

Franco-German Paper - Economy
Enhancing the competitiveness of the EU
by way of structural reforms and investments

The EU faces huge challenges. Technological and demographic change as well as globalisation and digitisation are transforming our economy and society.

Medium and long-term structural reforms continue to play a vital role in maintaining Europe's position and competitiveness on the international stage, as well as ensuring economic and social cohesion. **We must promote innovation in all industry sectors and improve the framework conditions for companies and investment.** It is the responsibility of each Member State to undertake necessary reforms at national level to increase competitiveness and set the right conditions for investment and growth of their economies. The EU budget funds "common goods" that help – among others – fostering innovation, research and mobility for young people that benefit all its Member States. The EU can also support policies to increase competitiveness by strengthening the common market and providing for a sound, innovation friendly regulatory framework without unnecessary burdens, as well as providing support and contribute by improving incentives for structural reforms.

On the European level we need to develop a new medium to long-term strategic perspective for sustainable growth and employment which remains vital for the EU.

Future economic success of the EU requires these kinds of actions above all others: (1) **more structural reforms** within the Member States, and (2) **greater investment** for more growth and jobs, in innovation and research including in key enabling technologies, cooperation in the space sector is a further element. (3) With regard to our relations with other countries outside the EU, defending multilateralism, open markets and promoting an ambitious EU trade policy remain key.

(1) More incentives for structural reforms

We ought to take into account that the closely intertwined EU economies depend on economic resilience as well as economic and social convergence to enhance competitiveness and productivity across all Member States and therefore the EU should create greater incentives for Member States to conduct much needed structural reforms.

The EU can support this by lending greater technical support for the implementation of reforms whilst also providing financial incentives within the EU budget for necessary structural reforms at national level, including on education and vocational training:

First, the **existing link between the Structural Funds, economic policy coordination and the country-specific recommendations ought to be further developed.** The country-specific recommendations relevant to EU structural funding, should be taken into account while

programming and administrating the structural programmes. Ex-ante conditionalities apply so that EU structural funding can only be accessed when certain conditions regarding institutional environment and administrative capacity are met. A mid-term review of programmes should ensure that new challenges will be addressed by EU structural funds. Thereby, the EU and the Member States could use structural funds more flexibly and could respond quicker to future challenges.

Second, it should be assessed whether the set-up of **a dedicated fund to create financial incentives** for the implementation of those reforms consistent with the European Semester, but which do not lend themselves to being addressed by means of structural funding (e.g. regulatory country-specific recommendations such as an overhaul of insolvency law) should be considered.

(2) Boosting investment

A key objective of the Union must be to foster competitiveness and sustainable growth within the European economies, improve social conditions, and hence to strengthen resilience in the event of a crisis – in the context of constrained budgetary resources. To this end, structural reforms and investments focused on projects that generate significant European added value should be further developed. We ought to channel **investments** and **spending** towards projects that generate **European added value**. This includes financial support for **EU public goods** and **investments in skills, in innovation and research including key-enabling and green technologies**, and action to enhance the EU's competitiveness at a global level. Parallel to this, it is important to persistently pursue further the **creation of a pro-investment and pro-innovation environment** at EU and at national level.

As a matter of principle, funding needs to be reserved for investments not deliverable by the private sector. The lessons learnt in the context of EFSI are to be taken into consideration, in particular better addressing market failures by a stronger focus on additionality and by targeting smaller, more innovative and more risky projects and new counterparts.

Key elements:

- Consistently targeting EU Structural Funding to clear policy objectives which are important to Europe's future and where the EU is best placed to deliver. EU Structural Funds should remain a key investment policy of the EU. Financial instruments like loans or guarantees deployed by the EIB are also a useful tool to support investments. They can be combined with EU structural funds to increase their impact.
- Enhancing efficiency, effectiveness and stringency of EU investment promotion: Guarantees and financial instruments as well as their systemic interplay ought to be improved and extended to use the budget available to the maximum positive effect. **Grants** should be primarily used in **areas/for projects** which **do not generate (sufficient) returns** or which have the characteristics of a **public good**, such as research and innovation or

infrastructure. For stages with lower levels of risk (after research or innovation), however, projects should mainly rely on **loans**.

