

## **Future-proof Europe: A sustainable innovation union for open strategic autonomy**

**Input for the European election programmes, August 2023**

Technological innovation is indispensable for the major challenges we face. For example, the climate transition requires a massive scaling up of energy storage, hydrogen technology, circular raw material use, and sustainable energy production. Further development of existing technology and the development of new technologies are essential for this. For this reason, worldwide billions are invested in sustainable technology and industry. The desire to reduce dependencies on sustainable technologies and key technologies such as microchips, photonics, and artificial intelligence has triggered a global innovation race.

### **A positive Dutch-European relationship**

The combination of the aforementioned developments with the greatly increased geopolitical importance of technology means that Europe needs its own strong technology industries more than ever. Global developments are therefore important for European and Dutch industry. This is significant for the relationship between the Netherlands and 'Brussels'. The Netherlands does not have an open strategically autonomous position in the world without the EU. More than our larger neighbours, the Netherlands needs a decisive and effective European Union, which requires a positive attitude instead of scepticism. Europe must strengthen its industrial innovation power through impactful industrial policy. With policies that reward industrial excellence and top performance - throughout the whole value chain, from R&D to production - in all member states, Europe can grow into a full-fledged 'innovation union'. The Netherlands should be on the forefront of realising this.

### **The importance of the Dutch technology industries**

Fair European policies that ensure a level playing field on the single market is of foremost importance. However, due to the global innovation race, we see that Brussels is loosening its state aid rules. Countries like France and Germany are taking advantage of this and are investing billions to develop, among other things, the latest generation of microchips. The Netherlands is consistently lagging behind and is losing connection with the rest of Europe on this uneven playing field.

This loss would have a significant negative impact on our country. We earn about 20% of our national income (directly and indirectly) thanks to our industry. Every job in the industry also creates a job outside the industry, so about 1.5 million Dutch people have food on the table thanks to the industry. Moreover, the income from the industry contributes to our collective welfare state, such as the financing of education and healthcare. Dutch industry is also becoming increasingly important for our economy. Unlike other sectors, our labour productivity is increasing. Digitisation of the industry - smart industry - makes work more interesting, less demanding for employees, and more accessible for people with a distance to the labour market. Wages in the industry are relatively high, and more than 85% of employees have a permanent contract. The technological industry is therefore the stable employer that we need in these uncertain times.

## **European industrial policy: from steward to promoter**

In The Hague and Brussels, in Paris and Berlin, in Washington and Beijing; Industrial policy is back like never before. Innovative technology is the ticket for the EU to continue playing on the world stage, by creating mutual dependencies. However, you do not get a strong innovative industry for free, it requires effective policies. The EU has already taken the first tentative steps towards strategic industrial policy. More is needed to continue on this path. Global competition is strong, and we see, for example, that the growth of start-ups in Europe is not going well. The EU is also still focusing too much on facilitating national policy. It must dare to take a leap forward and take on a coordinating role as a shaper of innovation. This allows member states to develop their strengths, creates more room for innovation, and enables European companies to occupy more crucial positions – so-called 'control points' – in global value chains. Therefore, the Netherlands must champion more European industrial policy, which is strengthened by national industrial policy.

### **FME calls for:**

- **Make European industrial policy less dependent on member states' budgets**

European industrial policy must be accompanied by its own budgets instead of looser state aid rules. On important components (e.g., IPCEI programmes and the Green Deal Industrial Plan), the success of EU industrial policy is too dependent on the budgetary choices of member states. This results in fragmented national strategies.
- **Invest in key technologies, coordinated by the EU**

For our strategic position it is of great importance that all key technologies are strongly represented in Europe. It is important to support excellence and specialisation in member states. This also requires large-scale investments. Aim to achieve the Lisbon objective of spending 3% of GDP on R&D.
- **Prevent an unenforceable regulatory burden**

In the past five years, the EU has set an ambitious standard for corporate social responsibility. For the next term, it is important to give entrepreneurs the time and space to make the necessary changes and to hire more employees. You do not strengthen your competitive position through more regulations. Every hour an entrepreneur spends on reporting or implementing new regulations is an hour that cannot be spent on production, innovation, or research.
- **Protect the level playing field**

