



**European Round Table
for Industry**

Turning Global Challenges into Opportunities – A Chance for Europe to Lead

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Foreword

Twenty years into the 21st century, the political and economic challenges we face are intensifying. After a decade of extraordinary developments, we seem to have entered a time of less openness, less free trade and growing protectionism. Climate change, disruptive technological developments and escalating tensions between the major geopolitical powers have created a groundswell of opinion that is calling for significant change.

For our part, we remain optimistic about Europe. In April, we at the European Round Table for Industry (ERT) issued a paper entitled *Strengthening Europe's Place in the World* - a clear statement of confidence in Europe's values, pledging action on the part of the 55 CEOs and Chairs that comprise ERT and underlining the areas where we believe Europe needs to act.

This publication - *Turning Global Challenges into Opportunities - A Chance for Europe to Lead* - outlines the strategic components that need to be in the EU's new industrial strategy. After several attempts to reignite industrial policies at European level in the past decade, the new industrial strategy needs to be genuinely game-changing. Now, with a new European Commission in office, the timing is right.

The global competitiveness of European industry is absolutely key to a powerful, influential and sovereign Europe.

However, the ERT Benchmarking Report released with this publication documents how much

Europe is falling behind its peers across various metrics and demonstrates the urgent need for action.

At this moment, Europe has a chance to take the global lead, to innovate and to bring prosperity to its citizens by promoting climate action, the circular economy and sustainable growth. The possibility to set a course that identifies how we can unleash the full potential of digital transformation, foster free and fair trade and stimulate investment. The opportunity to create jobs and weave agility and upskilling into the fabric of our education systems, to ensure inclusiveness and bring even more to its citizens.

Cooperation between the public and private sector and a truly European view on industry will reinforce Europe's competitiveness and deliver results. We have high expectations of the new political leadership in the EU and stand ready to contribute to a joint effort to make the European project create even more value for society.



Carl-Henric Svanberg

Chair, ERT

Chair, AB Volvo



Dr Martin Brudermüller

Chair, ERT Committee on Competitiveness & Innovation

CEO and Chairman of the Board of Executive Directors, BASF

A large tunnel under construction. The tunnel walls are made of concrete segments. A large yellow pipe runs along the top. In the foreground, four workers in orange safety gear are walking away from the camera. The floor is wet and reflective. The tunnel extends into the distance with more pipes and structural elements visible.

A competitive European industry generates value for society and can ensure the European economy works for the people. **Now is the time to set the course.**

Introduction

As we welcome a new decade, Europe is facing an increasingly complex geopolitical world as it moves towards a climate-neutral and digital society. Externally, the fabric of diplomacy is shifting and once rock-solid partnerships are strained.

Internally, the European integration model is under stress and many national political systems have been shaken up. Europe is losing ground in international competition. This is particularly obvious in the dominance of 'digital giants' from the US and China. Our position will continue to

erode if Europe does not set an ambitious, determined and unified response, informed by a clear strategy on where we want to go and how. Time is of the essence. We need to act together at the European level to shape an economy that works for people.

We - the Chief Executives and

as much on leveraging and enhancing these strengths as on addressing our weaknesses.

A strong industrial base is the foundation of our competitiveness and prosperity. European industry can play a significant role here by creating value for society. Without industry, it will be impossible to transform society towards a sustainable, climate-neutral and digital future. A strong Europe will be good both for people and for companies based in Europe and will make a strong and positive contribution to global communities. Urgent action is needed. Other regions are implementing highly ambitious (and sometimes aggressive) industrial policies.

We thus welcome and strongly support the ambition of the incoming European Commission to develop a long-term strategy for the future of European industry¹.

This paper outlines key arguments and priorities for action for a modern and ambitious European industry strategy. Our goal is to create a strong industry-based and innovation-driven economy building further on Europe's primary asset: the Single Market. We favour a political union of European societies dedicated to social cohesion and inclusion, and common European values that unify us in our diversity. We stand ready to work with the European Commission, the Member States, the European Parliament and all other key stakeholders, to drive this strategy forward.

A strong industrial base is the foundation of our competitiveness and prosperity. Without industry, it will be impossible to transform society towards a sustainable, climate-neutral and digital future

Chairs of leading European companies who form the European Round Table for Industry (ERT) - believe that the European model has powerful answers to meet this new situation. Europe has significant assets and capabilities that can be brought to bear. Our success will depend at least

¹ In the ERT Benchmarking Report, the definition of industry that was used to calculate industry's contribution to the economy was the following: "Industry includes mining, manufacturing and utilities, but excludes construction." In this paper, industry is defined in its broadest possible sense, encompassing also services that are applied for industrial processes.

Challenges and Opportunities

The world has changed and Europe is facing radical global challenges. ERT Members see critical transformations in four key areas:

Increasingly complex geopolitics

In many ways, Europe has long been the role model for a rules-based collaborative system. In the current global geopolitical context, the value of such a system is under pressure. Raw power is being used to force economic advantage. Relative gains trump absolute gains. Decisions are made on a transactional and short-term basis, rather than with a view to the long-term benefits of collaboration. Europe finds itself with a rising strategic competitor in the East,² and with increasingly confrontational approaches from the West³. With its highly trade-oriented economy, our continent is particularly exposed to these shifting realities.

While this new global context runs counter to Europe's commitments towards a rules-based collaborative system and the international organisations that embody this multilateral approach, it does not make Europe powerless or irrelevant. As one of the largest integrated markets in the world, the EU can use its weight, too. However, it will require a new European discourse on how we use this power to develop a more robust global system that recognises the challenges we are currently facing. Europe needs to balance the trade-off between responding to foreign protectionism without becoming protectionist itself.

ERT Member companies are committed to free and open markets and fair competition. We welcome the work started by the previous European Commission in this regard and the direction the new Commission seems to be taking to create 'a level playing field for all'⁴. Progress in this direction is a prerequisite for the EU to remain a forceful and respected global player, without becoming protectionist.

The Climate challenge

ERT supports a transition to a climate-neutral economy by 2050. The European Union and its Member States have committed to the Paris Climate Agreement and are setting ambitious goals for the path towards a climate-neutral economy. Civil society too, is highly mobilised, with strong support for ambitious environmental policies.

Europe has the technology and the political will to take the lead in transitioning towards a climate-neutral, resource-saving sustainable future. The global environmental and long-term economic benefits are obvious, while the cost of global inaction would be intolerable.

European industry is ready to play its part and will contribute to the transition. And if it managed well, this transition can lead to economic gains for European solutions in global markets that move in the same direction.

There are various ways to achieve climate-neutrality depending on countries' and sectors' specificities. Although the direction of transition is becoming clear, Europe is debating the pace, next steps and conditions for success.

