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DRAFT REPORT

on a new long-term strategy for Europe's industrial future
(2020/2076(INI))

Committee on Industry, Research and Energy

Rapporteur: Carlo Calenda

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on a new long-term strategy for Europe's industrial future (2020/2076(INI))

The European Parliament,

- having regard to the Treaty on the Functioning of the European Union (TFEU), in particular Articles 9, 151, 152, 153(1) and (2), as well as Article 173 which concerns EU industrial policy and refers, among other things, to the competitiveness of the Union's industry,
- having regard to Articles 14, 27 and 30 of the Charter of Fundamental Rights of the European Union,
- having regard to the TFEU and to the Treaty on European Union (TEU), in particular to Article 5(3) TEU and to Protocol No 2 on the application of the principles of subsidiarity and proportionality,
- having regard to its resolution of 15 May 2020 on the new multiannual financial framework, own resources and the recovery plan (2020/2631(RSP))¹,
- having regard to the Commission's European Economic Forecast: Spring 2020,
- having regard to the Conclusions of 23 April 2020 of the President of the European Council following the video conference of the members of the European Council,
- having regard to its resolution of 17 April 2020 on EU coordinated action to combat the COVID-19 pandemic and its consequences (2020/2616(RSP))²,
- having regard to the joint communication from the Commission and the High Representative of 8 April 2020 on the Global EU response to COVID-19 (JOIN(2020)0011),
- having regard to the Conclusions of 17 March 2020 by the President of the European Council following the video conference with members of the European Council on COVID-19,
- having regard to the Commission communication of 13 March 2020 entitled 'Coordinated economic response to the COVID-19 Outbreak' (COM(2020)0112),
- having regard to the Commission communication of 10 March 2020 entitled 'A New Industrial Strategy for Europe' (COM(2020)0102),
- having regard to the Commission communication of 10 March 2020 entitled 'An SME

¹ Texts adopted, P9_TA(2020)0124.

² Texts adopted, P9_TA(2020)0054.

Strategy for a sustainable and digital Europe' (COM(2020)0103),

- having regard to the Commission proposal for a regulation of 4 March 2020 establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law) (COM(2020)0080),
- having regard to the Commission communication of 19 February 2020 entitled 'Shaping Europe's digital future' (COM(2020)0067),
- having regard to the Commission Work Programme 2020 entitled 'A Union that strives for more' (COM(2020)0037),
- having regard to its resolution of 15 January 2020 on the European Green Deal (2019/2956(RSP))³,
- having regard to the Commission communication of 14 January 2020 on the Sustainable Europe Investment Plan (COM(2020)0021),
- having regard to its resolution of 18 December 2019 on fair taxation in a digitalised and globalised economy: BEPS 2.0 (2019/2901(RSP))⁴,
- having regard to the European Council conclusions of 12 December 2019 (EUCO 29/19),
- having regard to the Commission communication of 11 December 2019 on the European Green Deal (COM(2019)0640),
- having regard to the European Council conclusions of 20 June 2019 on 'A new strategic agenda for the EU 2019-2024' (EUCO 9/19),
- having regard to the conclusions on 'A future EU Industrial Policy Strategy', as adopted by the Council at its 3655th meeting held on 29 November 2018 (14832/18),
- having regard to the Commission communication of 13 September 2017 entitled 'Investing in a smart, innovative and sustainable Industry - A renewed EU Industrial Policy Strategy' (COM(2017)0479),
- having regard to its resolution of 5 July 2017 on building an ambitious EU industrial strategy as a strategic priority for growth, employment and innovation in Europe (2017/2732(RSP))⁵,
- having regard to its resolution of 1 June 2017 on digitising European industry (2016/2271(INI))⁶,
- having regard to the question for an oral answer to the Commission on building an ambitious EU industrial strategy as a strategic priority for growth, employment and

³ Texts adopted, P9_TA(2020)0005.

⁴ Texts adopted, P9_TA(2019)0102.

⁵ OJ C 334, 19.9.2018, p. 124.

⁶ OJ C 307, 30.8.2018, p. 163.

