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Teknikföretagen

## **The Association of Swedish Engineering Industries (Teknikföretagen) comments on the European Commission Communication on Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery**

*Taking into account the accompanying European Commission Staff Working Documents on the Annual Single Market Report 2021, Strategic Dependencies and Capacities, and Towards Competitive and Clean European Steel.*

### **Summary**

The Association of Swedish Engineering Industries (Teknikföretagen) represents over 4,200 member companies that constitute one third of Sweden's exports, making Teknikföretagen the primary representative of Swedish industry. Our member companies comprise both major, renowned, global corporations as well as a majority of micro, small and medium-sized enterprises. A common denominator is that they develop technologically advanced products and services exported in fierce global competition.

The mission of Teknikföretagen as an organization is to strengthen the competitiveness of our member companies. To that end, Teknikföretagen welcomes the European Commission's ambition to facilitate for European industry to lead the twin green and digital transitions and enhance its global competitiveness. To do so, Teknikföretagen stresses that the European Commission's reaffirmation of the fundamentals of industry to be innovation, competition and a strong and well-functioning Single Market – while strengthening our global competitiveness through open markets and a level playing field – must be driving principles behind suggested policy measures.

While in support of a strategic approach to strengthen European industrial competitiveness, Teknikföretagen has strong reservations to the some of the suggested policy measures. Explicitly, Teknikföretagen is concerned by the intention to reduce strategic dependencies by utilizing targeted financial instruments to support domestic production capabilities and key technologies in politically identified industrial ecosystems and value chains, indicating an increased political intervention in the European economy.

Teknikföretagen stresses that this poses a significant risk of distorting competition on the Single Market to the detriment of innovative micro, small and medium-sized enterprises that are vital for European industry's market driven industrial ecosystems, thus undermining the functionality of the Single Market and, in extension, Europe's competitive advantage in the global marketplace. Further, targeted financial measures may disincentivize private investments and lead to a less vibrant and dynamic European economy, as well as centralizations in potentially monopolized supply chains, resulting in a less resilient, innovative, and competitive European industry.

Teknikföretagen maintains that the political objective of reducing strategic dependencies shall primarily be pursued by enabling diversification in sourcing and

strengthening structural components and framework conditions for a well-functioning EU Single Market, which attracts enterprise to invest and locate operations in the EU.

This requires a strict application of existing EU competition and state aid rules, that stimulate the growth of innovative companies of all sizes; investments into needs-driven horizontal research and development programs with awards based on excellence in open competition with independent assessments; a regulatory framework that can easily adapt to the latest technological advancements in accordance to the principles of the New Approach<sup>1</sup>; and an ambitious trade policy<sup>2</sup> that facilitates market access and establishes a level playing field with third countries.

### **Key recommendations**

Rather than a short-term sectoral recovery strategy with target investments in key technologies, European industry needs a long-term growth and innovation strategy that focuses on strengthening structural components and framework conditions on a systemic level for a sustainable and competitive European industry, based on competition and open markets. Therefore, we propose the following recommendations as guiding principles for the future direction of EU industrial policy in the context of the updated industrial strategy:

- *Competition key driver for innovation and competitiveness*  
A strict application of EU competition and state aid rules is imperative for an innovate and competitive European industry. An increased political intervention in the European economy through use of targeted state aid measures risks distorting competition on the Single Market to the detriment of innovative micro, small and medium-sized enterprises that are vital for market driven industrial ecosystems, and, thus, the competitiveness of European industry. It may also lead to centralized value chains, that are less resilient, ultimately undermining key objectives of EU industrial policy.
- *Strategic autonomy must not disincentivize international collaboration*  
Although not as explicitly prevalent in the updated industrial strategy, the concept strategic autonomy is still at its foundation as it is central to the industrial strategy presented on March 10, 2020. As the updated industrial strategy builds upon the 2020-strategy, we would like to stress that we do not consider there to be a political consensus among Member States as to how the concept is to be applied. It is paramount that the application of the concept does not limit European industry's access to foreign markets and collaboration with non-EU actors. Explicitly, we find indications to limit European industry from collaborating with non-EU actors on strategic areas in research and development programs extremely worrisome. The competitiveness of European industry is contingent upon access to global value networks, including both supply chains and value adding research and development collaborations. This must be safeguarded.