² European Commission communication on EU-China Relations: <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>.

³ For an in-depth discussion of the trade policy implications see www.pii.com/publications/working-papers/eu-trade-policy-amid-china-us-clash-caught-cross-fire

⁴ See Mission letter of 10 September 2019 from Ursula von der Leyen to Phil Hogan.

In reaching climate targets, Europe's approach needs to take account of other major world economies. We prefer a global approach to tackling greenhouse gas emissions since there are no barriers in the sky for greenhouse gases. Europe faces the challenges of 'greening' European production, while at the same time avoiding carbon and investment leakage and rising imports of products with a potentially higher carbon footprint.

ERT Member companies support the Paris climate targets and thus see decisive action against climate change as critical. We need to pursue economically and politically feasible pathways to a sustainable future. We must recognise that Europe cannot do this alone⁵. A level playing field must be set. We count on the European Commission to take these considerations into account when developing its 'European Green Deal'⁶ in the first 100 days of its mandate.

Technological disruption

Europe – like all economies – is in the midst of a deep technological transformation, driven by digitalisation and a host of other new technologies. Europe is home to many ground-breaking innovations that are driving this transformation on a global scale. Many of its citizens are well placed to draw on the benefits of these new opportunities, and many of its companies are well-positioned to leverage them to achieve higher productivity, improve their offerings and create new business models and markets.

Europe is also in a strong position to develop a robust, investment-friendly and innovation-driven regulatory framework that enables new technologies⁷ like artificial intelligence (AI) and 5G. It is becoming increasingly clear that the ability to manage their impact in a socially compatible and ethical way will be critical if such technologies are to be trusted by our citizens and achieve their full potential.

However, Europe risks falling behind in this transformation, which is dominated so far by US and Chinese digital giants. With the value of the nascent data economy being extracted by non-European companies, Europe could become even more dependent. Take, for example, 5G infrastructure, a technology that will be critical for the future success of established European industrial companies: its rollout is being hampered by regulatory barriers, short-sighted national fiscal interests and competition policies that are not globally oriented. And the Digital Single Market remains, despite some welcome advances, an ambition rather than a reality and is holding back the emergence of European digital giants.

In responding to these challenges, several trade-offs need to be carefully balanced through social dialogue. One is between regulations to ensure privacy and the ethical use of data on the one hand, and on the other, the openness for experimentation to ensure innovation and the emergence of powerful European digital companies. Another is between enabling digitalisation as an engine of growth and addressing the growing inequalities across society⁸. A further one is between allowing companies to achieve size in markets with potentially significant economies of scale and ensuring effective competition.

We are convinced that proactively driving digitalisation and technological transformation is not a choice, it is a necessity. The question is how fast and effectively European companies can drive this transformation, given the market situation and the need to regulate all players on an equal basis, to ensure a level playing field. Insufficient investments in infrastructure and skills as well as regulatory barriers or uncertainty can slow down the process. On the other hand, systemic collaboration of companies, governments and other societal stakeholders can speed up and sustain the change process.

⁵ The European Political Strategy Centre (EPSC) 'Europe's Sustainability Puzzle' looks specifically into this tension. https://ec.europa.eu/epsc/sites/epsc/files/epsc_sustainability-puzzle.pdf

⁶ See Mission letter of 10 September 2019 from Ursula von der Leyen to Frans Timmermans and Kadri Simon

⁷ See the Ethics guidelines for trustworthy AI developed by the European Commission's High Level Expert Group on AI: <https://ec.europa.eu/digital-single-market/en/news/ethics-guidelines-trustworthy-ai>

⁸ See the discussion on Digitalisation and European welfare states in this Bruegel paper: <https://bruegel.org/2019/07/digitalisation-and-european-welfare-states/>

ERT Member companies welcome the direction the new Commission is taking to ensure that Europe is 'fit for the digital age'⁹ We hope to see a stronger place for innovation in the programme of the incoming Commission¹⁰ than what has been communicated so far. Although innovation is mentioned in many portfolios as an important way of realising the EU's digital transformation and the EU's Green Deal, the 'innovation principle' is not mentioned in the mission letters and we currently see little evidence of the specific impetus that is urgently needed to build Europe's future in research and innovation.

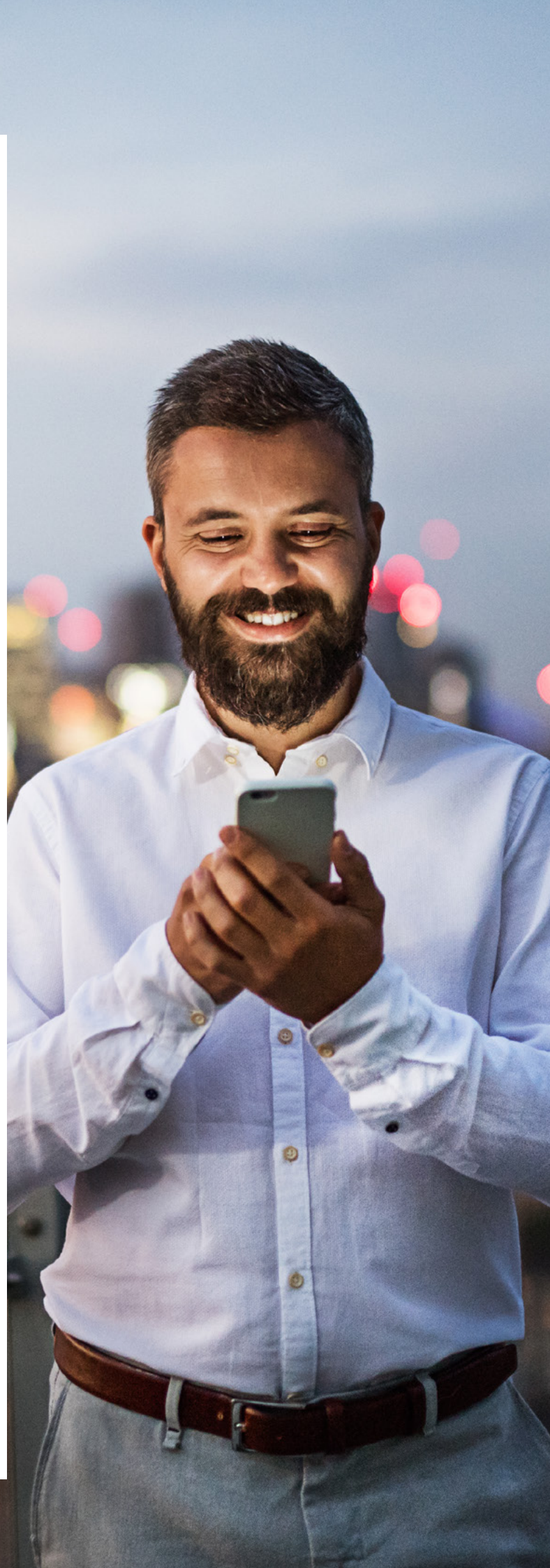
Demographic change

Demographic change will become one of the most impactful topics in the decades to come. Age structures will change fundamentally, with a shrinking workforce having to support a growing number of retirees. Europe is not immune to this trend. Populations in the US, Japan, but also China are rapidly ageing as well, but the situation in Europe is more pronounced than in other economies. Social security systems mainly in North and Western Europe provide a comparatively high level of support to the elderly. This unspoken inter-generational contract requires a healthy economic foundation, otherwise promises to both younger and older generations cannot be kept.

