

PORTUGAL 2007

# Informal Meeting of Competitiveness

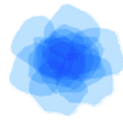
## SME and Industrial Policy

Towards a Sustainable Industrial Policy

Presidency Discussion Paper

Lisbon, 20-21 July 2007





Informal Meeting of Ministers for Competitiveness  
(SME and Industrial Policy)  
Lisbon, 20-21 July 2007

## “Towards a Sustainable Industrial Policy”

Presidency discussion paper

### 1. INTRODUCTION

The Mid-term review of Industrial policy, endorsed by the Commission on 4 July 2007, identifies the key challenges currently facing industry in Europe and called for continuity and commitment to the existing police strategy. However, in the light of a new dimension that the challenges of the globalization and technological and climate change has taken, a proactive policy is also needed.

In this Mid-term review of Industrial policy, the Commission announced the basic principles of an industrial policy for a competitive low carbon economy.

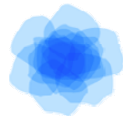
EU industry is well placed to respond to competitiveness, technological and climate challenges and turn this into an opportunity.

In that sense, Europe should be more focused on the opportunities for growth and jobs created by globalisation, climate change and energy policy for Europe. These opportunities are in both internal and external markets.

This Mid-term review of Industrial policy should aim to unlock the potential of EU industry in order to strengthen the lead in the global production chains.

As set out in the 2007 Spring European Council Conclusions, industrial policy should be adapted to unlock the full potential of low carbon and resource efficient goods, technologies and services in the EU and enable industry to transform the climate change and energy strategy challenge into an opportunity.

The objective of this industrial policy is to make Europe "a frontrunner" in low carbon and energy and resource efficient products, technologies and services. The strategic aim would be to encourage all enterprises to have the highest profile in energy and resource efficiency and use of low carbon technologies and to lead worldwide markets for low carbon products.



In the light of these new objectives, the main features of the policy framework would be:

- **Speed-up innovation and develop lead markets for low carbon and energy and resource efficient technologies, products and services.** The aim would be focussing on the EU's industrial strengths and aim at reinforcing them, positioning the EU to lead worldwide markets in specific areas of the economy.
- **Exploit the full potential of the internal market** to create a critical mass of demand for existing energy and resource efficiency and low carbon technologies, products and services across the whole economy. Product policy, including standardisation and labelling as well as the lead market concept should play an essential role in rapidly mastering technologies and create economies of scale.
- **Exploit first mover advantages to export** EU know-how in a low-carbon economy to external markets and create a level playing field for industry through **global sectoral agreements**. The impetus in adopting climate change policies within the EU should be matched by a deployment of efforts to achieve similar commitments internationally, which is a prerequisite for succeeding in both containing climate change and preserving our industrial competitiveness. This requires coherence across policy areas and a more active use of the EU's trade and development policies.

All sectors of the EU economy will be faced with their challenges. In particular, energy intensive industries faced with strong international competition will need an appropriate framework to improve sustainability and competitiveness.

The new objectives give a real opportunity for industries specializing in technology development, as long as the framework conditions are in place.

Forest based industries are a good example of how these challenges converge. The Presidency will present this industry as a case-study.

Finally, while not particularly energy intensive, SME would benefit from guidance and specific incentives on how to improve energy and resource efficiency sustainability and competitiveness.

## 2. SOME KEY ELEMENTS

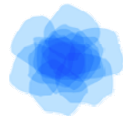
Within the policy framework required, some tools would be the following:

### Use of product policy

Product policy could be better used as a competitiveness and sustainability tool. The objective would be to find solutions where environmental improvements and better products performance go hand in hand and where such improvements support long-term industrial competitiveness.

The identification of voluntary "lead standards" (or advanced performance specifications) could be a useful complement of mandatory requirements for placing products in the market already foreseen in Community legislation. It is important that the system is dynamic, pulling up performance as technology develops. The Eco-design Directive could be the right policy instrument for this. Markets will reward best performers if the correct market incentives are in place, encouraging frontrunners to go beyond regulatory compliance and move ahead.

Standards as facilitators of access to markets for most efficient products are an important mean to speed up this process. Dynamic standards should also be taken to international level. This should help generate demand for those products and build on the European advantages in terms of its regulatory influence. There



are several examples of EU environmental regulation being put in place worldwide. This can give additional advantage to European companies as first movers in global competition.

An important tool to influence demand towards the most efficient products would be to enhance product labelling. Better focused consumer information on the performance of the products is needed to influence demand. Another powerful market incentive would be public procurement of the most performing products and services, belonging to lead markets.

### **Leveraging innovation**

It is clear that technology will play a central role in addressing the sustainability challenge. It could also provide significant competitive strengths. The framework conditions for leveraging that innovation will need to be put in place. While the new product policy described above can make a significant contribution, a more targeted stimulus to support innovation will in certain cases be required (e.g. carbon capture and storage). Non technological innovation will also play an important role in this field, namely in improving eco-efficient organisations. Reflection will therefore need to be given to how we can better use the Union's instruments, notably the Competitiveness and Innovation Programme, the 7<sup>th</sup> Research and Technological Development Framework Programme or Community rules on Environmental State Aids to that effect.

This can contribute to the development of lead markets, which will enable the rapid mastering of technologies and their economies of scale, creating first mover advantage for EU industry or products essential in low carbon economies. Examples of lead markets and their potential products could include low energy housing (e.g. heat pumps, insulation products, ICT systems); energy efficiency in industry (e.g. boilers, electric motors); low carbon emitting power generation (e.g. wind turbines, second generation bio-fuels, biomass gasification); renewable raw materials and low emission cars (e.g. energy efficient motors, tyres, hybrid technologies).

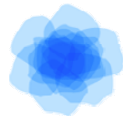
### **Developing an internal market for renewables and energy efficiency investments**

An efficient operation and completion of EU internal market for gas and electricity is a key issue to ensure and enhance business competitiveness.

Given the ambitious targets set for Renewable energy, it will be essential to fully exploit the potential of the internal market for renewable energy and the capital equipment needed to produce them. It is essential to promote innovative technologies and equipments in this field and ensure their free movement across the internal market. Besides, more harmonised EU support mechanism could reduce the costs of reaching the EU targets by creating a critical mass of demand while reducing the burden to the economy. Such initiative could accompany the "burden sharing" of the 20% renewable target between Member States. Market based instruments and trading of renewable "credits" could efficiently link national support systems and provide incentives for investments in renewable energy technology.

### **Sectoral agreements**

Different sectors have been working on global sectoral agreements, with a view to agreeing on and committing to specific targets (energy efficiency of the process of production or CO<sub>2</sub> content of the product). Sectoral agreements could constitute an effective tool both to reduce the environmental impact of industry worldwide and to create a level playing field for industry sectors internationally, thus addressing the current competitive disadvantage for EU industries exposed to international competition which would be created by ambitious climate change policies. At same time this provides an effective way to engage developing countries in action that will help mitigate climate change but without placing a constraint on growth.



Public authorities would have to play a role in creating an appropriate institutional and legal framework to underpin these agreements, in particular by providing a credible monitoring and enforcement system and ensuring that targets defined by industry are sufficiently ambitious. The compatibility of global sectoral agreements and the EU ETS should be ensured. This could be done by linking the use of benchmarks for allocation in the ETS with the targets laid down internationally.

The European Union should take the initiative of negotiating bilateral industrial agreements between governments to provide industry sectors with such framework. In that sense, it would be useful that the Commission launches a pilot project in 2008, working with advanced sectors exposed to international competition and the main relevant international partners.

