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A Franco-German Manifesto for a European industrial policy fit for the 21st Century

At a time of increasingly fast changes globally, Europe must pool its strengths and be more united than ever.

Europe's economic strength in the coming decades will be hugely dependent on our ability to remain a global manufacturing and industrial power. The industrial sector of the 20th century is changing before our eyes due to digitalization. Brand new industrial sectors are appearing such as those linked to artificial intelligence, others are changing at great speed such as the car or railways sectors, and other traditional sectors will continue to be essential such as steel or aluminium.

If Europe still wants to be a manufacturing powerhouse in 2030, we need a genuine European industrial policy. The investments required to enable Europe to compete on the global stage and the development of long-term industrial strategies aiming inter alia at a carbon-neutral economy are so important that we can only succeed if we pool our funding, our skills, and our expertise.

The choice is simple when it comes to industrial policy: unite our forces or allow our industrial base and capacity to gradually disappear. A strong industry is at the heart of sustainable and inclusive growth. And above all, it's what will give Europe its economic sovereignty and independence.

To succeed, we need much more strategic thinking than in the past. That is why France and Germany call for a more ambitious European industrial strategy with clear objectives for 2030. This should also be a top priority for the next European Commission. The social market economy has been and will continue to be a successful model for the EU and worldwide. We should continue to strengthen and improve it. The European industrial strategy is a strategic aim in this respect.

Building on our discussions with other countries, and as reflected in the recent Friends of the Industry statement of December 2018, we consider the future European industrial strategy should be built around three pillars:



1. Massively investing in innovation:

We will only succeed if we are the ones creating, developing and producing new technologies.

That is why we need:

- **To create a European strategy for technology funding** within the scope of InvestEU and with the involvement of the relevant, experienced EU-institutions (such as the European Investment Fund - EIF) capable of leveraging the private capital covering the equity needs for start-up and innovative tech companies.
- **A strong EU commitment to disruptive innovation** within the framework of the European Innovation Council (EIC). The goal is to support very high-risk deep tech projects at the European level with a large autonomy given to program managers allowing them to make high-risk technological bets in a top-down approach while resorting to the best private expertise and technology, e.g. in the fields of health, energy, climate, security and digital technology. Such principles are partly in place in the *pathfinder* of the EIC pilot for 2019-2020, but they should be strengthened in the definitive EIC proposal.
- **To become world leaders on Artificial Intelligence:** France and Germany will intensify their cooperation in artificial intelligence (AI) and shape the EU's ambitions expressed in its coordinated plan on AI. We agree to promote Franco-German cooperation in research and development as well as in the application of AI by structurally underpinning our partnership with a common research and innovation network. The network shall inter alia address the transfer of research to businesses, including in the areas of health, transport and robotics. To this end, a working group of the economic ministries deals with cooperation in AI focussing on four topics: 1. Data sharing, 2. Cross-border experimental zones, 3. Best practices to achieve the transfer of research results to businesses, 4. Technical and ethical standards.
- **To ensure we are capable of producing breakthrough / cutting-edge technologies:** this requires nurturing technologies in Europe from research through to first industrial deployment. We are doing this with the first ever IPCEI on microelectronics. And we now aim to create a second IPCEI for a new generation of batteries. France and Germany reiterate their aim to identify credible consortia including car manufacturers in order to take a decision before end of first quarter 2019. They will do their best effort to obtain approval as an IPCEI so that approval by the Commission can be given as soon as possible in the first half of 2019. There are many other areas where such European cooperation will be essential and which can be envisaged, for eg. hydrogen, low carbon industrial processes, smart health or cybersecurity.
- **To ensure our financial markets support innovation in industry:** That is why we need to complete the Capital Markets Union and give our industry the possibility of financing themselves more easily, especially when they grow in scale.



2. Adapt our regulatory framework:

We will only succeed if European companies are capable of competing on the global stage.

Competition rules are essential but existing rules need to be revised to be able to adequately take into account industrial policy considerations in order to enable European companies to successfully compete on the world stage. Today, amongst the top 40 biggest companies in the world, only 5 are European.

Despite our best efforts, which we must pursue, there is no regulatory global level playing field. And there won't be one any time soon. This puts European companies at a massive disadvantage. When some countries heavily subsidize their own companies, how can companies operating mainly in Europe compete fairly? Of course, we must continue to argue for a fairer and more effective global level playing field, but in the meantime, we need to ensure our companies can actually grow and compete.

This entails changes to existing European competition rules. France and Germany suggest examining different options:

- **Taking into greater consideration the state-control of and subsidies** for undertakings within the framework of merger control.
- **Updating current merger guidelines** to take greater account of competition at the global level, potential future competition and the time frame when it comes to looking ahead to the development of competition to give the European Commission more flexibility when assessing relevant markets. This would enable a more dynamic and long-term approach to competition, at the global scale. This could entail adapting regulation no 139/2004 and current merger guidelines.
- **Consider whether a right of appeal of the Council** which could ultimately override Commission decisions could be appropriate in well-defined cases, subject to strict conditions.
- The recent novelties in **European state-aids rules** enable Member States to finance major research and innovation projects including the first industrial deployment (IPCEI) in Europe. This is a very positive development. The IPCEI is a useful tool for financing large scale innovative projects, but it is very complex to implement. It may be appropriate to revise the implementing conditions to ensure that the ICPEI is easier and more effective to implement. More generally, state-aid guidelines must provide a clear framework, taking into account the aim to develop innovative industrial capacity in Europe.
- **Other ideas** should be explored such as the potential temporary involvement of public actors in specific sectors at particular points in time to ensure their long term successful development.



3. Effective measures to protect ourselves:

We will only succeed if we are capable of defending our technologies, companies and markets

To achieve that, we need:

- **To ensure the full implementation of the recently agreed European foreign investment screening framework.** It needs to actually be used by Member States to protect Europe's strategic technologies and assets which are critical. It should be complemented by tough national legislation as France and Germany already have in place. France and Germany call on all Member States to develop such screening mechanisms as we can only protect our interests collectively. European interests are vulnerable when some Member States do not act in this area.
- An effective **reciprocity mechanism for public procurement with third countries:** a proposal for an international procurement instrument has been put forward by the Commission and is currently being negotiated. It has to be further adjusted and should then be agreed as quickly as possible. Reciprocity is perhaps one of the most effective ways to make progress towards a global level playing field. On the issue of public procurement, we must make better use of the flexibility which already exists in today public procurement rules and clearly allows for factors other than price to be taken into account.
- With regard to our relations with other countries outside the EU, **defending multilateralism, open markets and promoting an ambitious EU trade policy** remain key, namely to ensure international competitiveness, the creation of jobs, investments and innovation and to resist all forms of protectionism.
- More generally, **we must constantly monitor and adapt as necessary our trade policy to defend our strategic autonomy:** this includes the essential and urgent modernization of the WTO rulebook to improve transparency and more effectively fight against trade distorting practises including excessive subsidies to industry. This work is not easy in the current climate but remains essential.