In summary, Europe is facing a significantly changing political, environmental and societal landscape. ERT Member companies want to be part of the solution to build this emerging future successfully in a collaborative way with European governments and other civil society.

⁹ See Mission letters of 10 September 2019 from Ursula von der Leyen to Margrethe Vestager and to Sylvie Goulard

¹⁰ See Mission letter of 10 September 2019 from Ursula von der Leyen to Mariya Gabriel



European industry is leading on sustainability – but needs to be competitive

Europe's industrial companies are part of the solution to address the big transformations needed to achieve the UN Sustainable Development Goals by 2030.

At the same time, they need to remain strong and competitive, as otherwise there is little hope of sustaining the high living standards of an ageing society or of successfully transitioning to a digitalised, sustainable, climate-neutral future.

Industry is an essential source of economic growth and prosperity:

European industry plays a central role in the future of Europe as an important source of sustainable and inclusive economic growth.

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Including construction, it accounts for 25% of total added value in the economy and 64% of all extra-EU exports. It directly provides 52 million jobs (representing 22% of all jobs in Europe)¹¹

and creates up to 2.5 times as many across the value chains¹² The EU is a world leader in many industrial sectors, such as automotive, pharmaceuticals, chemicals, steel, energy solutions, mechanical engineering, aerospace, defence and security. This scale reflects the importance of a strong industrial base for Europe's continued prosperity, productivity and competitiveness.

A vital industry landscape is also essential for the development of an innovative and competitive service sector. It means Europe has tremendous influence to shape a sustainable future, based on our technological strengths and our values. European industry operates along global value chains and in international networks and clusters, supported by increasing digitalisation. The integration of European companies in global value chains offers many opportunities to benefit from comparative advantages, for instance by moving up the chain and by being innovative.

Industry is an engine of innovation:

Two-thirds of the EU's R&D expenditure comes from industry, predominantly from the type of large companies represented in ERT. Industry's fundamental role in innovation is also recognised in the report of the independent 'High Level Group on maximizing the impact of EU Research and Innovation (R&I) Programs'¹³ presented by Pascal Lamy in July 2017. Industry not only provides modern product applications in almost all sectors, it also increasingly uses automation and digital concepts to enhance the efficiency of its production and processes, thus making artificial intelligence, blockchain, robotics, 3D printing as well as digital farming a reality today.

¹¹ All calculations for total industry including construction, based on Eurostat National Accounts and Trade statistics. Value added and employment data refer to 2018, the export share to 2016.

¹² European Commission Factsheet on Industrial Policy Strategy – State of the Union 2017: "A holistic strategy and a strong partnership in a new industrial age", 18/9/2017.

¹³ https://ec.europa.eu/info/research-and-innovation/strategy/support-policy-making/support-eu-research-and-innovation-policy-making/evaluation-impact-assessment-and-monitoring/horizon-2020_en

On top of that, Industry is crucial for achieving other UN Sustainable Development Goals 2030 by delivering technical solutions to major societal challenges:

- **Climate protection:** Industry develops technologies and processes that can replace fossil fuels with renewable resources, substantially reducing greenhouse gas emissions and saving energy in production, and reducing energy consumption thanks to the development of digital innovation (e.g. smart meters, cities, etc).
- **Circular economy:** Industry is a major investor in new circular business models that minimise waste generation using secondary raw materials.
- **Eco-efficiency:** Industry develops numerous eco-efficient products and solutions for smart construction or greater sustainability in the mobility sector.
- **Air quality:** Industry develops technologies for e-mobility, helping to reduce congestion and thus air pollution.
- **Health:** Industry is developing technologies like telemedicine and eHealth, allowing hospitals and doctors to provide the best possible care to their patients.
- **Nutrition:** Industry is feeding the world's growing population while answering challenges such as unpredictable weather, diseases and pests, scarcity of farmland. These are enabled by state-of-the-art innovation offering farmers solutions for all key crops and regions.

Industry is an important societal player:

Large industrial companies do not stand alone. They are deeply connected with other parts of the economy and strategic value chains and

rely on them for their success. The positive externalities are well documented. Technology-oriented and R&D-intensive industries such as chemicals, pharmaceuticals, machinery, energy, communications, electronics, aerospace, defence and security generate high-skilled jobs with industry-average salaries up to 80% above average wages¹⁴ and a unique culture of social dialogue.

They all support a labour market that equips people with the technical and digital skills they need to adapt and thrive in a rapidly changing working environment. Surveys show that the intensity of occupational training and education go hand in hand with the increasing digitalisation of enterprises¹⁵. By paying taxes, industry supports government spending on social protection, education and skills, as well as investments in infrastructure and public services.

Industry helps to achieve inclusive growth that ensures a viable future with enhanced quality of life for all citizens. Industry also contributes to the regional distribution of wealth by investing regularly in less developed regions and Member States. Large industries also have positive effects

on SMEs' activities and supporting services.

Industry is woven into Europe's broader economic fabric. It represents the part of our economy that is particularly innovation-driven and internationally oriented. Large industrial companies have the size to engage in long-term research and bring innovations to the market. Large industrial companies have the global reach to bring such new offerings

to customers beyond Europe. Strengthening industry as a particularly critical segment of the economy is, therefore, a decision to create leverage and not a choice against other sectors or companies.

Large industrial companies do not stand alone. They are deeply connected with other parts of the economy and strategic value chains and rely on them for their success.

¹⁴ Data refer to the Euro area. Based on the Eurostat's cost structure survey 2016, the pharmaceutical industry had on average 79% higher labor costs than the average (chemicals +57%, manufacture of computers, electronic and optical products +28%, machinery and equipment +13%)

¹⁵ Deutscher Bundestag. Sitzung der Enquete-Kommission Berufliche Bildung in der digitalen Arbeitswelt. Presentation by Dirk Werner, Institut der Deutschen Wirtschaft (iW), based on iW's annual survey on occupational training. The survey refers to German enterprises in all sectors, including industrial enterprises.

