes to support the Commission by acting as a catalyst for the prefiguration of ecosystems, particularly those identified as being particularly impacted by industrial dependencies. France Industrie proposes to work with its members to prefigure these ecosystems.
- Provide EU funding support for transition pathways.
- Use the work of the expert groups of the last ten years on different aspects of industrial policy as a basis for the ecosystem agendas.
- Complete the current ecosystem perimeter.

2. Deepening the methodology of industrial dependency analysis

- Propose new and complementary measures such as legislative and regulatory support, but also and especially financial support.
- Expand the in-depth reviews to all sectors deemed strategic and extend the overall analysis beyond trade data to data that is even closer to the economic reality and policy issues related to these dependencies.
- Explicitly include options for the location or reshoring of strategic manufacturing units in the EU as a response to dependencies.
- Add the monitoring of EU internal market within the domestic industrial dependencies.
- Consider establishing a mechanism to address dependencies, based on the voluntary participation of interested parties (Member States, industry), which could be inspired by the EU regulation on screening of foreign direct investments.

3. Accelerating Important Projects of Common European Interest (IPCEIs)

- Massive use of IPCEIs, to meet the massive stimulus investments announced by the United States and China (in areas such as healthcare, the industrial cloud, 5G or low-carbon industry...).
- Build a mechanism to ensure that the financial amounts notified by Member States are immediately made available to companies.
- IPCEIs to go along with EU budgetary support and procedures to be simplified.

• Other elements

- Include the industrial competitiveness criteria in the impact assessments.
- France Industrie wishes to play an operational role within the Industrial Forum in order to enhance its proposals.

Introduction

France Industrie welcomes the Commission's announcements aimed at reinforcing European industrial policy, and in particular Commissioner Thierry Breton's commitment to having **industry recognized as a driver of growth and European strategic autonomy**.

The update of the European Industrial Strategy includes a major step forward : **the introduction of strategic political elements**. It offers many analytical tools to help European decision-makers in their strategic choices, such as tools for monitoring industrial activity (annual report on the single market containing key performance indicators), or a thorough analysis of industrial dependencies. In addition, we welcome the expression of **important wishes**, such as the recognition of the role that industrial stakeholders should play in the co-creation of the strategy, or the announcement of future industrial alliances and IPCEIs.

However, France Industrie regrets that the analyses provided most often lead only to **an inventory of solutions already in place or being launched**, despite some notable new initiatives. The possibility of proposing new ones seems particularly restricted in the current format, **preventing real progress** in the governance and the concretization of the Commission's ambition.

A declaration of intent, however ambitious, and an inventory, however exhaustive, do not **constitute a fully operational strategy**. In this context, it seems difficult for industrial policy to benefit from **its own legislative, regulatory and budgetary agenda, nor to have any real influence on other EU policies**.

However, we need a tool of influence that allows us to bring **climate policy and industrial policy** together.

In parallel with the European recovery plan, this review of industrial strategy must provide results in order to **adapt European industry to the new challenges** arising from the Covid-19 crisis, enable its sectors to respond to **the twin green and digital transition, and organize reindustrialization** to strengthen Europe's position in global competition.

In order to achieve this, **France Industrie supports 3 priority areas** that it would like to see strengthened:

- 1. Aiming at an operational approach in ecosystems.**
- 2. Deepening the methodology of industrial dependency analysis.**
- 3. Accelerating Important Projects of Common European Interest (IPCEIs).**

I. Aiming at an operational approach in ecosystems

France Industrie welcomes the establishment of an **emergency instrument on the single market** (2022), drawing lessons from the management of the COVID crisis. Its objective will be to guarantee the availability and free circulation of strategic products in the event of future crises. The **first publication of the annual report on the single market based on the 14 industrial ecosystems** confirms that they are particularly useful and effective analytical tools for establishing the state of play of the European industrial economy.