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<sup>1</sup> See the European Committee on Standardization (CEN) on the New Approach [here](#).

<sup>2</sup> See Tekniföretagen's answer to the European Commission consultation on the EU Trade Policy Review [here](#).

- *Use ecosystem approach to identify structural issues on systemic level*  
The European Commission's ecosystem approach should primarily be used as guidance for policymakers and industry to jointly identify structural challenges that can be addressed on a systemic level, to strengthen framework conditions for a well-functioning Single Market. A top-down sectoral approach to identify market failures should be avoided and complemented by a market driven, bottom-up process. In this regard, the role of the Industrial Forum should be more clearly defined to serve as consultative body for the Commission to identify potential systemic issues to be further discussed with experts, stakeholders and industry itself.
- *Strategic dependencies are best addressed by enabling diversification*  
The primary role of EU industrial policy is to ensure the best possible conditions for European industry to prosper by removing barriers and strengthening framework conditions which attracts enterprise to invest and locate operations in the EU. This also includes removing obstacles for industry to diversify and minimize risk throughout the supply chain, making them more resilient to disturbances in global trade flows. For this, an ambitious free trade agenda is key.
- *Ensure competition is not distorted by use of IPCEIs*  
It is not the role of EU industrial policy to identify which technologies are key to address current and future societal challenges, nor for the functionality of industrial ecosystems or value chains. Such processes – and governance thereof – must be transparent and inclusive, allowing for companies of all sizes regardless of Member State of origin to participate in open calls responding to broader policy objectives that are awarded based on excellence – not based on Member States' will and capacity to enable its domestic industry to participate. Explicitly, Important Projects of Common European Interest (IPCEI) must only be used in cases of evident market failures that the market itself cannot address and identified through extensive industry dialogue. A solution to address first industrialization in cases of market failures should preferably be considered on EU level and carried out through a similar process as for the framework programs to limit the risk of market distortions.

## General comments

The updated industrial strategy and the accompanying Staff Working Documents provide a useful analysis of the economic impact on the EU Single Market during the Covid-19 pandemic as well as the EU's core dependencies of foreign markets. There is also a welcome focus on removing barriers for a well-functioning Single Market within industrial ecosystems, such as research and development, standardization needs or other core framework conditions that need to be addressed. Preferably, the primary purpose of the ecosystem approach should be to identify such framework conditions that need to be addressed on a systemic level in order to strengthen the functioning of the Single Market to ensure the best possible business environment for an innovative, competitive and prosperous European industry.

However, the main governance model(s) and some of the suggested financial tools remain problematic, which also extends to addressing strategic dependencies.

First, the Industrial Forum remains the main governance function of the industrial ecosystems besides the European Commission itself. Although a welcome initiative to strengthen stakeholder engagement, its role and scope is vague and needs to be further clarified. It is paramount for the dynamic of market driven industrial ecosystems and the functioning of the Single Market as a whole, that the European Commission and the Industrial Forum do not attempt to manage the functionality of the politically identified ecosystems. Rather, the ecosystem approach – supported by the Industrial Forum – can be utilized to identify barriers and systemic issues on the Single Market, to be further discussed with experts (such as the research and development community or the European Standardization Organizations), stakeholders and industry itself. As such, the Industrial Forum must not be used as a one-stop-shop for stakeholder outreach.

