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EUROPEAN COMMISSION
ENTERPRISE AND INDUSTRY DIRECTORATE-GENERAL

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MINUTES OF THE ENTERPRISE POLICY GROUP DIRECTORS GENERAL MEETING OF 19 MARCH 2014

1. EU INITIATIVES WITH RELEVANCE TO INDUSTRIAL COMPETITIVENESS

M. Calleja Crespo highlighted that among the many priorities for the coming months, the most important was the follow-up of the European Council's conclusions on industrial competitiveness and policy, and the adoption of the propositions on the table by the current Parliament; the second was the implementation of financial programmes and the third was the development and implementation of other initiatives and eventually their review (i.e. for the SBA).

M. DANIEL CALLEJA CRESPO underlined that there was a need to keep the momentum on industrialization, on the back of the Conclusions of the European Council, the mainstreaming of industry and the elections of the European Parliament.

Some EU initiatives with relevance to industrial competitiveness were mentioned as a priority for timely treatment by the current Parliament: car registration, cultural objects, Galileo, Copernicus. Mr Calleja mentioned the public consultation on the 2015 review of the Small Business Act, the implementation of the Entrepreneurship Action plan and KETs and innovation among policy priorities for the coming months. In all these areas, close cooperation between the EU and the MS was necessary.

Mr Calleja also mentioned the Report on Defence and Security to be presented in December 2014.

In the area of growth friendly business environment, the Commission had issued a Recommendation on business failure and insolvency, and would shortly present a new Communication on long-term financing of the economy. In February, it also made proposals on tourism as regards quality principles and coastal and maritime tourism. 2014 would also see continued work to decrease administrative burdens, especially through the promotion of competitiveness proofing and SME test.

The results of the public consultation on a green action plan for SMEs were now available and next steps should be discussed.

Work was also on-going for several important sectors, i.e. shipbuilding (in the context of a new maritime strategy), aeronautics, cars (follow up of CARS21), construction and chemicals.

Last but not least, 2014 was the year of implementation of the new financial programmes.

2. COMMERCIALISING INNOVATION

There was a wide ranging discussion on the importance of the commercialisation of innovation. Speakers, the Commission and Member States all agreed that the commercial and industrial exploitation of new technologies and research results was essential for long-term productivity and growth.

The presentations and discussion highlighted the need for an innovation-friendly regulatory framework, for closer cooperation between the industrial base and the academic base, for easier access to finance for innovation (including EU funds and state aids). There was also interest for demand-side innovation policies.

It was agreed that innovation should be discussed again at a next EPG meeting.

M. DANIEL CALLEJA CRESPO underlined that Europe had to understand why third countries such as the US, South Korea, and Japan managed to be more innovative, not only in terms of patents. Obstacles to innovation in Europe should be identified, looking at all framework conditions (e.g. regulation, incentives and access to finance, market fragmentation, and skills). He also underlined the benefits of close location of innovation and manufacturing activities.

M. CARLO PETTINELLI, Director in DG ENTR in charge of Sustainable Growth and EU 2020 underlined that innovation policy should not only focus on support to R&D and patenting, although these were important. What was missing in Europe was a policy that supports the commercial and industrial exploitation of new technologies and research results...

DR MANFRED WITTENSTEIN, former President of the German VDMA association and President of Wittenstein Group, underlined the importance of the mechanical engineering sector for growth and jobs, and in particular for exports and innovation, as the sector was spending much on R&D. The sector was also triggering investment along the value chain (suppliers and related services).

Among the lessons concerning innovation policy, Dr Wittenstein first stressed the need for **stability and predictability** of the regulatory framework, all the more in the mechanical engineering sector where investment was done with a 10-year time horizon. Secondly, he underlined the importance of **technological neutrality** of both regulation and public support to R&D, as no public authority can foresee which technologies will be successful in the future. He also underlined the role of strong R&D networks. Energy efficiency still had a huge potential for innovation. Entrepreneurial and innovation culture and education were important too. He gave an example of a good practice: companies were sending graduates in third countries without specific guidance from the headquarter, in order to get a fresh look on foreign customers' expectations. He added that innovation policy should focus on enterprises of a significant size (Mittelstand) and should take into account the increased integration between manufacturing and services..

M. LUIS MORA CAPITAN presented his company, Pharmamar, based in Spain, which operates in the biopharmaceutical sector and which specialises on using maritime substances to produce innovative medicines against cancer.