The inclusion of **key performance indicators** will ensure that the economic situation is taken into account even more closely. French industry is in favour of setting up **green and digital transition pathways** for the most impacted ecosystems that would involve industries in their creation, based on the model we already apply in the French framework.

France Industrie nevertheless regrets the **precautions** taken by the European Commission to finally give life to the ecosystems, by involving the stakeholders. **This weakens governance** and therefore the realization of industrial ambitions.

Proposals

Ecosystems must become **fully operational tools** by the end of the current European Commission's mandate **involving private stakeholders**.

France Industrie proposes that the Commission be inspired by the French experience within the framework of the **National Industry Council (CNI)**, based on sectoral approaches. The French industrial sectors commit with the Government on sectoral roadmaps for collective structuring projects. At the EU level, the reproduction of this system would make it possible to **increase the readability and effectiveness of the European industrial policy** by creating synergies and clear linkages between its various instruments, including industrial alliances and IPCEIs, which currently operate in an uncoordinated manner.

France Industrie recommends that this **readability** be achieved by **aligning the objectives, roles and functions** of alliances, IPCEIs, ecosystems and "joint undertakings" (Horizon Europe) working on the same subject.

In order to move forward quickly, France Industrie proposes to support the Commission by acting as a catalyst for **the prefiguration** of ecosystems, particularly those identified as being particularly impacted by industrial dependencies, as this is urgent. In concrete terms, **the "energy-intensive industries" and "health" ecosystems** could be structured (as expert groups or sub-groups of the "Industrial Forum") around the European sectoral federations and a selection of national federations, companies and other actors. The agenda of these ecosystems is already defined by the Commission's communication: discuss solutions to industrial dependencies and establish transition pathways. As a first step, France Industrie proposes to work with its members to prefigure these ecosystems.

The **green and digital transition pathways** for certain priority ecosystems should be provided with European funding support, echoing the French project for a second recovery plan.

The work of the **expert groups of the last ten years** on different aspects of industrial policy could serve as a basis for ecosystem agendas. Some of their recommendations have never been acted upon.

Finally, the current ecosystems do not cover all industrial activities and realities. Some sectors are absent or partially present in several ecosystems, and other ecosystems should be more precise, or even divided, to better reflect the reality of their activities. France Industrie calls for the **current perimeter of ecosystems to be completed**.

II. Deepening the methodology of industrial dependency analysis

France Industrie welcomes all the tools that can be used to **strengthen European strategic autonomy**. The **Strategic Dependency Analysis** is one of them, as it offers for the first time a strategic vision of vulnerabilities and conducts an **in-depth examination of six sectors** (raw materials, batteries, active ingredients, hydrogen, semiconductors, and the cloud). Its announced **annual update** will provide an opportunity for regular stocktaking.

France Industrie welcomes the Commission's efforts to develop **new industrial alliances**, both those whose timetable has been specified (one on microelectronics and semiconductors, and the other on industrial data, the edge and the cloud) and those that are planned (space launchers and "zero emission" aviation). The publication of a **legislative proposal on the potentially distorting effects of foreign subsidies on the single market** should also enable the European Union to strengthen its tools for a **fair level playing field**.

France Industrie regrets, however, that chapter 4 of the document is an **inventory that mostly recalls tools already in place** and deplores the **timidity** displayed by the Commission in proposing any new legislative, regulatory or budgetary initiative in the context of this analysis.

Proposals

France Industrie is of the opinion that **new and complementary measures** should be proposed such as **legislative, regulatory and especially financial support**. Contrary to most of the proposed conclusions, we cannot be satisfied with what has been achieved. In particular, it would be interesting if the industrial strategy introduced an "investment" component to meet industrial research and innovation needs.

To do this, France Industrie recommends that the in-depth examinations be extended to all sectors considered strategic and that the general analysis be extended beyond commercial data to **data that is even closer to the economic reality and political stakes linked to these dependencies**, such as feedback from the field realities or taking into account the political strategies of third countries ("*America First*", "*Made in China 2025*"). The European industrial strategy must take into account the impact on our French and European industries of extraterritorial measures taken by third countries, particularly in terms of export controls (e.g.: export licensing requirements).