In this context, we would like to express our support of the joint Nordic paper from the Confederation of Danish Industry, Confederation of Finnish Industries, Confederation of Swedish Enterprise, and the Confederation of Norwegian Enterprise with proposals for the Industrial Forum.<sup>3</sup>

Second, while identifying funding gaps and available funding instruments for individual sectors of the European economy and getting a better grasp of Europe's current and future dependencies is a useful exercise, we find the principal financial instrument to increase strategic production capabilities in the EU, and the governance process thereof, problematic. This pertains to the prominent and extended role of industrial alliances and Important Projects of Common European Interest (IPCEI)<sup>4</sup> in the updated industrial strategy. It is unclear how the technologies selected to form industrial alliances around are identified, including what the roles of the European Commission, Member States and industry are in the selection process. Additionally, industrial alliances have in practice become a precursor to emerging IPCEIs. Apart from the identification process, IPCEIs are

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<sup>3</sup> The joint Nordic paper from the Confederation of Danish Industry, Confederation of Finnish Industries, Confederation of Swedish Enterprise, and the Confederation of Norwegian Enterprise with proposals to the Industrial Forum can be found [here](#).

<sup>4</sup> See Teknikföretagen's answer to the European Commission consultation on the Review of the Communication on Important Projects of Common European Interest [here](#).

problematic for several reasons. Primarily, the use of an intergovernmental financial instrument where only companies from Member States that are co-financing the projects can participate creates an unduly competitive advantage for companies from Member States with the ability and will to subsidize its domestic industry to participate in projects, which is contradictory to the principles of the Single Market.

Teknikföretagen notes that the IPCEI-instrument is an exception to the state aid rules, and as such possible overuse of the instrument poses an inherent risk of distorting the competition on the Single Market. Exceptions to the state aid rules should be treated as such, and therefor applied carefully in evident cases of market failures and only when the criteria to initiate projects are met. We would like to note that as for IPCEIs, it is not the European Commission's role to support the projects as is expressed in the strategy, but rather to ensure that the criteria are met before initiating a new project. This also pertains to Member States' Recovery and Resilience Plans when including IPCEIs, in which case acceptance of the plans shall not constitute acceptance of the projects included to be initiated as the IPCEIs must be scrutinized on its own merits according to set criteria. Further, we have yet to see empirical evidence that use of the instrument generates positive spillover effects across ecosystems or within ecosystems. This needs to be carefully examined before initiating new projects.

Preferably, if needed, instruments to address first industrialization and the scaling up of innovations should be considered on EU level, with a similar process to that of the framework programs for research and development. In that case, the process should be conducted through needs-motivated, technology neutral, open calls with independent reviewers to ensure a market driven process that does not distort competition on the Single Market.

While critical of industrial alliances, mainly because of the lack of transparency in the identification process and subsequent use of the IPCEI-instrument, Teknikföretagen is a strong proponent of further developing Public-Private Partnerships (PPP) on EU-level.

A world-class research and innovation system is the basis for Europe's long-term sustainable competitiveness. If Europe is to continue being a leader in developing new technologies and establishing globally successful companies, we must invest more in research and innovation, both from private actors and the public sector.

Private investment in knowledge and value-creating goods and services will result in growth opportunities in new markets. However, to encourage investment, there needs to be an attractive innovation climate, an ecosystem that encourages the exchange of knowledge between different actors, and an ability to create, combine and use new technologies.

Strategic research and innovation cooperation between public and private actors should continue to be developed at European level. This is a prerequisite to reach the EU's ambitious goals of the twin transition and an impactful recovery after the pandemic. The PPP-models for research and innovation should be further developed as a part of Horizon Europe focusing on industry oriented collaborative research. Further efforts are needed to involve small and medium-sized enterprises (SMEs).

Technology infrastructures are vital for companies to validate, prototype and scale-up new solutions before entering the market. Technology infrastructures include competences, technical equipment and infrastructures, digital and/or physical, that single companies cannot provide themselves, and allow an open access to industry of all sizes. The EU needs a strategy for technology infrastructures and to set up a governance model to steer such strategy, while adopting a common definition for technology infrastructures at EU level and harmonizing the existing EU mapping and repositories based on such definition.