He mentioned several obstacles to commercialising innovation in Europe: a major obstacle was too lengthy **time to market**. In the US, the Food and Drugs Administration approved products more easily and more quickly (e.g. 1 month) compared to the EU (up to 3 years, with costs of € 2-3 Mio). He mentioned Japan as an example where innovative products benefited from incentives ("premium price"). He said that **development costs** and time to market had increased in the EU, and that administrative requirements had multiplied. Clinical trials accounted for 60% of development costs of a new medicine and reimbursement in the EU was lengthy. Besides, the **EU market fragmentation** was making it hard for companies to achieve economies of scale. In addition, **patent protection** was scarce and expensive in the EU. There should be a single EU patent, in 1 or 2 languages. He also said that his company had found **cash** much more easily in the US (through the stock market) than in the EU (where the EIB had provided with long-term loans for a range of projects by the company, but interest rates has increased as soon as projects started to make profits). He recommended that the EU would invest more in R&D on rare diseases. He said that innovative public procurement was a good idea.

CARLO PETTINELLI summarised that regulation should be smart, stable and balanced between the need to protect consumers' health and safety and the need to foster investment and innovation. Barriers which prevented innovative products to be commercialised by SMEs in the internal market should be lifted, and sufficient access to finance for innovation should be ensured.

Discussion

4 MS thanked the speakers and the Commission for the good presentations.

2 MS suggested organising a joint meeting of the EPG Working Groups on industrial policy and innovation, and to follow up the discussion on innovation at another EPG meeting at DG level. The Chair agreed with this suggestion.

9 MS underlined the importance of **an innovation-friendly regulatory framework**. In particular, 3 MS underlined the importance of a greater "mainstreaming" of competitiveness and innovation into all EU policies and financial programmes. 2 MS pointed out to the lack of a harmonised regulatory environment for innovation in the EU market and 2 other MS said that the regulatory framework should be more stable. 2 MS highlighted the role of cultural acceptance of innovation and new technologies and 1 MS suggested that the innovation-friendliness of EU regulation should be assessed.

5 MS highlighted the importance of a **closer cooperation between the academic base and the industrial base**, including through networks and clusters.

3 MS insisted that **access to finance for innovation** was essential, in particular risk capital. The role of the EIB was mentioned three times. 1 MS suggested that there was a lack of incentives to riskier investment in SMEs in Europe. 3 MS asked that state aid rules support innovation more widely.

3 MS underlined the need for **stronger coordination**, from an industrial perspective, **between the EU, Member States and Regions**, in particular in the context of smart specialisation and Horizon 2020.

2 MS said that there should be a greater focus on **demand-side innovation policies** (e.g. public procurement).

Other comments related to the importance of entrepreneurship education, digitalisation of the economy; to the need to focus support on innovative enterprises of medium or intermediary size and on commercial and industrial exploitation of research results; to the need to implement the 6 priority lines of the Industrial Renaissance Communication.

M. DANIEL CALLEJA CRESPO said the discussion between the Commission and the MS on innovation should be pursued in a next EPG meeting, focusing on access to finance and venture capital, stable and smart regulation, patents and global standards, less fragmentation of the internal market, SME policy (including the SME definition), and a strengthened role of public procurement.

3. REGIONAL DIMENSION OF INDUSTRIAL POLICY

Speakers set out the importance of the regional dimension of industrial policy. The need for adequate governance was highlighted, in particular regarding trans-regional and trans-national cooperation. Ministries were encouraged to closely cooperate with regions for the preparation of operational programmes. Synergies between EU programmes were also discussed.

More specifically, the importance of skills was underlined, as well as the need to focus on industrial change, with a forward-looking and long term perspective.

M. LUC VAN DEN BRANDE, Vice-president of the CoR, highlighted the importance of good **governance** by regions (similar projects failed or were successful depending on the region where they were taking place). To ensure success, every actor of the society should be taken on board, ensuring that the right **skills** are taught, and there is an entrepreneurial mind-set. Some activities may disappear (e.g. shoe industry) but related skills could be re-used for another sector and/or in another region. The **regional inter-connections** were important, all the more as "administrative" regions were not necessarily matching "functional" regions. Regions had to cooperate with each other. In the field of industry, M. Van den Brande mentioned the creation of the Vanguard initiative, gathering 7 industrial regions in Europe.

More coordination between Commission services was also necessary, and **synergies between EU programmes** (e.g. COSME and Horizon 2020) should be exploited.

Referring to the recent communication about the review of the Europe 2020 strategy[1], M. Van den Brande underlined that there should be more partnerships and a multi-level governance approach, and that the focus should be on **industrial change**.

Mentioning the 8th Eighth progress report on economic, social and territorial cohesion (June 2013), **Mr POPENS** pointed out that experience is very mixed between regions, and that the discrepancies between advanced regions and convergence regions would need to be reduced. He proposed to change the smart specialisation logic, by starting from the needs and results of the regions. Ministries and regions should cooperate in Member States to ensure strategic support for smart specialisation, which should not only be perceived as ex-ante conditionality for funds. Partnership agreements were being finalised and **operational programmes** drafted; it was the right time to take action. **Trans-regional and trans-national cooperation** was helpful to elaborate smart

[1] *COM(2014) 130 "Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth"*

specialisation strategies. This should start with benchmarking (e.g. neighbour regions, macro-regional strategies, peer reviews). The JRC in Sevilla could support this process with the Smart Specialisation Platform. Last, Mr Popens reminded that European Structural and Investment Funds and Horizon 2020 could now be combined, and the Commission would shortly issue a guide.

