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From:	Trio Presidency
To:	High Level Working Group of Competitiveness and Growth
Subject:	The Update of the Industrial Strategy: First reactions and the external dimension

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*The March 2020 package and the rationale for the update*

Following the pandemic, much has changed since March 2020 when the Commission adopted the Industrial Policy Strategy. The impact of the crisis and the recovery status of companies differs greatly across sectors and ecosystems. Some may have recovered but others are still struggling and need support.

While the objectives and actions presented in last year's package, such as the need to accelerate the twin digital and green transition, remain relevant, the Update of the new industrial strategy, as announced in the State of the Union speech, focuses on the main lessons learned from the COVID-19 crisis and responds to the demands from the European Council, especially in its conclusions of October 2020. This concerns the requests (i) to present a strategic report on the Single Market, including a state of play of the Single Market Enforcement Action Plan, (ii) to assess the robustness of existing procedures and the need for actions to strengthen the Single Market resilience, and (iii) to identify risks associated with strategic dependencies in the most sensitive industrial ecosystems and measures to mitigate them.

### *Resilient and seamless Single Market*

The Update will explore ways to strengthen the Single Market resilience and make it crisis-proof, including through a structural solution to ensure the availability and free movement of goods and services in the context of possible future crises, announced by President von der Leyen in her State of the Union speech. It will look at market surveillance that is key, with Member States' authorities facing increased numbers of illicit and non-compliant products.

The Commission will pursue its efforts to address restrictions and barriers identified in the 2020 Single Market Barriers Report and look at the interplay between goods and services across all ecosystems.

The Update will aim at transforming the lessons learned from the crisis into new ways of accelerating cooperation towards better joint coordination of emergency responses, recovery efforts and addressing bottlenecks. This will foster the single market economy's recovery and strengthen the competitiveness and resilience of EU industry.

### *Identifying and tackling Europe's strategic dependencies*

The March 2020 Industrial Strategy already highlighted the importance of reinforcing EU's open strategic autonomy, the need for the EU to be competitive in global markets and to reduce dependencies on third countries for products, infrastructures and technologies of strategic importance. Moreover, it pointed out the need to diversify the supply chains of raw materials which could not be sourced within the EU.

The COVID-19 crisis underscored the need for a better grasp of where strategic dependencies and vulnerabilities lie. This starts with the analysis of trade data and the EU's competitive position in a number of areas that the Update will explore, such as raw materials, batteries, active pharmaceutical ingredients, hydrogen, semiconductors and cloud and edge technologies. The Commission will continue to engage with Member States and industry, including through the Industrial Forum, and further engage in the set up and the work of industrial alliances and other European partnerships.

One way to reduce dependencies is to continue working towards higher diversification of international supply chains and also to further pursue international partnerships with trusted partners, as working in global value chains maximizes efficiency. Global value chains are essential to absorb shocks, and offer options to adjust and speed up recovery<sup>1</sup>. Still, given the scale of the crisis, disruptions in certain specific sectors and products were inevitable. Reducing dependencies in the spirit of open strategic autonomy should therefore focus on securing supply chains of critical areas such as future technologies or pharmaceuticals “in case of emergency”. Developing the EU industrial ecosystems capacity to adapt to a changing environment, namely regarding business models, infrastructures and resources allocation can also help to avoid disruptions.

A number of other countries have reviewed their supply chains and consider measures to make them more resilient to ensure economic prosperity and national security, including by strengthening cooperation with trusted partners. For example, the US is undertaking a review of their supply chains with a focus on batteries, semiconductors, active pharmaceutical ingredients and rare earths and six industrial bases<sup>2</sup>.

Ensuring a level playing field globally and in the Single Market is also key. This requires addressing the distortive effects on the Internal Market of subsidies granted by third country governments to ensure that all companies active comply with the applicable WTO rules. In parallel, another priority should be given to the ongoing efforts to modernize the multilateral rules, for example on subsidies and countervailing duties. Moreover, also the full use of existing and new trade instruments within the multilateral framework can be necessary and appropriate. At the same time, Europe should continue to strive for the promotion and respect of its standards and values, namely regarding social, environmental and safety dimensions, especially by seeking international partners by pursuing an ambitious bilateral trade agenda without overburdening bilateral trade agreements.

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<sup>1</sup> Shocks, risks and global value chains: insights from the OECD METRO model, June 2020

<sup>2</sup> Defence, Health, ICT, Energy, Transportation, Agri-food. See <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/02/24/executive-order-on-americas-supply-chains/>

Global leadership in technologies goes hand-in-hand with first mover advantages in standard-setting. Standardisation provides for interoperable solutions, reduces dependency on specific suppliers and benefits consumers. The EU's own standardisation system, a core of the Single Market, has to function in an agile and effective way. Developing a strategy for a more ambitious stance on European interests in standardisation (both in the single market and globally) and anticipating future standard needs when it comes to the deployment of green and digital technologies is essential.

### *Accelerating the twin transitions*

The 2020 Industrial Strategy includes a list of actions to support the green and digital transitions of EU industry, but the pandemic has affected the speed and scale of these actions. Despite the slowdown in some areas the case for speeding up the transitions and making European industrial policy more agile has never been bigger.

To reinforce the business case for faster transition processes and predictability, industrial policy needs to focus on the following points: a coherent regulatory framework which gives predictability, solid and adequate infrastructure (including digital ones), improved access to finance for innovation and deployment, secure, fair and satisfactory access to raw materials, an ample supply of decarbonised energy, and the right supply of qualified skills. The latter is relevant for allowing to respond, on the one hand, to the demand for human resources necessary for the implementation of advanced technologies and, on the other, to contribute to a rapid adjustment in the labour market.

The investments from NGEU and its Recovery and Resilience Facility will provide opportunities to advance, for instance, renewable energy technologies and capacities. Multi-country projects, IPCEIs, industrial alliances and European partnerships will play an important role to advance the twin transition.

### **Questions for discussion:**

During the meeting, you will have the opportunity to ask clarifying questions on the Update of the Industrial Strategy to the Commission.

Furthermore, you might want to comment on the following questions:

1. What are your first reactions to the Update of the EU Industrial Strategy – e.g. on the main policy proposals, what's missing, where more was expected? Which of the proposed measures should be further discussed as a priority?
  2. How can EU policies and international cooperation best help to address strategic dependencies in Europe's industrial ecosystems?
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