In this context it is important to avoid duplication of initiatives. The industrial alliances, strategic value chains, the Horizon Europe Partnerships and to some extent, the ecosystems, are similar in their set-up, namely that they include public and private actors and in many areas address the same or very closely linked area/technology or industry. EU initiatives to strengthen research and innovation collaborations in Europe should, for example, build on the work carried out by the European technology platforms and business driven collaborations. Instruments that make exceptions to the state aid rules (IPCEI) should solely be used in exceptional cases and only where other instruments are not an option. Special consideration must be given to smaller countries' industrial systems to encourage their involvement.

Thus, we support the ambition of reducing strategic dependencies, but have reservations regarding the approach on how to address the issue. Rather, we assert that the role of EU industrial policy is to ensure optimal conditions for industry in Europe to prosper, by strengthening framework conditions on a systemic level for a well-functioning Single Market; while EU trade policy shall facilitate market access and secure a level playing field with third countries. Combined, this will attract investments and enterprise to locate operations within the EU and enable European industry to diversify its supply chains, resulting in increased production capabilities as well as more resilient supply chains.

## **Detailed comments**

### ***Uphold free movement and an innovation-friendly Single Market***

The EU Single Market is Europe's competitive advantage in the global marketplace. A well-functioning Single Market is therefore imperative for European industry's global competitiveness. Teknikföretagen welcomes the strategy's strong focus on the essential need to uphold the free movement of persons, goods, services and capital on the Single Market. Explicitly, this pertains to the commitment to strengthen the resistance to future disruptions, resulting from border controls and closures, uncoordinated national restrictions and containment measures restricting the free movement, which severely impacted the Swedish industry.

Teknikföretagen welcomes the proposal of a Single Market Emergency Instrument to provide a structural solution to ensure the availability and free movement, focusing on information sharing and coordination. A mechanism to address critical product shortages by speeding up product availability (such as standard setting and sharing, and fast track conformity assessment) is also welcomed, while product safety and requirements need to be upheld – stressing the need for efficient and proportionate market surveillance procedures on Member State level. A new Single Market Enforcement Task Force can be useful in order to assess

restrictions and barriers, while respecting national competency in the area of market surveillance.

We are also supportive of the acknowledgement of the importance of effective market surveillance in general, emphasizing the need for coordination, the potential of improved digitalization of authorities, product inspections and data collection using state of the art technologies to trace non-compliant products as announced in the Single Market Enforcement Action Plan.

A European regulatory framework that is not too burdensome and able to adapt to the most recent technological advancements is imperative to boost innovation, growth and competitiveness. In this regard, Teknikföretagen welcomes the intention to reduce the costs of applying legislation, especially for SMEs, by a revised approach to Better Regulation. However, we assert that the European Commission one-in-one-out approach should further its ambition and aim to not only maintain the status quo but to set targets to reduce the cost of compliance and administrative burden on European companies. To succeed, a focusing on the cumulative effect of requirements should be given preference as well as replacement of legislative cost.

Further, to promote the global competitiveness of European industry, the European Commission should conduct a comparative assessment of the legislative and administrative burden in the European regulatory framework in comparison to comparative and competing markets to ensure that the competitiveness of European industry is not negatively impacted by overly burdensome legislative requirements in comparison to foreign competitors; and benchmark good regulatory practices in other markets.

An innovation-friendly European regulatory environment is fundamentally contingent upon a well-functioning European Standardization System (ESS). In addition, the global competitiveness of European industry relies on access to global markets and, thus, the harmonization of technical requirements through identical EU and international standards. In this regard, we welcome the strategy's expressed need for European leadership in standard-setting and ensuring interoperability, while acknowledging that global convergence on the same international standards help reduce adaptation costs and strengthen EU and global value chains.