For the economy to work for the people and to deliver social progress, Europe's industry needs to be competitive, not just at home, but also in a global competition for value chains with other industrial leaders like China or the US. Less competitive companies make lower profits, invest less, innovate less, create fewer jobs, reward shareholders less and ultimately contribute less value to society.

The latest ERT Benchmarking Report * presents a comprehensive overview of the EU's industrial position in a global context. It confirms that the **EU's manufacturing competitiveness is under pressure, as reflected in the following facts and stats:**

- Europe's share of world manufacturing value-added and export markets fell by 4% and 5% respectively between 2006 and 2016.
- Expected growth rates in Europe are significantly below the world average.
- Unit labour costs in the EU are falling slightly, but not as significantly as in the US. Overall economic productivity in the EU is only 75% of US productivity.
- EU R&D spending intensity is falling behind (2017): 2.0% in EU vs. 2.1% in China, 2.8% in the US and 2.4% of the OECD average.
- Industrial electricity prices in Europe are considerably higher than in other regions, driven mainly by non-energy costs: for 2017 in EUR/MWh: 103.3 in EU vs. 61.3 in US and 74.3 in Canada.
- The share of European companies in the Fortune 500 has declined from 32% in 2010 to 23% in 2019.
- The global share of unicorns created in EU since 2011 is only 11% vs. 51% in the US and 25% in China.

* ERT Competitiveness and Industry Benchmarking Report 2019 is available to download here: <https://ert.eu/documents/benchmarking-report-2019/>



Industry framework

ERT Member companies believe a modern industrial strategy will help build Europe's competitiveness, secure the foundations of future prosperity, and provide Europe with the instruments to address the complex societal challenges ahead.

We welcome the EU's ambition to develop a long-term strategy for Europe's industrial future, accompanied by bold measures. EU policymakers must urgently start implementing a modern strategy helps companies - large and small - invest, innovate, grow and successfully compete, building further on our key asset: the Single Market.

ERT Members call on the incoming European Commission to prioritise competitiveness and innovation in its upcoming strategy for a 'future-ready European industry'¹⁶, to boost the Single Market to make Europe fit for the digital age and to responsibly deliver the 'Green Deal'.

Four conditions must be met for such a modern industry strategy to be successful:

1. **It needs to be oriented towards enhancing productivity and innovation, based on a market economy model.** While policymakers are often motivated by employment effects or the ability to create 'champions', such outcomes are in the end only sustainable if they reflect improvements in companies' underlying productivity. This productivity determines whether companies can successfully generate value as they compete from a European base.

The current debate in Brussels and in other EU capitals on how to create 'national' or 'European champions' able to succeed in international competition is motivated by the perception that size matters, and that the EU lacks companies of critical size compared to China or the US.

Size does indeed matter sometimes, but not always; there are critical size thresholds for

capital-intensive research and innovation projects. And Europe suffers from a lack of unicorns and low momentum in existing large companies compared to the US and China. Against this background, several Member States are questioning whether the EU's competition policy or the EU's State aid rules are still fit for purpose to take global dynamics into account.

Another discussion has emerged on state-owned sovereign wealth funds (SWFs), which are extensively used by countries like China to support investments or acquire strategic assets abroad. The EU has no real SWF, and some consider the creation of a 'European Future Fund' as a potential avenue for developing 'European champions' and acquiring strategic long-term holdings in EU-based corporates in strategically important sectors.

While there is merit in having such a debate, ERT considers it important that all measures respect the primacy of functioning, fair market competition as well as technology openness. The European Single Market is the crucial enabler for the emergence and growth of globally competitive European companies. The weaknesses of the Single Market in services and digital dimensions have become an increasing burden as value creation becomes ever more knowledge- and data-intensive. The EU should stick to its market economy model and avoid direct state interference and politicisation.

State action should be exceptional, temporary and applied in cases of fundamental importance to increase industry's competitiveness in cases where a well-identified market failure (like weak decarbonisation outside the EU) affects a common interest goal (like EU decarbonisation). This is where energy and environmental EU State aid rules play a vital role. Some forms of state equity investments

¹⁶ See Mission letter of 10 September 2019 from Ursula von der Leyen to Thierry Breton

may also serve broader goals and deserve further reflection, if, for example, they are targeted at start-ups driving breakthrough technologies, or if they involve projects outside the EU that grant better protection, e.g. against corruption. Where such investments

are made (e.g. in Important Projects of Common European Interest, IPCEIs), they need to leverage, rather than suspend market principles, build on European strengths, and create

Europe's industry strategy will only be effective if the actions taken by governments find their counterpart in complementary actions by companies and other institutions.

competition for the best way in which, for example, a missing industry or strategic value chain activity can be created and made competitive in Europe.

Above all, however, the EU should remove the critical obstacles that prevent EU companies from scaling. To do so, decision-makers need to seriously challenge whether the regulatory framework is fit for purpose, whether the financing conditions are adequate, and whether antitrust, merger and State aid rules in Europe take sufficient account of international competitiveness and innovation.

- 2. It needs to be holistic – combining horizontal and vertical policy actions – and address the specific needs of different types of companies.** European industry should embrace the digitalisation of the economy and society that will see increasing interaction between various sectors. It should rely on horizontal policies, like taxation, the quality of the general infrastructure and education system. If additional fragmentation can be avoided, vertical policies could be considered on skills, infrastructure, regulation and other issues. Industry strategy in this sense is not policy for a specific sector, but a differentiated policy approach to boost overall competitiveness.

Business needs are not only shaped by the specific domain and market in which they operate. They are also affected by their size. Large European industrial companies work closely with SMEs, which are often their key customers. A modern industry strategy needs an effective SME strategy that relieves the administrative burden on small companies and allows them to scale up and expand. The intention of the incoming Commission to apply the 'One In, One Out principle'¹⁷ to alleviate the regulatory burden for companies is a step in the right direction.

- 3. It needs to align policies and actions across Europe and boost the Single Market.** Europe has a unique governance structure, with different policy responsibilities allocated to EU institutions, Member States, and regions. Effective action on, for example, innovation and digitalisation or the energy transition will require more aligned decisions and actions across all of these levels and a further strengthening of the Single Market. European industry strategy has to be more than the "European Commission's industrial policy". It has to be the overarching principle for policies enacted at all levels across the Continent.