- innovation in Europe (O-000047/2017),
- having regard to its resolution of 19 January 2016 on Towards a Digital Single Market Act (2015/2147(INI))⁷,
 - having regard to the Commission communication of 19 April 2016 entitled ‘Digitising European Industry - Reaping the full benefits of a Digital Single Market’ (COM(2016)0180),
 - having regard to the Paris Agreement, ratified by the European Parliament on 4 October 2016,
 - having regard to its resolution of 5 October 2016 on the need for a European reindustrialisation policy in light of the recent Caterpillar and Alstom cases (2016/2891(RSP))⁸,
 - having regard to the European Council conclusions of 15 December 2016 and of 23 June 2017,
 - having regard to the Council conclusions on the Industrial Competitiveness Agenda, on the digital transformation of European industry and on the ‘Digital Single Market Technologies and Public Services Modernisation’ package,
 - having regard to the Commission communication of 14 October 2015 entitled ‘Trade for All -Towards a more responsible trade and investment policy’ (COM(2015)0497),
 - having regard to its resolution of 15 January 2014 on reindustrialising Europe to promote competitiveness and sustainability (2013/2006(INI))⁹,
 - having regard to the Commission communication of 22 January 2014 entitled ‘For a European Industrial Renaissance’ (COM(2014)0014),
 - having regard to Rule 54 of its Rules of Procedure,
 - having regard to the opinions of the Committee on International Trade, the Committee on Employment and Social Affairs, the Committee on the Environment, Public Health and Food Safety, the Committee on the Internal Market and Consumer Protection, the Committee on Regional Development, the Committee on Culture and Education and the Committee on Legal Affairs,
 - having regard to the report of the Committee on Industry, Research and Energy (A9-0000/2020),
- A. whereas the Union requires a new industrial strategy that makes its industries more globally competitive, resilient and environmentally sustainable; whereas such a strategy should cover the transition of European industries to digitalisation and climate-neutrality, prioritising the ‘energy efficiency first’ principles, energy savings and

⁷ OJ C 11, 12.1.2018, p. 55.

⁸ OJ C 215, 19.6.2018, p. 21.

⁹ OJ C 482, 23.12.2016, p. 89.

renewable energy technologies;

- B. whereas the Union's industrial strategy should ensure the correct functioning of the single market, create a level playing field inside and outside EU and ensure easier access to finance, raw materials and markets, in addition to ensuring appropriate levels of investment, research and innovation, education and skills to boost competitiveness and sustainability;
- C. whereas the COVID-19 pandemic and its fallout have created an unprecedented economic downturn in Europe; whereas in this context any future-looking industrial strategy should start by addressing industrial recovery;
- D. whereas new debts contracted to survive the economic downturn are likely to leave companies with a more fragile financial structure, leading to sluggish growth in the long term;
 - 1. Is of the opinion that digital and environmental transitions should be at the very core of all Unions strategies until 2050; in this context, calls on the Commission to define a comprehensive industrial strategy which manages these transitions, fosters transformation and guarantees the Union's strategic autonomy;
 - 2. Is aware that market dynamics alone do not bridge the fractures created during the transformation process if there is no proper management of the transitions and no strong industrial policies; is, furthermore, aware that while markets, competition and innovation push fast towards transformation, it is society and the environment that face the impact of these transformations; considers that balancing out the number of jobs lost in traditional industries with new jobs created in the digital and environmental sectors is not enough in itself as these new jobs are neither created in the same regions nor taken up by the same workers; calls on the Commission, therefore, to ensure that these transitions are fair and socially just, and that every action aimed at accelerating a transformation process (digital, environmental, etc.) is accompanied by a corresponding initiative to up-skill and reskill workers, with the aim of managing the effects produced by that accelerated process on both regions and people;
 - 3. Considers, in the current context, that the Union requires a new, tailor-made industrial strategy that focuses on two distinct phases; the first aimed at recovery and the second aimed at reconstruction and transformation; calls on the Commission, therefore, to adapt the strategy published in March 2020 to the current situation and address both phases, while keeping the digital and environmental objectives as priorities throughout;