MR MARIO FLEURINCK presented its company, Melotte, which specialised in digital manufacturing (e.g. producing dental devices 100% in Belgium in less than 2 days rather than importing them from China). He said that digital manufacturing allowed reducing energy use by a factor 7 (to make the same product). As a result, a whole plant could be run with solar panels. Digital manufacturing also enabled better process control. To develop in Europe, digital manufacturing would need that the right **skills** are taught, that access to **raw materials** is ensured (e.g. cobalt chrome for the dental industry which is only available for China), and that the right **regulatory framework** and eco-system (the supply) are in place. Investment in emerging technologies would deeply change the local economic eco-system over the long run (10-15 years). Developing digital manufacturing would require a **paradigm shift** and a deep regulatory adaptation. Otherwise, entrepreneurs would focus on developing partnerships and networks with third countries. Public authorities should support clusters, but should not pick winners, and private initiative should remain the starting point.

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4. COMPETITIVENESS AT THE CORE OF EU POLICIES (INDUSTRIAL POLICY, ENERGY AND STATE AIDS)

A broad discussion on a range of issues associated with industrial policy. The Commission highlighted the importance of energy policy and how it saw this and industrial policy needing to work hand in hand.

Similarly in the discussion on State Aid the Commission highlighted the reform programme was giving Member States more control. Focusing on good aids and clamping down on bad aid. Member States raised a range of questions around energy and the need to ensure support for Energy Intensive Industries as well as more broad support for KETs. Speakers also highlighted that the process of reindustrialisation and decarbonisation were linked and should not be seen as mutually exclusive

In discussing the business perspective, Business Europe highlighted a range of key issues but chief among these ensuring the Commission prioritises industrial competitiveness across Commission policy – and puts in place mechanisms to do this.

M. DANIEL CALLEJA CRESPO set out that the Communication by the Commission on an Industrial Renaissance and the launching of the 2030 framework for EU climate change and energy policies, on the same day, was not by chance. The Commission sees these two areas of policy needing to work hand in hand.

M. Daniel Calleja Crespo set out that business as usual in this area would not work. Action was needed to make competitiveness a key issue to run alongside all Commission policy but especially energy. Falling gas prices in the US and other countries meant it was essential action to ensure competitive energy prices in the EU.

Energy a major component of the EU industrial policy

M. DOMINIQUE RISTORI, Director General of DG Energy, set out the Commission's position on energy policy.

The Commission understood the need to bring together a range of policies on environment, climate, energy prices, security, internal market, state aid and competitiveness when looking at these issues.

He highlighted that energy prices were key for all businesses and citizens of the EU. The Commission was moving from discussion on a 'low carbon economy', to a 'competitive low carbon economy'. This was a significant step change.

Global challenges also needed to be taken into account including, changes in supply with non-conventional oil and gas, globalisation (in particular on gas markets), demography, urbanisation and rising living standards in the developing world – all were impacting supply, demand and therefore wider price and competitiveness.

In discussing a 40% CO_2 reduction target he suggested contrary to critics views this was both attainable and ambitious. The EU needed to remain at the front of the pack when it came to carbon reduction. He also highlighted that proposals for reform of the Emissions Trading Scheme in a market based manner would be developed to reinforce its role towards decarbonisation. This work needed to focus on taking the positives from the current system, whilst changing the negatives such as spiralling support costs for certain renewables and the elimination of unjustified subsidies (for technologies which are economically viable). Proposals on energy efficiency would also be presented after the summer, with an emphasis on energy efficient buildings, efficient and new car motors, and eco-design and labelling of energy-related equipment.

Mr Ristori highlighted a few other priorities, such as the deeper integration of the EU market for energy, energy infrastructures (in particular inter-connections and regional coupling), and technological innovation (e.g. power plants, decentralised energy system, smart grids and smart meters) with the objective that the EU is a leader on both patenting and manufacturing of new energy technologies.

In delivering the major challenges in energy policy major co-ordination was needed both between DGs but also at a Member State level.

M. GERT-JAN KOOPMAN, Deputy Director General, DG Competition set out the process the Commission was taking on State Aid Modernisation.

He highlighted that overall competition is the driver of competitiveness, driving productivity and supporting long-term growth. In this respect the EU was not doing that well on competition with markets not as dynamic as they should be. Few big companies were emerging with a global presence and not enough low productive companies were exiting the market.

