



Position paper

Strengthening European competitiveness

The Netherlands | May 2019

A policy of open markets and strong cooperation has made the EU one of the most prosperous and competitive regions in the world. At the same time, the EU's role in this fast-changing world cannot be taken for granted. Rapid digitalisation, the transition to a sustainable economy and a changing global playing field raise questions about the EU's competitiveness. In light of current developments, it is important to think through how the EU, underpinned by strong member states and national reform agendas, can continue to improve its economic competitiveness and security, to secure future jobs and welfare.

The EU's future position will be determined by its ability to stay competitive. To remain a political and economic leader, the EU and its member states, under the guidance of the new European Commission, will have to:

- 1) take an ambitious approach to improving the EU's competitiveness;
- 2) safeguard a level playing field with the rest of the world;
- 3) protect the EU's economic security.

1. A competitive EU starts with a strengthened Single Market ...

The Single Market is one of the EU's most important accomplishments and crucial to member states' competitiveness. It provides the basis for greater wellbeing, more jobs and more economic resilience. However, entrepreneurs still face a wide range of barriers to cross-border trade. The transition to a digital and sustainable economy shows that the Single Market needs continuous maintenance to deliver on its potential. Increasing regulatory complexity in the digital economy, for example, requires an European approach to avoid fragmentation.

The new Commission should:

- address the challenges and opportunities of digitalisation through an integrated and cross-sectoral digital agenda. This agenda should aim to strengthen innovation clusters, improve data-sharing opportunities, enhance digital security and trust, and prevent market fragmentation;

- strengthen the Capital Markets Union to increase access to finance for EU companies, in particular scale-ups;
- set a renewed agenda for the Single Market, especially for services, which is more tailor-made, based on an analysis of actual needs, and prioritises implementation, application and transparent enforcement of existing legislation;
- ensure that everyone can reap the benefits of the Single Market by taking the social dimension into account and supporting the transition to a more sustainable economy through high environmental and product standards.

... while modernising but not weakening competition policy ...

Strong and politically independent enforcement of competition rules is vital to creating competitive firms and low prices for consumers. A strong competition policy prevents excessive market power, which can weaken investment and productivity growth and increase inequality. European champions should build on healthy competition, an improved Single Market and strong innovation policy. Bigger is not always better. European SMEs, especially startups and scale-ups, are also important for European competitiveness. The key issue is the competitiveness of our economies as a whole.

There are three areas in which competition policy can be improved:

- Competition policy has to be fit for the digital economy. It, for example, has to take into account the growing importance of data. In addition, adaptation of merger thresholds could be explored so that all relevant transactions continue to fall under the scope of supervision. We ask the Commission to continue its evaluation of the competition rules and adapt where necessary;
- Clear guidance is needed with respect to horizontal or vertical cooperation between private parties to support sustainability initiatives;
- The EU should investigate whether adaptations to the state aid and competition framework could help to create a level playing field within, as well as outside of the Single Market.

... supported by a modern EU industrial policy focusing on research and innovation.

The European Union needs a modern industrial policy that empowers it to be a leader in key enabling technologies and finding solutions to social challenges.

This means that:

- the EU, its member states and businesses should focus more on research, development and innovation. Prioritising this in the next MFF and all its programmes is a good starting point. Through closer cooperation, and by pooling European funds and expertise, EU member states can foster innovation more effectively and efficiently;
- EU funds, like Horizon Europe, European Structural and Investment Funds and Digital Europe, should focus on key R&D and innovation that contribute to solving societal challenges. A mission-oriented approach to innovation policy will help the EU to play a leading role in these transitions. As solutions to societal challenges often have a global market, responding promptly to major transitions also offers global business opportunities for EU companies and entrepreneurs;
- the Strategic Forum for Important Projects of Common European Interest (SF IPCEI) can promote smoothly running and innovative value chains by integrating Single Market improvements and industrial policy in its analysis of important EU value chains.

2. Safeguard a level playing field with the rest of the world

EU member states, businesses and consumers benefit from an open and rules-based global trade and investment system. This means a system with clear rules and effective dispute settlement procedures. Faced with strong state-led economies, current multilateral rules are no longer sufficient. In addition, agreed rules, such as the protection of international property rights, are not always respected. The EU needs to create a level playing field, and challenge protectionism and unfair competition from third countries.

This requires the EU to:

- use its economic power to keep advancing WTO reform and to strengthen rules where they fall short;
- stress, in WTO rule-making, that the flexibilities for developing countries should reflect their different levels of development. Special and differential treatment should be assessed on a case-by-case basis and should be needs-driven and evidence-based;
- pursue bilateral trade and investment agreements that contribute to a level playing field, for instance by including rules on competition, industrial subsidies, state-owned enterprises, intellectual property rights, technology transfers and/or legal conditions for foreign direct investment;

- apply the reformed trade defence instruments when necessary to counter dumping or trade-distorting subsidies, taking into account the interests of European producers and users;
- adapt and substantiate the current International Procurement Instrument proposal. The instrument should allow Member States the same flexibility towards parties from third countries not included in the General Procurement Agreement as they have today;
- implement the new unitary patent system, while taking action at the EU level when international agreements on international property rights are breached;
- take the lead in promoting responsible business conduct by companies around the world.

3. Protect the EU's economic security

Economically connected countries should foster peaceful cooperation. However, economic interconnectedness may also carry risks for states' national security. The best economic protection is a vigilant and innovative economy. At the same time, EU countries need to take certain precautions, for example against certain unwanted investments from third countries. This requires an integrated approach in which both economic and security interests are considered.

Since national security is a national competence, many issues are addressed at the national level. Nonetheless, stronger European cooperation is needed with respect to 5G, cybersecurity and other areas where there could be a high level of risk and surveillance.

The EU therefore needs to:

- coordinate policies on 5G;
- enhance awareness regarding third-country investments that may affect national security;
- use the recently adopted EU directive where helpful next to national measures on screening third-country investments that may affect national security and public order;
- further improve European cooperation on cybersecurity.

Open, strong and prepared

To continue to shape our own future, the EU needs to stay open, stand firm and prepare itself for global challenges. Against this background, it is important to uphold our economic values. International trade, access to global value chains and global competition have a positive impact on the EU's innovative capabilities. At the same time, we need to strengthen our macroeconomic foundations and promote the transition to a sustainable and digital economy with a forward-looking agenda that includes clear goals and a solid investment strategy. The EU and its member states need to unite and work together to achieve a level playing field and safeguard their economic security.