Equal competition on the single market is increasingly being undermined. Member states, for example, often have different subsidies for energy prices and production costs or different criteria for tenders. The level playing field forms the basis of the European single market and must be protected. Industrial policy should therefore be implemented and financed much more uniformly from the EU level.
- **Bring innovations to market**

In Europe, only 27% of start-ups grow into scale-ups. In the Netherlands, this is only 21%, compared to 60% in the US. This means that promising technologies developed here do not find their way to the market. Europe needs large funds with expertise and impact. This way, every euro spent on R&D ultimately more than pays for itself.
- **Appoint a vice president for open strategic autonomy**

The best way to guarantee economic security is mutual dependencies with third countries. The responsibilities of this vice president should therefore at least include innovation and industrial policy, allowing them to strengthen European technological leadership. This also means stronger cooperation with the high-tech industry and strategic third countries.

## **Future-Proof Europe through a Sustainable and Digital Industry**

Our future success requires strategic choices in the here and now. Sustainability and digitalisation are the keys to a strong and innovative Europe in the coming decades. These so-called twin transitions are two sides of the same coin for the industry and form the pillars of European industrial policy. Both are equally important. The increased and justified focus on the sustainability of the industry must therefore go hand in hand with digitalisation and data sharing. A digitised manufacturing industry is not only a prerequisite for sustainability but also for innovation and countering increasing staff shortages.

### **FME calls for:**

#### ➤ **Invest in European Smart Industry**

To be competitive, the European industry must be the most digital in the world. The competitiveness of our economy lies in labour productivity. A structural budget is needed to set up new collaborations between member states and companies. Combined with the European Digital Innovation Hubs (EDIH's), FME advocates for focus on skills programmes. This way, we can take advantage of the opportunities of the 4<sup>th</sup> industrial revolution. In doing so, we always need to pay attention to cybersecurity.

#### ➤ **Strengthen European digital infrastructure**

Promote developments in open systems to reduce dependencies on large platforms and increase interoperability with specific attention to SME access. Creating a European Industrial DataSpace (Manufacturing-X) is important, as is strengthening the role of the Netherlands as an international digital hub. Provide specific regulations for the digitalisation of industrial value chains.

#### ➤ **Guard European uniformity in energy prices**

European CO<sub>2</sub> taxation is a logical tool to accelerate CO<sub>2</sub> emission reduction. It is important to pay attention to feasibility and regulatory pressure for SMEs when further developing the emission trading system (ETS2). Additionally, a European level playing field is of significant importance. Countries that introduce additional taxes and burdens undermine the European single market. Decoupling gas and electricity prices encourages industrial electrification and improving sustainability, provided internal competition on energy prices is prevented.

#### ➤ **Keep the Carbon Border Adjustment Mechanism (CBAM) feasible**

CBAM is an important tool to prevent unfair global competition as a result of European CO<sub>2</sub> taxation. FME supports this principle but is concerned about its feasibility. An applicability threshold from a certain number of imported materials prevents SMEs from suffering an unreasonable administrative burden. Enforcement should primarily focus on the import of products, not on the production process.

#### ➤ **Invest in the implementation of sustainable, innovative technology**

Through the American Inflation Reduction Act, companies receive huge subsidies (tax exemptions) for sustainable factories or making production lines more sustainable. As a result, more and more European companies are opening new production locations in the US instead of the EU. The Net Zero Industry Act should invest in the implementation of Net Zero Technologies in European industry. EU tenders should reward a company's broader positive impact on the EU – for instance employment, energy savings, or security.

#### ➤ **Provide customised environmental standards**

Environmental pollution is inherently a cross-border challenge. For example, harmful substances and other forms of pollution in water from other countries concentrate in the Netherlands because we are downstream. As a result, the Netherlands cannot meet the same standards for PFAS, for example, as countries upstream. Protection of the environment and public health is crucial, but customisation is needed to set realistic goals that do not lock our society down.

## A strong Europe in the World

The value chains of the technological industry are inherently global. The export of products, worth 54 billion, accounts for half of the turnover of FME members and a significant part of total Dutch exports. Many components and semi-finished products are imported. Thanks to the high-tech sector, the Netherlands has access to crucial international knowledge networks. The Netherlands, therefore, benefits from an as open as possible economy. This is largely facilitated by EU policy. It is essential that the EU continues to advocate for the international trading opportunities of European companies. This is also necessary to reduce our strategic dependencies. Protectionism, especially when it can lead to the exclusion of allies, must be avoided. After all, we speak of *open* strategic autonomy. Trade relations are an important way to strengthen our international ties with (potentially new) partners.