Overall the modernisation process was about moving the Commission to a position of supporting good policy objectives through 'good aid' but clamping down hard on 'bad aid'.

The new state aid modernisation process had been a major initiative and would come into force on 1st July 2014. The aim was to get 90% of proposal under the general block exemption. This placed considerable responsibility with Member States. Member States would be visited in the coming weeks to talk about the new guidelines and the Commission was keen to have an open dialogue.

Overall, he stressed that whilst giving more flexibility to Member States, the Commission would be more focused on stopping bad aids.

In relation to energy he highlighted this was explicitly in scope of the new state aid rules and there were challenges. Some technologies would still need aid, however, where the market had been well developed this would not be justified.

On Energy Intensive Industries he set out some of the threshold criteria in this area and explained that the state aid rules would be more generous than the ETS. He reminded Member States to notify their energy support systems to the Commission.

Countries representatives

In response to a question around if the Commission saw the new framework being flexible and likely to be reviewed in future, M. Gert-Jan Koopman set out most of the rules have intermediate review periods in two/three year time.

In response to a question on the need to ensure subsidiarity and proportionality and a wider point that rule changes could impact Member States ability to control their energy mix, M. Gert-Jan Koopman set out that he needed to be clear that whilst Member States do have the right to set energy policy, this needed to fit with the internal market. Member States needed to understand whilst it would give more flexibility the new approach would be tougher on 'bad aid.'

In response to the question that the block exemption could create legal uncertainty because Member States will be deciding on compliance, M. Gert-Jan Koopman set out that they will be working to foster an open dialogue with MS and comfort letter could be issued. But, in a context of limited resources these new reforms were needed.

In response to a specific question on ship building and levels of state aid, M. Gert-Jan Koopman set out that he did not expect changes under the new scheme to be significantly different from what is already possible, but was happy to discuss this further with the Member State concerned.

In response to a question on increasing levels of state aid support for KETs, M. Gert-Jan Koopman set out they were looking into this.

Industrial policy, energy and state aids: the business perspective

M. MARKUS BEYER, Director General of Business Europe set out business views on these issues. He highlighted that now was a crucial moment the EU was starting to recover but we were far from pre-crisis levels. Steps were being taken in the right direction with a push to put competitiveness at the centre of Commission action, but more needed to be done on delivery on tax, access to finance, energy policy, innovation, regulation, education.

One issue of particular importance was access to finance where a solution to the European Parliament impass was needed and some quick decisions required to avoid not making progress for over a year.

On energy policy he set out it was important, issues of sustainability, competition and security of supply had equal weight, and we should not just be talking about carbon leakage but investment leakage, because of energy prices. He welcomed the proposal of the Commission of one single target on GHG as the three 2020 targets had proven mutually distorting. He also welcomed the non-prohibitive approach to shale gas. He raised the issue of the use of ETS revenues by Member States: the ETS should not be a fiscal instrument but rather used to invest in research on clean technologies.

Finally Industrial Governance was key, he highlighted that industrial competitiveness should be looked at on a yearly basis at spring Council. Internally the Commission needed to break down silos and look at competitiveness across policy areas. Moreover, the Competitiveness Council should view industrial competitiveness across the EU policies as it did on energy policy.

The energy transition: implications from the economic and industrial perspective

DR ANDREW LÖSCHEL from the Centre for European Economic Research presented about the decarbonisation process in the EU and about the potential sources of comparative advantages in this context. Decarbonisation may come from a structural change in the economy from manufacturing towards services, from lower growth, or from a change in the energy mix and lower energy intensity. In the EU on average between 1995 and 2009, improvements in energy intensity (technological improvements in industry) and changes in the fuel mix had been the most effective solutions to decouple growth and GHG emissions. There were important differences among Member States and economic sectors, but overall these measures had allowed the EU to maintain (or slightly improve) its competitiveness towards the US in terms of energy costs. The question was whether such measures would suffice to compensate for steadily increasing energy prices. The database would need to be updated to cover the period after 2009.

Before 2009, the US was remaining in a leading position in terms of specialisation overall, but the EU was in a leading position in terms of technological knowledge in the fields of energy efficiency and renewable energy (patents). The database would need to be improved to include an indicator on climate and energy technologies beyond patenting.

Dr Löschel concluded with a few lessons learnt from this research work. First, the stability of the regulatory framework over the long run was essential and the 2030 targets at EU level were useful in that regard. The database was suggesting increased relocation of industrial activities outside the EU and this trend was expected to increase in the future due to high energy costs. The climate and energy policy should be decentralised. From a global perspective, the green technologies race would produce more positive externalities than a protectionist race. He eventually suggested that subsidies should be phased out by default in order to avoid that policy makers get tied up for a long time.

Member States asked that the slides of the presentation be circulated to the group.