The options of locating or reshoring strategic manufacturing units in Europe should be explicitly included as responses to dependencies, in addition to diversifying sources of supply and building strategic stocks.

Within the domestic industrial dependencies, **market surveillance** must be mentioned. There is a real interdependence on the control of imported products. In general, foreign products are much less controlled than French and European products. This has severe consequences on competition and industrial competitiveness.

Finally, France Industrie suggests that a reflection be carried out in order to establish a **mechanism to respond to dependencies**, based on the voluntary participation of the interested parties (Member States, industry). It could be inspired by the European regulation on the screening of foreign direct investments (Annex 1).

III. Accelerating Important Projects of Common European Interest (IPCEIs)

France Industrie has a long experience and a **strong expertise** on IPCEIs. The federation has been a particularly active member of the EU Strategic Forum on IPCEIs.

French industry also welcomes the **Commission's recognition of the need for IPCEIs** in areas where the market alone cannot provide breakthrough innovation, as was the case in the fields of batteries and microelectronics.

France Industrie notes the mention of support from Member States for additional IPCEIs on next generation cloud, hydrogen, decarbonization of industry, pharmaceuticals and a second IPCEI on advanced semiconductors. **However, we regret that no new IPCEIs were announced.**

Proposals

Faced with the massive stimulus investments announced by the United States and China, the Commission and the Member States must make **massive use of IPCEIs** (in areas such as health, the industrial cloud, 5G or low-carbon industry).

France Industrie points out that beneficiary companies are reporting delays in the payment of amounts notified by the States, even though the IPCEI has been granted by the European Commission. In the eyes of the EU, IPCEIs are only a derogation from competition law. It is suggested that **a mechanism be put in place to ensure that the amounts notified by Member States are immediately made available to companies.**

In the operational phase, IPCEIs should go along with **EU budget support** and the **procedures simplified**, including through the ongoing revision of the IPCEI Communication (Annex 2).

Conclusion

To succeed, **industry will need more Europe, but Europe will also need more industry.**

Let's take one example: decarbonation. The industry wants to make the "Green Deal" as concrete as possible. We are ready to continue to take up the challenge, as illustrated by the French situation: our country has one of the most decarbonized GDPs in the world thanks to a low-carbon electricity mix. **The manufacturing industry has significantly reduced its national greenhouse gas emissions:** a 48% drop between 1990 and 2019 in France, one of the best performances in the EU.

Industry is still 18% of the problem (emissions) but above all **100% of the solutions for climate:** nuclear and renewable energies (electricity and gas), hydrogen, carbon capture, sequestration and use, smart grids, eco-design of products, recycling, new insulation materials, electric vehicles, etc.

France Industrie therefore calls on the European Commission to take greater account of industrial stakeholders, who are the only ones able of giving substance to decarbonation solutions. This is why we propose to **include the criteria of industrial competitiveness in the impact studies.**

The **response will be collective**, and French industry is ready to take up the challenge alongside the French and European decisionmakers. France Industrie wishes to play an **operational role within the Industrial Forum** in order to advance its proposals.

Appendix 1

Concept note

A mechanism to address European industrial dependencies

I/ Vision

A **mechanism for responding to the dependencies of European strategic value chains would make it** possible to effectively mobilize the means to achieve the European industrial ambition. It could be inspired by **the coordination mechanism between the Commission and the Member States set up by the regulation on the screening of foreign direct investment (FDI)**.

This mechanism would be part of a **temporal process**: it would be supported by the update of European industrial policy (5 May), which contains a **list of industrial dependencies**, and would feed into the debates on the **definition of strategic autonomy**. This is indeed an opportune moment to push for concrete ideas in favour of strategic autonomy, since the notion is no longer debated on its definition but on its declinations. The communication on the update of the new industrial strategy leaves the field open for coordination possibilities.