We strongly welcome the reaffirmation that for the EU to retain its influence in setting global standards, its own standardization system – a core of the Single Market – must function in an agile, adaptive and efficient way. Unfortunately, the process for developing harmonized European standards (hEN) and publishing references to hENs in the Official Journal of the European Union has become overly burdensome and politicized due to increased management by the European Commission. As a result, it is increasingly difficult to ensure that hENs correspond to the latest technological advancement on the market or to know which version of a standard to apply with respective EU legislation. This undermines the functioning of the EU Single Market and the Vienna and Frankfurt Agreements between CEN/CENELEC and ISO/IEC, diminishing European industry's ability to affect the technical content of international standards and, thus, Europe's global competitiveness.

Therefore, Teknikföretagen calls on the European Commission to engage in constructive dialogue with the European Standardization Organizations and

industry stakeholders to renew trust in the ESS. This dialogue needs to go beyond the interpretation of case law with the objective to ensure a European standardization system that is fit for purpose and an agile standards development process that allows for industry to easily develop and revise standards that can reflect the most recent technological advancements on the market and those yet to be placed on the market. This is vital in order to ensure a European regulatory framework that facilitates innovation and first to market ability for European industry. In extension, this will enable Europe to set international standards and affect the technical content thereof, which will strengthen European industry's global competitiveness.

This needs to be clearly reflected in the forthcoming new standardization strategy and the European Commission's assessment whether amendments to the standardization regulation are required. The guiding principles behind the ESS must be the principles of the New Approach, to ensure a well-functioning Single Market conducive to an innovative and competitive industry as a driver for European growth and prosperity.

Similarly, we are experiencing an increasingly prescriptive approach to EU regulations and directives, that is not conducive to an innovation friendly European legislative model. This also pertains to an increased use of delegated acts, that increases the role of the European Commission in the EU legislative process to the detriment of the Member States' – and in extension industry itself – influence on legislative acts. We therefore call on the European Commission to adhere to the principles of the New Legislative Framework<sup>5</sup> when drafting EU legislation.

Additionally, competition is a vital cornerstone of the very functioning of the Single Market and a key driver for innovation, growth and competitiveness. We very much welcome the reaffirmation of the European Commission's support of a continued strict application of EU competition policy to maintain a level playing field on the Single Market to support companies to innovate and grow. In this regard, monitoring the application of the State aid Temporary Framework, which has been extended until the end of 2021, is essential to ensure that state aid permitted under the framework does not negatively affect competition on the Single Market. Unfortunately, Teknikföretagen has already received indications from its member companies that competitors with origin in other Member States have benefitted from state aid mirroring investments our members have financed themselves, resulting in unduly competitive advantages, undermining the functionality of the Single Market. The cumulative effects of state aid granted during the pandemic – on national and EU-level, explicitly under the Recovery and Resilience Fund – will need to be carefully examined and evaluated with regard to its effects on the competition on the Single Market. It is imperative that the State aid Temporary Framework and COVID-19 related State aid measures and crisis support are (progressively) phased out to limit the risk of distortions of competition on the Single Market.

While a welcome focus on small and medium sized enterprises, we would welcome clarifications on the criteria, governance and selection process for the announced InvestEU initiative to mobilize € 45 billion of investments in SMEs by 2023, further targeted SME-support through REACT-EU, and the possibility for Member States

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<sup>5</sup> See European Commission on the New Legislative Framework [here](#).

to provide equity support under national support schemes to strengthen the solvency and growth of SMEs in line with the State aid rules, including the State aid Temporary Framework. This also pertains to the accelerated work on the equity funding of SMEs, including expanding support for scale-up capital, strategic investments and for Initial Public Offerings (IPO) – explicitly the functioning of a proposed new IPO-fund to support SMEs and midcaps.

As for the upcoming Communication on Business Taxation for the 21<sup>st</sup> Century, we stress that taxation is a Member State competency of principal importance to safeguard.

This also relates to EU social policy, where the Commission has launched several legally binding initiatives in the wake of the European Pillar of Social Rights. Compulsory initiatives, like the directive on Transparent and Predictable Working Conditions in the EU, the establishment of a European Labor Authority, as well as the more recent proposals on a directive on adequate minimum wages in the EU and binding pay transparency measures, have had and will have serious consequences for the functioning of national labor market models and the competitiveness for European companies.