Phase One - Recovery

- 4. Welcomes the Temporary State Aid framework as a way to promptly transfer liquidity where urgently needed; calls on the Commission nonetheless to ensure that the aid provided in the emergency phase does not lead to permanent distortions in the single market;
- 5. Considers that the economic schemes put in place by individual Member States to help SMEs and companies cope with the short-term cash crunch are useful, but will increase the debt levels of these firms; in this context, therefore, calls on the Commission to

facilitate recovery through fiscal schemes that favour equity over debt and grants over loans and/or guarantees;

6. Calls on the Commission to include in the recovery plan a strategy to redeploy industries in Europe and to relocate industrial production in strategic sectors; calls, moreover, on the Commission to adopt a stronger stance on unfair global competition and predatory acquisitions by SOEs and sovereign funds; is of the opinion that, in this context, the Union should implement a provisional TDI scheme;
7. Highlights that, during this critical phase, the Union should protect its market in strategic sectors and block takeovers and FDI that could further increase its dependency on foreign powers;
8. Is of the opinion that the industrial recovery plan should help to create new ambitious and innovative European industrial projects which go hand in hand with the current revision of the guidelines for ‘Important Projects of Common European Interest’ (IPCEI), in order to encourage the emergence of European leaders in strategic industrial sectors that are capable of competing on a global scale;
9. Considers the Recovery Fund (hereinafter ‘the Fund’) to be the pillar of the first phase: the EU’s industrial recovery from COVID-19; calls on the Commission to ensure that the fund is implemented swiftly and:
 - a. has sufficient financial capacity to offset the damage caused by the COVID-19 crisis to European industries;
 - b. will be managed directly, when possible, by the Commission through European programmes in order to avoid further distortion of the single market;
 - c. distributes the financial aid among the different industrial sectors according to the damage suffered, the challenges faced and the amount of national financial support already received through national aid schemes;
 - d. supports national fiscal schemes that incentivise private sector equity investment and allow companies to convert part of the loans given by the Fund into equity;
 - e. gives preference to companies and SMEs that focus their business plans on digital and environmental transformation;
 - f. strengthens the EIB guarantees programme and makes it complementary to national programmes in order to strengthen the impact and to progressively replace national schemes;
10. Highlights the need to support a sustainable and fair recovery beyond the COVID-19 crisis in order to enhance growth in the EU by increasing investment in the digital and green transitions; asks the Commission to support an ambitious Recovery Fund that is within the framework of a stronger MFF and is integrated in the own resource decision, and to pursue fiscal policy coordination to strengthen the European fiscal framework; is of the opinion that, after the peak of the pandemic, the Fund should become a permanent Reconstruction Fund to foster the digital and green industrial transitions;

11. Calls on the Commission to carry out a detailed impact assessment of the potential costs and burdens for European companies and SMEs before presenting new proposals for legislation or adopting new measures; calls on the Commission to propose commensurate support to the affected sectors whenever a negative impact cannot be avoided;

Phase Two - Reconstruction and transformation

12. Considers that once the emergency phase is over, the Union should embark on a second phase of its industrial strategy: ensuring the competitiveness, resilience and sustainability of its industries in the long term;
13. Highlights the potential of the circular economy for modernising the Union's economy, reducing its energy and resource consumption and transforming whole industrial sectors and their value chains;
14. Considers that there is significant potential in domestic and global markets for low-emission technologies and sustainable products, processes and services throughout the whole value chain from raw materials to energy-intensive industries, manufacturing and the industrial services sector; considers, moreover, that the Climate Law is a first step towards enshrining climate targets into Union legislation; believes that a more holistic and systematic target framework is also required in order to ensure policy coherence across all Union policies and a homogenous governance approach in all policy areas, paving the way towards a clear and stable strategy for European industries;
15. Maintains that a truly effective European industrial policy needs a dashboard of climate targets as a roadmap to shape the industry of the future; considers that all sectors should contribute towards achieving the Union's climate objectives and, in this regard, underlines the importance of gas as a means of energy transition and hydrogen as a potential breakthrough technology; calls also for greater attention to be paid to network security and energy supply; calls on the Council to increase spending from the EU budget on climate change efforts; calls on the Commission to ensure that industries with high carbon leakage do not benefit from EU subsidies, and for better use to be made of the EIB, as the Union's 'Climate Bank', to enhance sustainable financing to the public and private sectors and to assist companies in the decarbonisation process, and to use the Border Carbon Adjustments mechanism as a way to protect EU manufacturers and jobs from unfair international competition;
16. Highlights the need to support a just transition, and believes that a well-designed Just Transition Mechanism, including a Just Transition Fund, would be an important tool to facilitate the transition and reach ambitious climate targets while addressing social impacts; stresses that robust financing of this instrument, including additional budgetary resources, would be a key element for the successful implementation of the European Green Deal;
17. Calls on the Commission to tailor its industrial strategy to the scaling-up and commercialisation of breakthrough technologies in the Union, by providing risk financing for early-stage technology and developing early value chains to support first commercial-scale, climate-neutral technologies and products;