On this latter dimension, Europe has too often failed in the past. Member States have implemented EU policies unevenly and failed to make the necessary national choices to leverage policy choices made at EU level. This has, at least in part, been the consequence of an EU policy approach that was 'right on average' but failed to recognise the specific circumstances of individual Member States.¹⁸

What we need instead is an approach that achieves both: a full commitment to the Single Market, with no room for fragmentation. And this should be bolstered by a set of policy choices on complementary investments upgrading the competitiveness of European regions while reflecting their heterogeneity. For example, while it makes sense to better coordinate energy and climate policy at EU level to be cost-competitive, adaptation to local conditions is needed, e.g. by deploying

¹⁷ See Mission Letter of 10 September 2019 from Ursula von der Leyen to Maros Sefcovic

¹⁸ See Michael E. Porter, Christian Ketels (2018), Towards a New Approach towards Upgrading Europe's Competitiveness, Harvard Business School Working Paper 19-033

photovoltaics where there is sun and windmills where there is wind. This does not mean fragmentation of the Single Market but makes the Single Market more effective. Europe needs a new model of collaboration between the EU and Member States that reflects this reality.

Europe's industry strategy will only be effective if the actions taken by governments find their counterpart in complementary actions by companies and other institutions. This requires a process of public-private engagement, where decisions are based on the combined insights of all stakeholders, and where the strategy is communicated. We consider the recently launched IPCEI instrument and the European Battery Alliance as good practices and would like to see these approaches applied to additional strategic fields and value chains¹⁹. We also welcome the EU's ambition to strengthen Europe's defence capabilities and further develop its industrial and technological base, by placing excellence and intra-EU cooperation at their core.

Finally, for European industry and its people to thrive, the EU and its Member States need to ensure economic and financial stability and raise Europe's resilience to shocks in case of another economic downturn. This requires completing the Banking Union, speeding-up the work towards a Capital Markets Union, as well as strengthening the role of the euro which is one of our greatest strategic assets for delivering stability and prosperity and incentivising trade and competition.

4. It needs an ambitious long-term strategy

with clear priorities. While there is no shortage of good intentions and action proposals aimed at creating better conditions for European industry, there are problems with implementation. Well-intended policy initiatives have too often descended into lofty wish-lists of desired outcomes and long lists of proposals but little action. For example, the Juncker Commission's May 2015 Communication on a 'Digital Single Market Strategy for Europe' set ambitious aims for digital policies for both consumers and industry.

However, a review of the current state of play reveals that the achievements of the last five years have focused almost entirely on consumer-oriented issues (e.g. geo-blocking, cross-border package delivery) and in many cases favour non-European platforms. Meanwhile, the priorities for European industry (e.g. cloud computing, big data, the Internet of Things, high-speed infrastructure) remain insufficiently addressed, even though they were already known in 2015.

Too often, this paralysis has been the consequence of a failure to address trade-offs. A new European industry strategy must address these challenges head-on.

Some trade-offs exist because of limits in available resources or execution capability. These can be overcome by priority-setting and smart sequencing. A lot of things need to happen to make Europe more competitive, but not all of them have to happen at the same time. Aligning prioritisation with implementation capacity helps to design more focused and effective action plans.

Trade-offs that are more difficult to resolve are those with competing goals. Here, political choices are needed, especially if innovative ideas cannot resolve a perceived trade-off. Such choices should not pick one goal over the other; instead, they should provide guidelines on how to balance them out effectively.

¹⁹ Strategic Value Chains (SVCs) are described in the Report of the European Commission on "Strengthening Strategic Value Chains for a future-ready EU Industry" (released in November 2019): it is associated with both a set of interdependent economic activities creating added value around a product, process or service, and a group of interlinked economic actors, operating in a strategic network across firms of different sizes, including SMEs, sectors and borders.



EU policymakers must urgently start implementing a modern strategy that helps companies – large and small – invest, innovate, grow and successfully compete, building further on our key asset: the Single Market.

The profile of a new European industry strategy

a) Ambitions

The ERT's mission is 'to strive for a strong, open and competitive Europe, with the EU, including its Single Market, as a driver for inclusive growth and sustainable prosperity'. We are optimistic about Europe's future and want to play a decisive role in designing a modern industry strategy towards 2030 that will increase the competitiveness of European businesses.

A modern industry strategy should include massive support for R&D and innovation to develop the EU's technological sovereignty in key value chains, a smart approach to regulation that strengthens the Single Market and supports private investment in state-of-the-art network infrastructures, as well as increased investment to address future skills needs²⁰. It should enable European industry and the economy at large to successfully transform towards a digital, climate-neutral and circular economy promptly. It should take better account of the significant geopolitical and geo-economic shifts and enable European companies to successfully compete globally at scale through smart competition and trade policies.

A modern industry strategy should also promote EU-wide action (EU institutions, Member States and regions) and sustained collaboration and partnerships between policymakers, businesses, academic communities, civil society and other stakeholders, thus helping to meet the SDGs and define cooperative action plans. As industrial leaders, we are committed to helping leverage the power of industry for the benefit of society.

b) Actions

There is no single programme or policy tool that will be the 'silver bullet' to turn these ambitions into reality. However, ERT Members believe several issues should be tackled all together, not in isolation.

ERT Members have identified six priorities for a successful modern EU industry strategy towards 2030, as well as more concrete measures needed:

1. Boost the Single Market, deliver the European 'Green Deal', and make Europe fit for the digital age
2. Bolster investment in future technological fields and critical infrastructure
3. Equip current and future workforce with 21st century skills
4. Drive an ambitious trade and investment agenda while ensuring a level playing field
5. Create smart competition and State aid policies fit for today's global dynamics
6. Partner with EU industry to embed the SDGs in strategy and maximise value creation for society

1. Boost the Single Market, deliver the European Green Deal and make Europe fit for the digital age

The transition into a climate-neutral and circular economy, as well as a digital society, requires a smart EU regulatory approach, building on the Single Market.

Concrete measures needed are:

- **Deliver on the European 'Green Deal' by developing and implementing:**
 - A strategy and policies to foster a climate-neutral transition towards 2050 with cost-effective implementation of the climate targets in the Paris Agreement.

An effective and equitable global carbon pricing signal across societies in the world, ideally a harmonised robust carbon pricing, at least at G20 level, safeguards a global level playing field for competition. The establishment of a global carbon market based on Article 6 of the Paris Agreement that enables international cooperation and

²⁰ In her Mission Letter to Thierry Breton, Ursula von der Leyen referred to technological sovereignty: "This means investing in the next frontier of technologies, such as blockchain, high-performance computing, algorithms, and data-sharing and data usage tools. It also means jointly defining standards for 5G networks and new generation technologies."

a more cost-effective transition should be explored. In the absence of such global carbon pricing, measures to avoid carbon and investment leakage and guarantee a global level playing field for competition must be ensured.