EU industrial policy should be closely coordinated with the initiatives in social policy as they both should contribute to the foundation for the union's overall competitiveness, recovery, and growth. Thus, it would be natural for the Commission to also tackle the challenges of the increasing regulatory burden in social policy and how the very detailed labor market initiatives will affect well-functioning national labor market systems. We assert that these initiatives do not secure framework conditions favorable to European industrial competitiveness. These aspects also play a key role in ensuring that European industry can lead the way in transitioning to a green, digital and resilient economy. We stress that increased global competitiveness is a precondition to address social challenges in Europe. Thus, social policy goes hand-in-hand with industrial policy and cannot by itself solve European social issues.

Similar to the labor markets, the education systems differ significantly among Member States, both in organization and financing models. The European Skills Agenda proposes distinct objectives on the participation in learning of low-qualified adults and the unemployed. We assert that responsibility and actions should be referred to individual member states, while policy at EU-level can contain objectives and directions if the proposals are technology neutral and do not promote any particular technology or solution.

### ***The European Commission's ecosystem approach***

As expressed above, we assert that the primary purpose of the ecosystem approach should be to identify framework conditions that need to be addressed on a systemic level in order to strengthen the functioning of the Single Market and to ensure the best possible business environment for an innovative, competitive and prosperous European industry.

It is still unclear to us how the 14 ecosystems were selected, other than on the expressed basis of their assessed economic and technological relevance, and expected contribution to the decarbonization, digitalization and resilience of the EU economy. Applying a sectoral approach risks losing sight of transversal aspects that are imperative for the functionality of several industrial sectors and

ecosystems. For example, the 'digital' ecosystem is assumably prevalent and an enabling factor for all other ecosystems, while the 'tourism' ecosystem presumably does not generate the same contribution to the selection criteria. In contrast, there is no ecosystem for advanced manufacturing, which contribution to said criteria of decarbonization, digitalization and resilience of the EU economy likely is much higher than the tourism industry. Therefore, we question the need for such sectoral approach – other than as an analytical tool – rather than applying a systemic approach to address Single Market barriers.

Further, as exemplified in the accompanying *Annual Single Market Report 2021*, the analysis of the ecosystems breaks down systemic issues on a sectoral basis. Examples of these are general Single Market barriers, research and development, skills, public procurement, intellectual property, as well as the twin green and digital transitions. While a welcome analysis and opportunity to identify the challenges facing the Single Market that need to be addressed, we emphasize that framework conditions ought to be addressed both on systemic level and sectoral level to remove barriers for a well-functioning Single Market.

Similarly, there is a strong focus on identifying the needs of targeted, sectoral and technology specific financial support, and to inform future policy and investment decisions. Possible instruments to support the implementation of future policy range from the Multiannual Financial Framework and Next Generation EU to support investments and financing; for the European Commission to promote the development of industrial alliances and the possibility for Member States to design IPCEIs; in addition to Horizon Europe Partnerships and Joint Undertakings. As many of these instruments have overlapping objectives, it is important to ascertain not only which available instruments that possibly can apply, but also which instruments are appropriate to utilize for what purpose. Further, funding for similar objectives need to be complimentary for public funds to be used efficiently and appropriately for the intended objective, while not leading to market distortions.

Finally, as the 14 ecosystems are expressed to represent approximately 70 percent of the EU economy and 80 percent of the business economy (as a share of value added), deductively it is of principal importance to safeguard that enterprise not covered by the European Commissions mapping of industrial ecosystems are not disenfranchised by subsequent financial support to stimulate the identified ecosystems. In this regard, it is also important to take into account that public capital injections to actors in the ecosystems may also disenfranchise other actors within the same ecosystem. Ultimately, this may undermine the functionality of European industry's market driven ecosystems, leading to a less dynamic and vibrant European economy. This needs to be carefully evaluated before applying such measures.

