



# A contribution to EU Industrial Policy

## Input of a major industrial region on a European industrial strategy

The Ministry of Economic Affairs, Labour and Housing Baden-Württemberg welcomes the European Union's plans to place greater emphasis on the role of industry in Europe's future. Today we can see how important highly innovative industrial companies are for exploiting the potentials of new technologies, such as artificial intelligence, and successfully shaping the process of transformation. We are committed to an ambitious vision of an industrial sector that should create added value not only in an economical but also social and environmental sense. Economic momentum thereby forms the foundation on which social and ecological goals can be achieved.

The idea of subsidiarity must form the fundament of such efforts: detailed regulations at EU level cannot do justice to the diversity of European regions. Instead, a pan-European strategy should provide a framework that enables industry to pursue its industrial policy objectives in a technologically open manner.

This contribution comprises five guiding principles to set a European industrial strategy on a solid foundation and lay the ground for its long-term success.

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#### FOR A SOLID FOUNDATION OF EUROPEAN INDUSTRIAL POLICY:

1. Recognising SMEs as a key pillar
  2. Building on fair competition
  3. Creating growth through innovative strength
  4. Establishing industrial policy in the regions
  5. Supporting transformation processes
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**Baden-Württemberg**

MINISTRY OF ECONOMIC AFFAIRS, LABOUR AND HOUSING



„SMEs are the backbone of the economy throughout Europe, and especially so in Baden-Württemberg. In order to shape a successful industrial policy, we must consider the needs of the “Mittelstand” from the very beginning und support its innovativeness. Only in cooperation with our enterprises, we can find the way to the industrial future.“

*Dr. Nicole Hoffmeister-Kraut MdL*

*Minister of Economic Affairs, Labour and Housing Baden-Württemberg*

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## 1. Recognising SMEs as a key pillar

A healthy economic structure will continue to consist of small, medium-sized and large enterprises. Especially small and medium-sized companies are particularly agile and can provide dynamism with new ideas in their markets. This applies both to start-ups and to businesses that have been family-owned for generations. Furthermore, notably family-run companies often stand for value-based and sustainable management. But the middle class needs freedom to develop: Young companies must be able to grow. Established SMEs are also disproportionately burdened by complicated regulations. Effective industrial policy must respond to the needs of SMEs. In view of intensifying international competition, SMEs in particular must become even more innovative. This will enable SMEs to act as regionally rooted drivers of innovation and growth and as such create new strategic value chains within the EU.

### **SME-FRIENDLY LEGISLATION:**

Complicated regulation burdens SMEs disproportionately and hampers innovation. We appreciate the EU’s „Better Regulation Initiative“; an SME and innovation check for all EU regulatory measures or a relaunch of the „Small Business Act“ would be appropriate. Moreover, policymakers must seek a constructive dialogue with the SME stakeholders of relevant legislative procedures to counter any foreseeable obstacles to the practical implementation of the new regulations in advance.

### **LABOUR AND SOCIAL LAW, POSTING OF WORKERS:**

Notwithstanding its paramount protective function, labour and social legislation must also meet requirements for operational flexibility, particularly of SMEs. The administrative burden of posting employees to other EU countries must be reduced, e.g. by means of an A1 certificate with a simple annual employee report.

### **EQUAL OPPORTUNITIES FOR SMES:**

SMEs must be given equal consideration to large companies in all investment programmes and the strategic value chains initiative.

#### **SME-FRIENDLY FUNDING PROGRAMMES:**

EU programmes (e.g. innovation funding under the Horizon Europe programme or within COSME) must be designed in a SME-friendly way. Funding programmes have to be still more SME-oriented and take into account the surrounding conditions of SMEs. This includes, in particular, open funding opportunities, unbureaucratic applications and fast selection processes.

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Baden-Württemberg is one of the most innovative industrial locations in Europe – with strong SMEs, a number of international market leaders and „Hidden Champions“ as well as a close network of business, science and applied research.

- Over 30 percent of gross domestic product and one quarter of jobs accounted for by the industry – with high level of employment (only 3% unemployment)
  - 500,000 Small and medium-sized enterprises (SMEs)
  - High R&D intensity of the economy: 5.6% of GDP towards research
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## 2. Building on fair competition

Economic momentum is the result of the innovation capacity of companies; it is the task of policy makers to create incentives for their development and to remove obstacles. A future-oriented industrial and economic policy in Europe must provide ample room for market forces. Only in the areas where market forces lead to sub-optimal social results should the most efficient instruments of socio-economic policy be employed. Government policy must remain predictable: In order to promote research and development and investment, industry needs to be able to plan in the long term.

