N O V E

GERMANY'S INDUSTRIAL STRATEGY 2030

February 2019

EXECUTIVE SUMMARY

On 5 February 2019, on the eve of the European Commission's rejection of the Siemens-Alstom merger[1], the German Federal Ministry of Economic Affairs and Energy (BMWi) presented a new industrial plan (only available in German) for Germany, "Industrial Strategy 2030 – Strategic Guidelines for German and European Industrial Policy"[2] which foresees industry's share of gross value added in Germany growing to 25%, as well as support for SMEs, the promotion of industrial leadership nationally, in Europe and globally, and investment in Artificial Intelligence (AI).

Presenting the strategy, German economy minister Peter Altmaier criticised the impending decision to block Siemens-Alstom merger, calling for competition rules to be reformed to allow strong European champions able to compete with big US and Chinese players to emerge. "We need strong European champions," Altmaier tweeted. "France and Germany agree." Speaking at the EU Industry Days, Commission President Juncker defended the decision. While a level playing field is essential for industry, he said, new trade defense instruments[3] and new rules on foreign direct investment screening[4] were more appropriate tools to ensure fair competition.

BMWi argues that the strategy is justified. What's more, it's late. Europe and Germany lag behind in what the BMWi defines as key industrial sectors, and because the German state in part exists to ensure the well-being of all citizens (*Wohlstand für alle*), and because other geographies also have extensive—even protectionist—industrial policies in place, it is time for Germany and Europe to follow suit. Indeed, BMWi does not hide that the proposal is a suggestion for other EU Member States. The paper makes clear that any German industrial policy is by extension European, and outlines plans to, once the national strategy is adopted by the cabinet, launch a conversation with European colleagues to develop a common European strategy for 2030 and create a European Council configuration of industrial ministers. Though a European industrial strategy already exists, and was updated by the Commission as recently as September 2017, many EU Member States consider it too limited. In December 2018, 19 Member States[5] called for European competition rules to be revised and a new strategy to be developed before the end of 2019.

Industry representatives generally welcomed Altmaier's initiative. The Federation of German Industries (BDI) even called it overdue, but maintained that state intervention should not be to buy shares but to provide funds for investment in support of innovation. Business, BDI maintained, knows better than government what are the technologies, sectors and markets of the future. The German Institute for Economic Research (DIW Berlin) cautioned against protectionism, saying that Europe should not take what is working in China and make a bad, lightweight copy.

NATIONALE INDUSTRIESTRATEGIE 2030

JUSTIFICATION AND GOALS

The strategy opens with a foreword from German Economy Minister Peter Altmaier, in which he justifies the strategy as necessary for the German state to fulfil its promise to maintain "well-being for all". All the more so now that the "cards have been redealt" and Germany must navigate accelerated innovation and answer to

[1] The Commission rejected the merger between the European rail giants on 6 February 2019. Altmaier and his French counterpart Bruno le Maire supported the deal and considered it to be in European economic interest. Le Maire called the Commission decision a "political mistake".

[2] Original German: *Nationale Industriestrategie 2030 – strategische Leitlinien für eine deutsche und europäische Industriepolitik*

[3] In June 2018, the EU approved a set of new trade defense instruments that enable the EU to impose higher duties by changing the 'lesser duty rule'; shorten the investigation period to accelerate the process; increase transparency; and account for the high environmental and social standards applied in the EU. They also include a new anti-dumping methodology.

[4] In December 2018, a new European framework for screening of foreign direct investment was passed, creating a cooperation mechanism where Member States and the Commission will be able to exchange information and raise specific concerns.

[5] The 19-group statement on industry was signed by France, Austria, Croatia, Czech Republic, Estonia, Finland, Germany, Greece, Hungary, Italy, Latvia, Luxembourg, Malta, Netherlands, Poland, Romania, Slovakia and Spain.

extensive—even protectionist, he writes—industrial strategies of other countries. He relativizes the strategy, commenting that state intervention in the economy is nothing new, but that this strategy is careful to define precisely in which cases such intervention may be exceptionally necessary. He argues that Germany cannot sit by and let these changes happen, or it will suffer them: the competition is not sleeping.

The central goal of the National Industrial Strategy 2030 is to work with industry to shore up economic and technological competences, competitiveness and industrial leadership in “relevant sectors” nationally, in Europe and globally. A concrete goal of increasing the portion of industry contributes to GDP to 25% (Germany) or 20% (Europe) by 2030 is set. He underlines that state intervention to meet this objective will be exceptional, temporary and only in cases of fundamental importance when other paths of action have proved insufficient.