### ***On reducing strategic dependencies and building capabilities***

Teknikföretagen welcomes the ambition to enable European industry to reduce dependencies and strengthen capacities. We also find the in-depth assessment in the *Staff Working Document on Strategic Dependencies and Capacities* an informative and useful analysis. Teknikföretagen is also supportive of many of the proposed measures, including means of diversifying production and supply chains, and ensuring strategic stockpiling. However, Teknikföretagen continues to emphasize our reservations regarding some of the proposed policy measures to foster production and investment in Europe.

Teknikföretagen is concerned by the means of reducing strategic dependencies by utilizing targeted financial instruments to support domestic production capabilities in key technologies in politically identified industrial ecosystems and value chains, indicating an increased state intervention in the European economy. Our concerns echo the reservations expressed in our general comments regarding the industrial alliances and IPCEIs. We would also like to reiterate the need for clarification on potentially overlapping financial instruments and objectives, relating to the effective and efficient use of public funding in the above section on the European Commission's ecosystem approach.

We are also concerned that the barrier for applying targeted financial instruments to address market failures may be lowered, as it unclear what the Commission considers to constitute a market failure and how it will interpret criteria to grant state aid that answer to strategic areas.

For example, strategic capacity is defined as a certain level of capabilities held within the EU allowing to produce, provide or rely on strategic goods, services, data, infrastructures, skills, industrial know-how and technologies. Among the areas identified to be of particular strategic importance are aerospace and defense, health, digital, electronics, renewable energy, energy intensive industries, critical raw materials, and critical technologies. This may include the availability of scalable manufacturing capabilities that can be relied on during a crisis situation and demand. The European Commission acknowledges that private firms have the ability, the incentive, and the information to diversify supply and demand sources sufficiently to absorb normal discontinuities in trade flows. However, that not all of them might be able to accommodate unanticipated demand and/or supply shocks exceeding what normal business operations would dictate. In such instances, the collective cost of a potential demand and supply shock to the general EU public may, according to the Commission, exceed the lost profits to the market operator importing specific goods or services. Given the result, it is assessed akin to a market failure, and policy action addressing strategic dependencies may be justified according to the Commission.

This reasoning indicates that targeted state aid may be justified to build up domestic production in Europe, where there is a demand the market cannot meet.

The Commission also expresses that it intends to support industrial alliances in strategic areas where such alliances are identified as the best tool to accelerate activities that would not develop otherwise. The Commission will also continue to support Member States' efforts to pool public resources via IPCEIs in areas where the market alone cannot deliver breakthrough innovation. As previously stressed, it is not the role of the Commission to support new projects, but to ensure that the criteria are being met in order for projects to be initiated. Teknikföretagen asserts that the framework for IPCEIs shall continue to apply only when there are significant market or systemic failures the market itself cannot address that would justify state aid within the provisions of Article 107(3)(b) of the Treaty on the Function of the European Union.

We also note that the Commission is conducting an extensive review of the EU competition rules to make sure that they are fit to support the green and digital transition. It is utmost importance that the cumulative effect of the possible increased leeway for the Commission to grant state aid does not lead to distortions of competition on the Single Market, undermining its functionality and European industry's competitive advantage in the global market place.

A less strict application of EU competition rules may lead to market concentrations, which the Commission also notes can result in internal dependencies where European industry relies on key products and inputs from a relatively limited number of sources within the Single Market. We would like to stress that this also may result in centralizations that make supply chains less resilient to disturbances to trade flows.

We are concerned by similar trends among key trading partners, notably China and the US, to also work towards limiting external dependencies to become more self-reliant and regionally autonomous. As expressed by the Commission, the aforementioned trading partners are also conducting comprehensive reviews of the resilience in their own strategic supply chains, identifying possible risks and vulnerabilities in global supply chains and ways to address them. This may exacerbate a politically driven decoupling process that is in no one's economic interests.