- Exploring new avenues, especially in the interest of translating research findings into breakthrough innovations: At EU level, we propose that the future European Innovation Council (EIC) focuses on **support for breakthrough innovation of (DeepTech) start-ups or public-private consortia**. By complementing national initiatives, we ask the EU Commission to implement a **pilot of the breakthrough innovation initiative** within the remaining period of Horizon 2020, with a view to fully-fledged implementation in the Framework Programme 9. In addition to this, and in accordance with the principle of subsidiarity, new flexible instruments should be established at the national level. **Germany and France will network their activities** along lean structures and consultation processes in order to exploit the potential for synergies to the greatest extent possible without placing constraints on the flexibility and agility of national instruments. The first project of the German-French network will be **the launch of cross-linked innovation challenges on matters of common interest**. France and Germany will deepen their collaboration on these challenges further and invite interested EU Member States to join them – to create a new entrepreneurial spirit in the EU. Close coordination between the EU Commission and the EU Member States will be needed to ensure the consistency of national initiatives and EU funding policy within the framework of the EIC.
- Developing a long-term and forward-looking Strategy for the EU Industrial Sector up to 2030 and beyond: Action is needed to strengthen the competitiveness of the European industrial sector in the long term, particularly addressing the digital transformation, sustainable mobility, green technologies, decarbonisation initiatives for industry, New Space, and securing a sufficient supply of skilled labour. One crucial element is the structuration and reinforcement of European strategic industrial value chains, for example through dedicated European funding, the adaptation of regulation and standards, and the important projects of common European interest (IPCEIs). Member States and the European Commission should further identify key value chains to be reinforced in this regard. Designating an IPCEI for battery cell manufacturing would allow for the entire electric mobility value chain to be kept in the EU. To ensure success, IPCEI has to be a streamlined and simplified instrument that can keep up with the pace of high-tech developments based on the experience of the micro and nanotechnologies IPCEI.
- Improving the regulatory framework: We need to ensure that our national and European regulations are fit for purpose, future proof, innovation friendly and efficient in order to unleash the full potential of our societies and companies. Therefore, the impact of regulations on innovation should always be taken into account and unnecessary burdens of existing legislation should be reduced by concrete targets to off-set the burdens arising from new legislation.
- Cooperation in the space sector

Germany and France will continue their close cooperation in this strategic sector. Space is a lever for economic growth, innovation and societal progress, which can help to respond to the great challenges of our time (tackling climate change and protecting the environment, providing access of all citizens to digital services, etc.); and it is also an instrument of sovereignty.

In the field of launchers, Germany and France reaffirm their full support for the Ariane 6 program of the European Space Agency in order to maintain access to space thanks to a launcher more competitive than Ariane 5. The two countries will work to maximize the use of European launchers for institutional missions, similarly to other major space powers. In addition, Germany and France continue their cooperation, especially within ESA, on the development of breakthrough technologies in the field of launchers.

The rapid evolution of the market and the opening up of new perspectives for the space sector make innovation all the more necessary and useful. Germany and France will carry these technological developments in conjunction and in complementarity with the initiatives of the European Space Agency and the European Union, in particular in the field of satellite systems and applications. The safety of space assets like satellites is of growing importance – especially with the rapidly increasing private use of space. Therefore, Germany and France will continue to cooperate in space surveillance and tracking (SST).

Germany and France will support the emergence of a veritable "European NewSpace", relying on an efficient governance, by mobilizing all the actors of innovation (space agencies, research centers, higher education institutions, industrial groups, start-ups, etc.). To this end, Germany and France will investigate possible areas of cooperation for supporting private investment and business models in innovative European space activities and accelerating innovation.

Finally, Germany and France will work to strengthen the success of the Galileo satellite positioning system, which is an important step forward for Europe. Galileo's public regulated service will be a tool of sovereignty and will consolidate the European Union's strategic autonomy.

(3) Defending, multilateralism, open markets and promoting an ambitious EU trade policy. The EU's trade policy is facing unprecedented challenges. It is now more important than ever for the EU to stand up for open markets and take sides with the multilateral rules-based trading system. The EU must preserve its unity, speak with one voice and resist all forms of protectionism.

In this context, considering the risks of global trade distortions and with a sense of urgency, France and Germany reaffirm their attachment to open markets, to multilateralism and to an ambitious EU trade policy system.

The WTO is in a critical situation regarding both its negotiation function and the threat on the enforcement function with the blocking of appointments of Appellate body Members. To this end, France and Germany will support the European Commission in elaborating solutions to modernize the functioning of the multilateral trade system in particular with a view to

strengthening the disciplines on market-distortive practices and restoring the full operation of the dispute settlement function of the WTO. The EU should put forward an assessment and ambitious proposals to be shared first with key partners and to be discussed among the G20. The EU should complement its support of the multilateral trading system by maintaining an ambitious bilateral trade agenda **in particular with regard to the fast growing emerging markets in the Asian Pacific Region and Latin America**. Furthermore, EU FTA should take into account the reality of trade in the 21st century, **include adequate rules on data flows, without prejudice to EU legislation**, and reflect the European strategy for sustainable development, in particular social and environmental standards.

In addition, Germany and France reaffirm their strong support for investment screening and should endeavor to relaunch discussions on reciprocity in access to public procurement.

France and Germany reaffirm their view that the tariff measures put in place by the US on steel and aluminum are unjustified and incompatible with WTO law and that the EU should be granted a full and permanent exemption.