The impact of any policy measures and instruments to implement a post-2030 climate and energy agenda must be

thoroughly assessed, taking sectoral specificities into account, and upholding WTO compliance. A Carbon Border Adjustment Mechanism (BAM) may be a

We are optimistic about Europe's future and want to play a decisive role in designing a modern industry strategy towards 2030 that will increase the competitiveness of European businesses.

possible option to consider together with other ETS-based complementary policies. It is also crucial that, a policy framework is implemented that enables investment, development and scaling of new low carbon technologies to make the needed deep emissions cuts in Europe. For this, it is crucial to manage the evolution of energy costs along the transition, considering the energy and environmental EU State aid rules, and to incentivise demand for low carbon solutions.

- **New policies that will ensure the sufficient and cost-competitive supply of clean energy for EU industry.** We must ensure that the renewable energy capacity and systems available can meet projected demand. This process implies radical system changes, not only for energy but also for raw materials. Europe has the necessary energy and financial resources, but only if policy frameworks incentivise investment. We need to secure supply. We also need to ensure a better coordination and harmonisation of EU and national energy policies. This means renewable

power should be integrated faster into the networks – which requires market integration and a framework for investment in energy infrastructure to ensure a stable and secure energy supply. Generation Power Purchasing Agreements (PPAs) must finally be supported by removing regulatory barriers, as these schemes provide companies with stable and predictable frameworks which stimulate both demand and capacity increases for renewables. The policy framework should also ensure the development and availability of carbon sinks to balance the remaining emissions from industry to deliver climate-neutrality.

- **Ambitious EU-wide policies, standards and incentives that allow new circular business models to succeed and empower a truly circular society.** This should be part of a full industrial sector symbiosis in which sectors use each other's by-products. The policies should support new recycling techniques - like chemical recycling besides mechanical and organic recycling - by approving all recycling processes. They should incentivise the use of recycled material for products where appropriate, based on a full life-cycle assessment and implement new policies to help create demand. They should remove administrative barriers (e.g. develop EU-wide end-of-waste criteria) and encourage the development of green deals by Member States to support circular business models that combine economic and environmental performance. They should further discourage the loss of recyclable materials to landfills. And they should implement policies that help create demand for products that contribute to a low-carbon and circular economy.
- **Swiftly develop the 'Digital Single Market' and establish an ambitious harmonised framework for cybersecurity to make 'Europe fit for the digital age' by delivering:**
 - **A coordinated European deal for the roll-out of 5G infrastructure across Europe.** It should aim at a 5G framework that reduces the cost of spectrum, deployment, operation and innovative applications as well as providing better regulatory

We must ensure that the renewable energy capacity and systems available can meet projected demand.



incentives for private investment. It should create faster approval processes for antenna deployments and long-term spectrum licenses with clear renewal rules and conditions supporting investment. Refrain from obligations (e.g. mandatory national roaming) that negatively affect the private investments in 5G infrastructure but ensure coverage obligations that prioritise the most imminent demands from industry and are technically and economically feasible, as well as reasonable in length. Strong, rapid and concerted action on 5G is essential to give European companies a fighting chance against US and Chinese competitors in various sectors, ranging from telecommunications to AI and robotics. Failing to do so, could result in expensive access to limited choices in the future.

- **Policy support for B2B and IoT digital platforms that leverage EU industry's deep customer relationships and domain know-how as key strengths.** Foster B2B (non-personal) voluntary data sharing by removing technical, regulatory and legal obstacles while respecting intellectual property and confidentiality rights, as well as the legitimate commercial interests of private partners. Encourage data portability as well as the interoperability of systems by promoting industry-led, globally harmonised standards. Prioritise swift development and implementation of the relevant Cybersecurity Act certification schemes in close collaboration with industrial stakeholders.
- **Equal attention to the competitive promise of AI as to its ethical dimension.** Establish European AI research and innovation superclusters that can compete with those in the US and China. Align EU initiatives with national or regional initiatives to push the application of AI in Europe in a consistent way. Facilitate private investments in AI and a fast transfer from basic research to applied science, from lab to practice, including by facilitating spin-offs from AI research institutions.

Policymakers must also remove barriers within Europe for digitally-enabled transactions and ensure that new legislation like the General Data Protection Regulation (GDPR) and other rules are implemented in a harmonised way that enables rather than hinders innovation.

- **Adopt and implement a smart EU regulatory approach to allow innovation to reach the market:**
 - **Make use of 'sandboxing'** to temporarily exempt new applications from existing regulations as a tool to boost innovation, for example, to test new concepts such as guidelines on ethical AI, or digital twins for manufacturing, in a safely delimited, regulation-free space.
 - **Operationalise the 'innovation principle'** through specific measures for its application across all policy areas (e.g. through a horizontal Commission communication or a guidance document) to achieve risk-proportionate, predictable and science-based policies. Increase communication, training and outreach efforts to ensure the innovation principle is seen and used as a complement to the precautionary principle rather than in opposition to it.
 - **Systematically perform a cost-benefit analysis of regulations**, including measures taken through the comitology process to stop the current trend of over regulation; ensure that the most cost-effective solutions are considered while also taking into account their contributions to the UN Sustainable Development Goals and the resulting risks of not deploying new technologies. The proposal made by the President-elect of the European Commission in her mission letters to the Commissioner-designates to develop a new instrument to deliver on a new **'One In, One Out' principle** is another promising way to relieve the burden on companies of all sizes, particularly SMEs, without sacrificing on oversight where needed.
 - **Use all tools available under the forthcoming Horizon Europe and other EU programmes to bridge the 'valley of death' between research innovations and market-**

ready solutions. Provide each of the Horizon Europe missions with a well-defined goal and balanced leadership, with industry well-represented. Ensure that the newly enhanced European Innovation Council (EIC) provides the funding and know-how to allow innovators, particularly SMEs, to scale up their solutions to the international level and that EIC efforts are well-coordinated with those at the Member State level and within the European Institute for Innovation & Technology (EIT).

2. Bolster investment in future technological fields and critical infrastructure

Technological fields of the future will require massive investments if we want to achieve the necessary scale and synergies and need to be supported. These are, for example, AI, 5G, blockchain, cybersecurity, quantum computing, cloud services, superchips, renewable energy solutions and carbon management²¹, circular economy, batteries, biotechnology, nanotechnology/advanced materials, genome editing, 3D-printing, etc.