#### **PROTECTING COMPETITION IN THE EU:**

We support the consistent action of the EU Commission against unfair competition, monopolisation tendencies and the abuse of market power. The growing importance of the digital economy, platform markets and data economy poses new opportunities, but also challenges for free and fair competition. Challenges include in particular monopolistic structures such as large e-commerce conglomerates.

#### **A STRONG SINGLE MARKET:**

Effective and fair competition between enterprises within the Single Market strengthens the competitiveness of the EU as a whole. The EU must take a firm stand against protectionism in its member states.

**COMPETITIVE ENERGY PRICES:**

Europe is leading the way in climate protection and renewable energies. A single European industrial policy should mitigate possible competitive disadvantages that European companies may face compared to third countries.

**OPEN MARKETS AND A „LEVEL PLAYING FIELD“:**

Open markets are the foundation of our prosperity. Protectionism and persistent uncertainty in trade relations cause economic damage. The EU must continue to promote free trade, fair competition and reciprocal market access. We support both the bilateral approaches of ambitious free trade agreements as well as the multilateral efforts to empower the World Trade Organization again.

### 3. Creating growth through innovative strength

Innovation is about new technologies, products, processes and business models. Next-generation technologies such as artificial intelligence must be put at the centre of innovation promotion. An innovation-friendly ecosystem consisting of education, research and an open exchange of ideas plays an equally important role. Of particular importance are also the links between industry and the services sector, which are a major driver of innovation processes.

**PROMOTING THE KNOWLEDGE TRANSFER TO ENTERPRISES:**

In addition to cutting-edge basic research, Europe must promote the establishment and expansion of business-oriented, applied research and knowledge transfer institutions in order to facilitate SMEs' access to scientific institutions and create incentives for closer cooperation to the benefit of the industry.

**COMMERCIALISATION OF INNOVATIONS IN EUROPE:**

The start-up culture in industry and science must be promoted. Promotion of start-ups supports the rapid commercialisation of innovations. Innovative procurement is an appropriate way of introducing innovations to the market via start-ups, e.g. in the public sector. Corresponding EU incentives are required to facilitate this approach and bring more innovation to the EU market. Pan-European patent protection should be simplified as well.

SMEs are particularly dependent on an environment that is supportive of innovation to develop their potential and leverage the single market towards growth, notably in the scaling-up process.

**VENTURE CAPITAL:**

We welcome the establishment of the European Innovation Council and recommend a further increase of European venture capital, which needs to be available for the whole life cycle of a start-up. There is a great demand particularly in the B2B sector.

**INNOVATION-FRIENDLY STATE AID:**

Funding for “Cutting-edge technologies“, such as AI, quantum computing or biointelligent systems, should generally not be considered state aid; a competition council could decide about the eligibility. Fundamental next-generation technologies should also be taken into account by the Block Exemption Regulation (BER). Since the pace of global momentum requires rapid action on the part of the public sector in order to push forward central innovation projects of national or European importance, funding of more than 50 percent should be possible, especially during the start-up phase. A de-minimis limit should be introduced especially for the support of individual enterprises of up to 5,000 euros.

**PROMOTING NEW BUSINESS MODELS:**

Innovative products and new business models are increasingly based on the interaction of hardware and software and the intelligent, data-based integration of technology and service. Data-driven business models and platform economics will gain in importance and must be made available to small and large companies alike. The availability of data (from industrial applications, the service sector or even new mobility solutions) should be promoted, e.g. through greater exchange and cooperation. European data protection policy should consider how data can be made commercially utilisable while maintaining a high degree of privacy protection.



**APPLIED RESEARCH**

There is a dense network of more than 30 high-performing applied research institutes in Baden-Württemberg. Bridging the gap between science and business, they focus on the needs of small and medium enterprises.

## 4. Establishing industrial policy in the regions

Europe's strength lies in its regional diversity and the decentralised structure of its economy. This decentralization and diversity provide an ideal environment for innovations that address local needs. The regions, with their specific strengths and proximity to businesses, are important players in the innovation system and are ideal partners to support SMEs in the innovation process.