18. Considers it imperative to digitalise the Union's industries, including traditional ones; calls on the Commission to invest, *inter alia*, in the data economy, artificial intelligence, smart production, mobility, and resilient and secure very high-speed networks; invites the Commission, in this respect, to assess the effectiveness of co-financed National Tax Credit schemes that could complement or replace traditional 'on demand' grants/tender-based support, especially for SMEs; highlights the importance of the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) in supporting job creation, business competitiveness, economic growth and sustainable development;
19. Calls on the Commission to implement a single European digital and data market, to promote the exchange of data among companies and among public institutions, to develop and process data on European soil, in particular data from public bodies, to build a better digital taxation system in which profits are taxed where companies have significant interaction with users, and to further develop European standards on cybersecurity, in particular for critical infrastructure;
20. Considers that industrial transformation requires the integration of new knowledge and innovation into existing markets and their use in the creation of new ones; regrets, in this respect, that the Union invests less in R&D as a percentage of GDP than its global competitors and that it suffers from a serious lack of innovative capacity in small and medium-sized enterprises due to a shortfall in the necessary risk capital; calls on the Commission to increase the budget for those programmes that underpin the transformation of the Union's industry, including Horizon Europe, and to foster synergies between regional, national, European and private financial sources by taking advantage of synergies among all Union programmes;
21. Is of the opinion that ecosystems will be key components of the next industrial revolution, providing affordable and cleaner energy, transformative manufacturing and service-provision methods; believes, moreover, that supporting collaboration among industry, academia, SMEs, start-ups, trade unions, civil society, end-user organisations and all other stakeholders will be key to solving market failures and supporting efforts to cross the 'valley of death', including in areas not yet covered by industrial interests;
22. Considers public procurement to be a crucial driver of industrial transformation; calls on the Commission to study how to fully use the leverage of public expenditure and investment to achieve policy objectives, including by making environmental and social criteria mandatory in public procurement; calls also on the Commission to push for a more ambitious International Procurement Instrument that provides for reciprocity and mutual standards;
23. Calls on the Commission to adopt a strong Key Performance Indicator (KPI) system to analyse the ex-ante impact of Union regulations and instruments, and to monitor progress and results;
24. In the light of a profoundly changed international economic context, calls on the Commission to review its antitrust rules and to continue to ensure that the enforcement of EU competition law is effective in keeping the Union globally competitive, seeking a balance between support for so-called 'European champions' and protection of the supply chain from unfair competition, so as to compensate for the lack of a global level

playing field given the higher levels of concentration, margins and inequality visible in the economy;

25. Instructs its President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENT

Preamble

This report on EU industrial policy comes at a time of crisis for the global economy. The economic fallout from the coronavirus outbreak has dealt a symmetric shock to both supply and demand of a magnitude not seen since the Second World War. The financial health of European companies has taken a sharp turn for the worse, casting doubts on their capacity to invest.

The first pandemic of the modern era has struck just as the Union was preparing to switch into a higher gear on two epoch-defining transitions requiring huge public and private investment: the digital and environmental transitions. That is why this report proposes an industrial strategy with two distinct phases: the first aimed at industrial recovery, and the second at reconstruction and transformation. The productive ecosystems currently being mapped by the Commission should lie at the heart of any future industrial policy initiatives, guiding project selection and priority-setting, and acting as the common thread running through initiatives in the fields of research, education and investment.

EU industrial policy is often vague and theoretical, combining statements of principle with a failure to provide sufficient resources, overregulation and unwieldy bureaucracy. That is why this report focuses on the tools and practical steps to be taken, rather than on declarations of intent. If Europe's industrial policy is to be effective it must be matched by a budget of the necessary size, with additional resources coming from national budgets and the issue of Eurobonds. What we need now is action – not more empty words. We can ill afford further false starts.