### FME calls for:

- **Fully commit to concluding modern trade agreements**  
Modern trade agreements are important for strategic reasons and should be based on equality and reciprocity. Trade agreements with India, Indonesia, the Mercosur trade bloc, the USA, AfCFTA, and the Southeast Asian trade bloc ASEAN are of great value.
- **Use defensive trade instruments and expand them for strategic sectors**  
Although the EU has various defensive trade instruments, such as the Regulation on Foreign Subsidies, many instruments require active decisions from the Commission and have not yet been proven. In addition, the generic measures should be expanded with instruments for some strategically important sectors that are currently insufficiently protected.
- **Ensure feasible and coherent sustainability legislation**  
As an entrepreneur, you bear responsibility for the people and the world you depend on. That is why FME supports the European focus on International Corporate Social Responsibility. At the same time, we see that many different – but related – ongoing legislative processes. It is important that the coherence between these rules is maintained, and that implementation remains feasible.
- **Focus on maximum influence in international standardisation processes**  
Loss of European influence on 'standard setting' impacts our safety, our future earning capacity, and the underlying values of new standards. Moreover, standardisation can contribute to the circular processing of products and raw materials. More robust market supervision is needed to ensure that products from third countries comply with European standards.
- **Reduce dependencies by promoting modern raw material extraction in Europe**  
Europe has long felt comfortable leaving the sometimes burdensome and dangerous work of traditional raw material extraction to others. Dependence on critical raw materials and changed awareness of responsibility for all parts of a value chain should result in a renewed and modernised commitment to raw material extraction in Europe. From *Not In My Back Yard*, we need to move to a *Better In My Back Yard* mentality. The European Commission should facilitate and stimulate modern raw material extraction in member states.
- **Increase the harmonisation and equal implementation of export control rules**  
In the context of increasing unilateral measures, it is important that member states base their export control rules on a common European strategy. Additionally, a common interpretation and implementation of rules is crucial for a level playing field on the single market. Export control rules cannot be disguised protectionism.

## **Towards a talent union**

One of the biggest obstacles to the competitiveness of the European Union is a significant shortage of workers with technical skills. Ultimately, these individuals must make the major transitions of our time a success. Labour market shortages across Europe are currently the most significant problem for companies across the technology industries. This workforce shortage poses a severe hindrance to the growth and competitiveness of companies in Europe. It slows down the climate transition, our open strategic autonomy, and the EU's future earning potential.

It is therefore essential that the European Parliament and Commission focus their attention on how part of the talent issue can be resolved from Brussels, in line with the European skills agenda. There should be positive attention for the importance of technical education in Europe. In addition to a European skills approach, access to talent from outside the union should also be considered.

### **FME calls for:**

#### ➤ **Implement the measures from the skills and talent package**

This package was proposed in April 2022 as part of the Green Deal Industrial Plan. These measures are an effective way for the EU to attract the skills and talent it needs and address the EU's labour shortages. Implementation of this should be realised as soon as possible.

#### ➤ **Attract talent from third countries for sectors with labour shortages**

The measures to reduce the growing labour shortages include opportunities to grant talent from third countries access to the European labour market in sectors with labour shortages in an unbureaucratic and straightforward manner. Of course, talent from third countries must work under conditions that align with the high European standards.

- **Strengthen the EU's cooperation with partner countries through talent partnerships**

This collaboration helps to increase cross-border mobility of workers and facilitates the easier and temporary attraction of talent from third countries. To prevent a brain drain, temporary knowledge work should be explicitly facilitated.

- **Ensure swift tightening of the "Single Permit Directive" and the "Long-Term Residents Directive"**

The directive on a combined permit will, in particular, alleviate the administrative burden for companies attracting talent from third countries.

- **Speed up the establishment of an EU talent pool for technology**

The European Commission plans to set up an EU talent pool by the end of 2023 to facilitate the match between residents of third countries and vacancies in European companies.