II/ Explanatory Memorandum

On 5 May, the European Commission proposed an update **of its new industrial strategy**. In this update, it published a working paper **on the industrial dependencies that have arisen from the COVID crisis, or that have been made visible by this crisis**. This analysis is **crucial to better identify the problems and refine the responses that public authorities, together with the private sector, can provide**.

If it remains a simple one-way communication from the Commission, it will not be followed up. This mechanism will highlight symptoms (supply chain disruptions) as well as European industrial weaknesses in **key areas: hydrogen, cloud, artificial intelligence, health, electronics**. **French industry has a major interest in this list and the actions that would result from it**.

Drawing inspiration from the coordination mechanism between the Commission and the Member States set up by the regulation on the screening of FDIs makes it possible to propose a **realistic method that is acceptable and accepted by the Member States**. It is a **flexible and incentive-based** instrument that creates an **initial de facto European solidarity** in the defence of strategic economic and industrial interests. It will have an "industrial policy" vocation but will have to be articulated as widely as possible with **international trade instruments** (e.g. anti-coercion).

III/ Proposed mechanism

Starting point: mechanism set up in the FDI screening regulation. This approach will be legitimized by the reference to the notion of priority factors in terms of "**supply**" (article 4 of the same regulation), but by adapting this system to the industrial strategy and its objectives.

Organization: a **room for dialogue** must be created in addition to the Industrial Forum in order to allow all **willing stakeholders** to talk to each other (States, Commission, European Parliament, industry, NGOs, etc.). **Ecosystems** should be the reading grid, even if it means creating a group for each ecosystem, as this is the **only relevant perimeter** for measuring dependencies on an ongoing basis and providing coordinated political responses at the EU/national level.

Tools: the **list of dependencies** (communication of 5 May) should be used as a basis for work, discussed, amended and complemented with proposals. In addition, a list of **priority areas/factors** as well as **key EU programs** that may be impacted by these dependencies should also be drawn up.

Functioning: a system of **information feedback and application of the decided proposals** should be set up, **where the voluntary nature of the work would prevail, but which would be highly motivating**, i.e. the exchange of information is **compulsory** if the request is:

- made by a Member State that has identified a dependency on a key subject for it in another Member State,
- in connection with significant funding of a project of a key European Union program.

IV/ First areas of work identified

It is clear that the list of dependencies should not stop at **statistics alone**, but should include a **methodology that is closer to economic and political reality**: feedback from the field on dependencies, more global studies, political strategies of third countries ("America First", "Made in China 2025").

A webinar could be an opportunity to discuss the **opposing trends** in the Council of Ministers and the Commission: the proponents of (1) diversification of supply sources, (2) massive stockpiling of strategic products or (3) the location or reshoring of strategic manufacturing lines.

Appendix 2

Main points of France Industrie's contribution to the consultation on the Communication on the review of IPCEIs

April 2021

On eligibility criteria:

- FI believes that the change from three to four MS minimum could unduly disqualify projects that could serve the European interest.
- The analysis of the spillover effect and the analysis of the counterfactual scenario (which must prove that the project cannot be carried out without public support) must be simplified as it is too complex, time-consuming and not always relevant.
- In the proposal, it is stated that the project must include "significant" co-financing by the beneficiary: beyond the vague nature of the notion of "significant", FI advocates keeping flexibility in the allocation of public/private funds.
- The proposal states that the project must respect the principle of "do no significant harm", which raises questions, particularly of a legal nature, FI therefore calls for caution.
- The draft communication foresees that IPCEIs taking into account the taxonomy regulation will be favoured, FI considers that this approach might come a bit early.

On compatibility criteria:

- FI considers that introducing a recovery mechanism when a project is more profitable than anticipated, and limiting the possibility of cumulating IPCEI aid with other European funding, will penalize projects that could have been more efficient than the initial analyses, as profitability is difficult to quantify.

On eligible costs:

- The latter must be extended, in particular to CAPEX and OPEX, and not be limited to the financing of RDI.