In this regard, it is important for the EU to take into account upstream dependencies. As expressed by the Commission, critical raw materials are essential to the functioning of several industrial ecosystems and the EU is highly dependent on imports of raw materials for several key products and technologies, and demand for raw materials is expected to increase significantly across several sectors and technologies. Thus, securing supply of critical raw materials is central to achieving the EU's political ambition of reducing dependencies in downstream manufacturing. In order to increase production of critical raw materials, there is a need to improve predictability and timeliness of permitting procedures. However, this is a competence of Member States that the EU does not control, illustrating gaps in its strategic approach to become more autonomous.

Rather, this highlights the need for a strategic approach to international cooperation and developing partnerships, while focusing on strengthening Europe's competitive advantages. The Commission points to the need to investigate the EU's relative performance in comparison to its global competitors to provide indication to possible future dependencies. While a useful exercise, Teknikföretagen would like to add benchmarking of the framework conditions and good regulatory practices in competing markets that may be driving factors behind competitive advantages among EU competitors.

Teknikföretagen strongly welcomes the European Commission's several policy measures that focus on enabling European industry to diversify, such as strengthening strategic partnerships and pursuing an ambitious free trade agenda, including better enforcing EU trade agreements. This also extends to defending against unfair trading practices. Internally, diversification can be strengthened through a strict application of EU competition rules and considering strategic stockpiling, including among global partners.

We also find the analysis of reverse dependencies (where other countries are dependent on the EU), mutual dependencies (that can be an element of stability in global value chains) and common dependencies (shared foreign dependencies with our partners) a useful exercise. This provides an opportunity to contribute to EU political ambitions while building towards a more positive global trading environment based on cooperation with likeminded partners to find mutually beneficial solutions. Teknikföretagen would like to express our strong support of the proposed new EU-US Trade and Technology Council, that provides a valuable opportunity to strengthen the transatlantic relationship by removing costly tariffs

and non-tariff barriers, including cooperation on international standards. An ambitious free trade agenda with other partners and trading blocs, as well as strengthening EU neighborhood policy, are also key to enable diversification.

In parallel, the EU's vast network of existing and future free trade agreements can contribute significantly to EU companies' ability to solidify and diversify supply chains. They contribute to establish geopolitical partnerships, open opportunities for European businesses in third markets, secure the most diversified and high-quality portfolio of goods and services entering the EU and, at the same time, they ensure a level playing field.

Although undeniably affected by disruptions in the supply chain due to production in and sourcing from non-EU countries, Teknikföretagen wishes to draw attention to the fact that disruptions of supply chains in Europe resulting from measures to contain the spread of Covid-19 in other European Member States had (for some sectors) a significantly larger negative impact on industries with production in Sweden. Companies with a diversity of geographical locations for sourcing outside the EU were better able to maintain supply by scaling up production in regions not experiencing shutdowns. Once these regions were affected, production was scaled up in other locations in order to secure an adequate supply of intermediary goods for production in Sweden. In the context of resilience, we stress the role of European trade policy to enable for industry to diversify supply and sourcing by removing obstacles to trade and establishing a level playing field on global level. It must be up to each company to make their own risk assessment and organize their supply chains and value networks accordingly.

Ultimately, the EU's foremost instrument in its toolbox to reduce strategic dependencies and fostering capabilities is to strengthen Europe's competitive advantage, the Single Market. Ensuring the best possible conditions for industry to prosper in the EU, by strengthening framework conditions on a systemic level for a well-functioning Single Market, will attract investments and enterprise to locate operations in Europe. To reiterate, we assert that this requires a strict application of existing EU competition and state aid rules, that stimulate the growth of innovative companies of all sizes; investments into needs-driven horizontal research and development programs with awards based on excellence in open competition with independent assessments; a regulatory framework that can easily adapt to the latest technological advancements in accordance to the principles of the New Approach; and an ambitious trade policy that facilitates market access and establishes a level playing field with third countries.

By doing so, the EU will foster the right conditions conducive for innovate technologies to emerge in Europe, enabling European industry to find the solutions to address today's and tomorrow's societal challenges, and export those solutions worldwide.