We need concrete measures that:

- **Support private investment when designing and implementing the regulatory framework**, especially regarding the roll-out of state-of-the-art networks, in fibre or 5G, underlaying the digitalisation of the EU.
- **Provide ambitious and more strategic funding** through the EU's MFF with at least €120bn for Horizon Europe. A lower budget would not be forward-looking. The bare minimum would be to protect the proposal by the Commission. Furthermore, synergies should be maximised with other funds (e.g. EIB/InvestEU, Digital Europe Programme, ETS Innovation Fund, European Defence Fund, Internal Security Fund, etc.). A high level of ambition is required to enable sufficient investments for low carbon processes and technologies, mission-oriented projects and new public-private-partnerships. Every euro invested in Horizon Europe will trigger additional investments from business thanks to the signalling effect. It is also vital to match EU funding at a national level.

The incoming European Commission initiative to launch a Sustainable Europe Investment Plan²² which should unlock €1 trillion of climate-related investment over the next decade is a step in the right direction. A review of the selection criteria for Horizon 2020 projects should also be carried out, and a more risk-taking funding process for R&D projects should be encouraged.

- **Develop supportive fiscal policies, State aid guidelines and regulations**, e.g. by providing tax credits for the cost of research, but even more for the deployment and scaling of new technologies and for professional training; ensure the use of public funding instruments or temporary de-risking measures to support immature low carbon technologies.
- **Advance the IPCEI instrument** for the development of key innovations associated with substantial financial risks (as for the SVCs) with simpler rules for time-limited state support and shortened time-to-grant (target 12 months).
- **Develop and expand EU platforms** like the Battery Alliance or the Plastics Alliance to create or strengthen **strategic value chains (SVCs)** and cope with key challenges that can put the EU in a global leadership position.
- **Multiply programmes** to support the creation of more **pan-European industrial innovation eco-systems and clusters in strategic fields** (e.g. by building on existing programmes like the ETP (European Technology Platforms), Public-Private Partnerships and KICs (Knowledge Innovation Communities) within the EIT).
- **Facilitate access to finance for deep-tech start-ups** and expanding young tech companies.
- **Develop a more coordinated and more strategic approach to intellectual property**, focusing on how it can contribute to European industrial competitiveness. IP should be a fundamental pillar of any discussions about innovation and competitiveness (e.g. in the High-Level Working Group on Competitiveness and Growth).

²¹ Technologies focused on reducing process emissions and contributing to net-zero GHG emissions

²² See Mission letter of 10 September 2019 from Ursula von der Leyen to Valdis Dombrovskis

This includes the long-postponed implementation of the Unitary Patent System. Information campaigns and education initiatives must be organised throughout Europe to raise awareness and highlight the positive impact of IP on various aspects of the EU economy (e.g. competitiveness in current and future technologies, growth and jobs, innovative EU solutions to implement the UN's sustainable development goals, climate change).

- **Set up citizen and stakeholder dialogue formats for emerging technologies** (e.g. AI, genome editing) in partnership with EU businesses to engage citizens, combat misinformation, address concerns and build trust and acceptance of new technologies.

3. Equip the current and future workforce with 21st century skills

Joint public and private action is needed to tackle the challenge of up/reskilling and ensuring the employability of both an ageing workforce and young people. Europe cannot afford to waste talent. European companies need people who not only have adequate education, but also the right

personal skills and mindset.

The availability of skills is the decisive factor for industry transition. ERT Member companies already invest in education and training and want to contribute even more. There is an urgent need for AI experts and STE(A)M

Support private investment when designing and implementing the regulatory framework, especially regarding the roll-out of state-of-the-art networks, in fibre or 5G, underlaying the digitalisation of the EU.

profiles²³, particularly for AI, cybersecurity, and industrial digital applications. Hence, we call on all societal actors to join forces and work on a joint master plan for education and training, including

concrete measures which should:

- **Define a public strategy to align skills supply and demand of both newcomers and the current workforce** by applying a strategic workforce planning methodology which promotes dual learning (e.g. in vocational training) and up/reskilling (e.g. due to digitalisation).
- **Address immediate skills shortages** at the relevant level (e.g. EU, national or regional) and invest in programmes for data analytics, artificial intelligence and cybersecurity.
- **Create (national) platforms to increase cooperation and interaction between educational institutions and the private sector.** Education systems should be more open to collaboration with the private sector and other parts of society. This not only helps to identify skills needs early on but also supports students in accessing “real life” experience (e.g. apprenticeships).
- **Promote lifelong learning as the way to ensure employment security (vs. job security).** Make the labour market more dynamic, enabling more people to adapt and change careers.

4. Drive an ambitious trade and investment agenda while ensuring a level playing field

Trade barriers are almost always the wrong answer to our economic issues. Current EU trade policy must be designed in a much more effective and timely manner when other countries do not play by the rules of fairness or address areas that are not covered by the WTO.

We need concrete measures to:

- **Actively promote the WTO and drive its reform** to safeguard the organisation and address 21st century challenges (e.g. e-commerce). At the same time, **equip the EU with alternative mechanisms for arbitration, conciliation, enforcement and dispute resolution** in case the WTO dispute settlement system collapses. Also work with allies to further develop plurilateral mechanisms; such as the WTO's Information Technology Agreement (ITA), which is one of the most commercially viable plurilateral agreements of all times.

²³ Only 21% of surveyed companies have highly skilled employees that meet the requirements for an AI environment according to a study of the Technical University of Munich and SAP: <https://www.sap.com/documents/2017/07/06d6b369-c57c-0010-82c7-eda71af511fa.html>

- **Swiftly conclude and effectively implement and enforce ambitious bilateral (and regional) free trade and/or investment agreements** with key trading partners like the US and China, the UK after Brexit, as well as emerging market economies. Such agreements are the best way of ensuring reciprocity, as long as sufficient resources are devoted to proper implementation as the key to fair market access.
- **Deepen the EU's economic and trade relations with Africa** by implementing and strengthening existing EPAs (Economic Partnership Agreements) provisions, and ultimately replace these in the longer term by an EU-Africa Free Trade Area. The aim should be to create an investment climate conducive to FDI, and addressing joint challenges, for example, climate mitigation.
- **Implement existing trade and investment policy tools and develop new ones to ensure a global level playing field:**
 - **Implement the EU's FDI screening mechanisms** effectively and proportionately to ensure that foreign acquisitions are genuinely market-driven and do not undermine national security, while upholding the principle of freedom of investment.
 - **Develop and implement a more strategic EU public procurement framework** by making the implementation of the Most Economically Advantageous Tender (MEAT) principle mandatory for the public procurement process. Currently, it is not the case and majority of the tenders are still awarded based on the lowest price alone, and are not taking into account other factors such as sustainability, innovation, etc. This is why the contract award guidelines should be revised. Moreover, the swift adoption of the International Procurement Instrument (IPI) will help achieve the goal of more open international markets and ensure reciprocity in third countries.
- **Make effective use of the EU's modernised Trade Defence Instruments** to address market distortions by third countries that affect European industry.
- **Equip the EU with new trade instruments to safeguard the EU's economic interests** and protect European companies from extraterritorial measures (e.g. such as the ones resulting from third countries' sanctions policy). The success of European companies in world markets is an indispensable prerequisite for ensuring Europe's long-lasting prosperity.
- **Adopt a new approach to value-based European economic diplomacy**, in which the objectives of the SDGs become the central foundation, both for the European economy and politics, as well as for projects between partner countries. Companies that make a significant contribution to the SDGs should benefit from active EU promotion for their projects in third countries (e.g. through EU business missions on top of national delegations). Meanwhile, Europe must make much greater use of its EU embassies in third countries and coordinate more between its excellent networks to pursue key European business interests.