### **INNOVATIONS THROUGH REGIONAL COOPERATION:**

Structural and regional policy should be strongly geared to innovation, both regional and inter-regional. A possible approach is the introduction of innovation investments (as planned by the Directorate-General for Regional and Urban Policy; known as Component 5), to support new technological developments through transregional pilot projects under the S3 strategy of the EU regions. Innovation cooperation between European regions, in particular regional innovation networks such as the Vanguard Initiative, can provide decisive momentum towards new, strategically important value chains and should therefore be given special attention.

### **MAKING IMPORTANT PROJECTS OF COMMON EUROPEAN INTEREST IPCEI AVAILABLE TO THE REGIONS:**

This way, regions can specifically support companies in their strategic focus areas, allowing them to reach market viability quickly. For instance, the EU could facilitate this on the condition that at least 3 regions (e.g. at NUTS2 level) have to join efforts for a co-investment.

### **SUPPORTING REGIONS IN PROMOTING INNOVATION:**

On the basis of existing experience, the EU could define a specific area of regional economic development that is eligible for state aid. To further increase the effectiveness of innovation policy in Europe, the formation of public-private partnerships to promote innovation should also be facilitated under the state aid law. This applies in particular to public-private-financed innovation infrastructures, such as innovation parks.

## 5. Supporting transformation processes

The economy is undergoing a fundamental transformation process. Driven in particular by the digital transformation, the trend towards greater sustainability and a change in mobility behaviour. This transformation process poses an enormous challenge to industrial enterprises and their employees. Traditional business models, employment structures and qualification requirements are changing; the line between industry and services is blurring. Industry-related services already account for around 10 percent of Baden-Württemberg's GDP (industry and industry-related services together account for 43 percent of GDP). Environmental policy issues, in particular energy, resources and biodiversity, form an integral part of modern industrial policy. A single EU industrial strategy would help companies and employees to successfully manage transformation processes.

**ENABLING ADJUSTMENTS:**

The transformation of the automotive industry in particular places great challenges on many regions in Europe. Sudden regulatory changes towards a CO<sub>2</sub>-neutral economy can overwhelm certain economic sectors. This would be counterproductive: The prevailing competitiveness of European industries is a necessary condition for achieving the established objectives.

**AVOIDING TECHNOLOGICAL BIAS:**

It remains to be seen which technologies are best suited to achieving industrial policy goals in the long term. Instead of promoting only certain technologies, state support should be focused on achieving the wider objectives, defining and establishing them within a legal framework that offers long-term predictability.

**EFFICIENT AND PREDICTABLE MEASURES:**

Effective economic policy instruments based on voluntary action, economic incentives and support from functioning market mechanisms should be used to efficiently achieve the transition to a sustainable economy. The further development of Emissions Trading is a good example.

**PROMOTING CIRCULAR ECONOMY:**

The transition to a circular economy plays a decisive role in protecting the environment, as well as creating added value and jobs and reducing import dependencies. The expansion of circular economic systems must address the entire value chain - recycling at the end of the service life phase should be considered as early as the product development stage.

**CONSTRUCTIVE STRATEGIC DIALOGUE WITH THE INDUSTRIES:**

Baden-Württemberg relies on cooperative, institutionalized interaction of all stakeholders - the Strategic Dialogue for the Automotive Sector in Baden-Württemberg - to successfully manage the transformation process in the automotive sector. Comparable approaches would be possible at European level and could also be applied to other sectors affected by the transformation processes. This will enable a better balancing of the social, economic and environmental objectives, with greater involvement of the people.

**DIGITISATION AND DIGITAL INFRASTRUCTURE:**

Europe-wide initiatives such as „Digital Europe“ can provide meaningful support to national efforts. In particular, the focus should be set on promoting digitisation beyond the metropolitan areas. This may include, for example, greater support for existing as well as new regional digitisation networks and initiatives and for the national and the European Digital Innovation Hubs. It should be avoided to create uncoordinated parallel structures to existing national or regional structures.

**SECURING SKILLED WORKFORCE:**

The ERASMUS policies to increase the mobility of professionals should be strengthened. The EU should work towards ensuring the mobility of skilled professionals from the UK after Brexit.



## **STRATEGIC DIALOGUE FOR THE AUTOMOTIVE SECTOR IN BADEN-WÜRTTEMBERG**

Since 2017, the State Government of Baden-Württemberg has been working intensively with experts from politics, industry, academy, employer associations, consumer organisations, environmental organisations and the civil society in the Strategic Dialogue for the Automotive Sector in Baden-Württemberg. The initiative aims to successfully support and shape the transformation process in the automotive industry of Baden-Württemberg. The objective is a visible start into a climate-friendly new age of mobility.

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