International context – A more assertive Union

We know that both phases will play out within a far tougher and far more complex system of international economic relations than that of the past 30 years: a system that is more closed, more protectionist, and where aggressive tactics have become commonplace and there is a clear rift between market-economy countries and those in which state capitalism is still the prevailing system. Therefore, while remaining strongly committed to the principle of free trade and multilateralism, the EU needs to equip itself with more effective trade defence instruments and a proper framework for screening foreign investments. It will also need to think about supply security, and so consider, for example, incentivising the reshoring of strategic industrial sectors. At the same time, any plan to decarbonise European industries must be accompanied by a carbon border tax to prevent carbon leakage. Negotiations on free trade agreements must, then, reflect the changed nature of international relations and the EU's environmental targets. Market counterparts will be selected more rigorously and sustainability clauses will be made far tougher going forward.

Phase 1 - Recovery

Preserving the single market should be one of the pillars of EU action in the first phase. The single market will emerge from the COVID-19 crisis more fragmented and more imbalanced. The partial suspension of State aid rules has put countries with greater financial firepower at an

advantage. We need to move swiftly to replace national support schemes for businesses and workers with Commission-managed EU programmes. This should be the primary aim of the Recovery Fund: to focus on the hardest hit Member States that have made less support available.

Another fundamental component of the recovery strategy should be measures to recapitalise companies. In view of the worsened debt-equity ratio, we should deploy powerful fiscal support and take direct stakes in larger companies, subject to clear exit clauses and neutrality on governance matters. The recovery fund should target specific companies when allocating these resources.

The productive ecosystems dealt the harshest blows by the pandemic, such as the tourism and aviation industries, should be granted greater, non-repayable support and benefit longer from the special State aid scheme.

Phase 2 – Reconstruction and Transformation

Europe's economy will need the impetus provided by a substantial programme of public investment to get back on its feet. It is therefore absolutely vital that the stability pact rules remain suspended, at least for investments aimed at digitalising and greening the economy.

Even before the crisis, it was already apparent that the funds available for the European Green Deal would not be enough to see us through the transition. That is why the Recovery Fund should evolve into a Reconstruction and Transformation Fund. Projects and programmes will be redesigned to steer them more precisely towards achieving digital and environmental goals. Let us be clear: without extensive EU support delivered through a robust budget and an RF acting as an RaTF, buoyed by greater freedom for the Member States to invest, we stand no chance of achieving climate neutrality by 2050. Alongside the RaT Fund, all EU programmes, starting with Horizon Europe, will be enhanced and linked up with national plans. The rules on State aid and mergers should be reviewed in depth in order to, respectively, expedite the industrial transition by mobilising more financial resources and foster the birth of European champions, and provision should be made for appropriate monitoring tools to protect the single market and supply chains.

We must not underestimate the sheer scale, breadth and depth of the changes required of us. As an example, let's take a look at the steel industry, which is essential for all mechanical and automotive manufacturing. Decarbonising this industry will require: 1) strong incentives to replace machinery and technology; 2) subsidies to support the currently uncompetitive price of gas for use in steel production; 3) a carbon border tax to keep out low-cost polluting imports. Clearly, only a holistic and cost-intensive approach can help us reduce our emissions without inflicting damage on EU industry.

Instruments and methods – A more efficient industrial policy

The report suggests a few changes to the way in which industrial policy operates going forward. First of all, an impact analysis should be carried out before the green light is given to any new rules. During the recovery, it would be inconceivable to burden our crisis-stricken industries with standards requiring costly adjustments. In the second phase, however, sufficient funds will be made available to support the transition.

A further methodological recommendation made in the report concerns the adoption of a system

of key performance indicators to analyse the effectiveness of the instruments the EU has deployed.

Finally, the use of co-financed national tax credit schemes is recommended, as an alternative to traditional tender-based incentives, to stimulate investment and research. This option, which should be extended to all EU instruments and funds, ensures greater accessibility for SMEs and increased spending efficiency, with fewer bureaucratic hurdles and lower disbursement costs.