Equip the current and future workforce with 21st century skills

5. Create smart competition and state aid policies fit for today's global dynamics

European companies need to operate in markets governed by smart competition policies

to be able to compete successfully at scale in today's globalised and fast-moving economy. This means creating an equitable and competitive playing field which is responsive to changing global market conditions while continuing to incentivise competition within the Single Market.

We need concrete measures to:

- **Review EU State Aid rules** so they allow for temporary aid for research and demonstration projects for the deployment of breakthrough innovations (particularly in sectors of strategic importance, supported by IPCEIs); state aid

²⁴ See the ERT position paper on "Competing at Scale: EU Competition Policy fit for the Global Stage", which was released in October 2019

rules should also enable the uptake of low-carbon energy by European industry and help shield European industry from unfair global competition.

- **Modernise EU competition policy** to help European companies compete at scale²⁴. In its competition decisions, the European

Commission should take more account of 1) the demands of the digitised economy with a more dynamic and pragmatic approach to assessing markets and market power, taking into account the role of data (as a competitive

asset) and innovation ; 2) global developments by recognising the global and not just the EU market position. The Commission should also take a broader perspective on the “consumer interest” and take account of the long-term impact on the economy and society – such as employment – and the wider industrial ecosystem (including the innovation and investment capacities of companies). We also need a faster and less bureaucratic application of rules. And there should be more legal certainty for cooperation among and within sectors.

6. Partner with EU industry to embed the SDGs in strategy and maximise value creation for society

Maximising value creation for human well-being, the environment and the economy need to be at the centre of EU policymaking. This issue already has high priority on the agenda of large companies. ERT companies are committed to the Sustainable Development Goals (SDGs) and consider it as their responsibility to go beyond generating profits, to positively contribute to people's lives and to build sustainable ecosystems around them²⁵.

²⁵ see <https://industry-changemakers.ert.eu>

Such EU leadership on values and the SDGs can give EU companies a competitive edge and contribute to setting high standards, also globally. The integration of the SDGs into the European Semester process envisioned by the new Commission is an important opportunity to anchor these considerations in the economic policy dialogue.

We need concrete measures to:

- **Create an enabling environment for sustainable business activities.** For example, support and promote **innovative approaches to corporate accounting and sustainability reporting** that integrate information about natural, social and human capital into financial disclosures. Several ERT Member companies are currently piloting new ways to measure, value and manage their performance. On top of their economic contribution, they assess their impact on the environment and society. Such **innovative approaches of impact valuation** will not only help to steer sustainable business decisions, but also offer the potential to recognise best-in-class companies by channelling capital flows towards sustainable investment projects.
- **Promote and support platforms that encourage diversity and inclusive growth with public policy solutions, progressive business initiatives and stakeholders.** ERT supports diversity in the workplace and its Member companies have pledged to promote inclusion and diversity in businesses throughout Europe. Several ERT Member companies are also actively engaged in voluntary initiatives and platforms that foster the SDGs (e.g. CSR Europe, WEF Compact) and more recently joined the Business for Inclusive Growth (B4IG) Platform launched at last G7 summit.





ERT Member companies have pledged to take a range of unilateral actions that we believe are good for Europe and good for European industry.

ERT commitment

ERT Members are committed to a strong, inclusive and united Europe in which innovative industrial players, large and small, have a decisive role to play.

As Europeans, we want to leverage the power of industry for the benefit of Europe. As business leaders, we recognise that a successful Europe and successful European companies are interdependent. We need and want to be part of the solution.

What we will do

ERT Member companies have pledged to take a range of unilateral actions that we believe are good for Europe and good for European industry:

1. Invest more: ERT Member companies are investing over €50 billion per year in R&D and are ready to invest even more in conjunction with the right policy actions.

2. Open up: ERT Members have pledged to promote inclusion and diversity in businesses throughout Europe. ERT will strengthen its interactions with society and develop new best practice policies. This will also ensure that innovation follows a human-centric approach.

3. Further digital transformation: ERT Member companies will accelerate their own digitalisation, data and artificial intelligence strategies.

4. Develop skills: ERT Member companies will significantly increase the number of quality business-education partnerships including lifelong learning traineeships, apprenticeships and first employment opportunities. They will train both the current and future workforce with the required skills in the areas of digitalisation, automation and artificial intelligence.

5. Support trade: ERT Member companies will actively support the EU's efforts to deliver fair and free trade and inclusive global growth.

6. Tackle climate change: ERT Members take the lead in reducing greenhouse gas emissions along the value chain and develop low-carbon solutions. They will collaborate with policymakers at EU and national levels to ensure Europe sets the right policies required to enable an energy transition aligned with the goals of the Paris Climate Agreement.

What we invite others to do with us

We are convinced that the actions pledged above are the right things to do – for Europe and for our companies.

We also see an opportunity for these actions to have more impact and to be scaled up if there is a conducive policy context in Europe.

That is why we offer to engage in an in-depth dialogue with European policymakers and all stakeholders on the shape and content of a new European industry strategy. What we bring to the table is our deep knowledge of current global economic dynamics, the needs of companies that aim to improve and scale their activities, and the opportunities present in new technologies and business models to address societal needs.

We are convinced that as the policy context in Europe improves, these actions can be scaled up further.

We are ready. A competitive European industry generates value for society and can ensure the European economy works for the people.

Now is the time to set the course.

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The European Round Table for Industry (ERT) is a forum that brings together around 55 Chief Executives and Chairs of major multinational companies of European parentage, covering a wide range of industrial and technological sectors. ERT strives for a strong, open and competitive Europe as a driver for inclusive growth and sustainable prosperity. Companies of ERT Members are situated throughout Europe, with combined revenues exceeding €2 trillion, providing around 5 million direct jobs worldwide - of which half are in Europe - and sustaining millions of indirect jobs. They invest more than €60 billion annually in R&D, largely in Europe.

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