STATUS QUO AND THE PROPOSED CHANGE OF COURSE

The strategy notes that 23% of Germany’s GDP currently is thanks to industry, but that the capacity to innovate and compete in sectors[6] where Germany is a leader is not a given and is “melting away”, due to the pressure from other markets. The strategy makes the example of the deficit in ICT, noting that Germany and Europe have failed to participate fully in the digital, platform-based economy. It could even dethrone the German automobile industry. It is not without reason, says the BMWi, that European digital start-ups eventually relocate to the US to take advantage of developed Venture Capital Fund financing[7]. Germany is still strong in automotive and in research for AI, the BMWi contends, but not one German company invests as much as the any of the big US companies in this area, and commercialisation and market applications are lacking. Germany cannot afford to bank on its traditional strengths and turn a blind eye to what is next. Failing to capitalise on new technologies and sectors threatens traditional sectors as they are transformed by these developments.

BMWi calls for an independent and comprehensive analysis of all economies in Europe (current studies are incomplete or the methodology intransparent), including Germany’s, to understand their status in order to plan the best pathway to the future.

Europe and Germany are not just falling behind economically, but politically. Other countries—including the USA, Japan and China—recognised the need to fortify their industrial potential and have gotten active in this space much earlier. BMWi criticises Europe for having ignored the writing on the wall too long and accuses the EU of leaving European industry to lose the race. “Industrial strategies are experiencing a renaissance. There is hardly any successful country attempting to overcome these challenges solely with market forces.”

To catch-up to economies that are surging ahead, BMWi calls for Germany to concentrate on two game-changers: (1) fundamental innovations and the (2) pace of innovation.

Fundamental innovations are defined as those with consequences for important or even all sectors of the economy. These innovations (examples named include airplanes or the internet) often represent a disruptive and radical redirection of current processes or technologies. According to the BMWi, digitisation is the most important fundamental innovation of our time, in particular the development of AI[8]. Only those economies able to capitalise on digitalisation will be able to complete long-term in the global economy. BMWi suggests that there is still time, especially for sectors like e-Mobility, health and digital cloud learning. However the hourglass is emptying quickly. For example, if Germany and Europe allow digital platforms for autonomous driving to be headquartered in the US, and battery production for electric vehicles in Asia, then the EU will have lost more than 50% of the value chain. Other fundamental innovations identified include nano and biotechnology, lightweight engineering, new materials and quantum computing.

The pace of innovation is the second game-changer mentioned. The pace has quickened immensely over the past 15 years, and societies unable to keep up will not be the rule makers in this new paradigm but the rule takers from those economies that acted early. Therefore, the BMWi suggests a 6-point plan to capture the momentum of these game changers for Germany and by extension, Europe.

(1) Recognise that the question of industrial and technological capacities, leadership and competitiveness as **the fundamental challenge** that must be overcome to ensure a future-fit Germany;

[6] Sectors mentioned: steel, copper and aluminium; chemicals; machine and tools; automotive; optics; medical devices; green tech; defense; air and space; additive manufacturing.
[7] Examples mentioned by Altmaier when presenting the strategy include “unicorns” like online bank N23, language translation software Deepl and Booking.com. “All of these companies needed money to grow…and they found it in the United States. Again and again they found it in the United States”.
[8] AI stretches across a variety of applications—transport, logistics, services, goods, machine learning, smart societies—making it a fundamental innovation.

(2) Set a quantitative goal for German industry to be **responsible for 25% of GDP** as one indicator as to whether the industrial strategy is working. Set a modified goal of 20% for the EU as a whole;
(3) Shore-up **full value chains** within the economy from raw material production through to marketing. Analyse where current value chains are broken or endangered and develop appropriate measures to repair them or prevent further erosion
(4) **Build on existing strengths and attempt to regain lost ground.** Experience shows that once industrial sectors are lost to competitors, they are difficult to win back. For this reason we must not swap "old dirty" industries for "new clean" industry – all industry matters.
(5) **Strengthen the middle of the economy**, including "hidden champions" with highly specialised products and applications that capture market share.
(6) **Review competition and merger and acquisition law at national and European level and make necessary changes.** There is a critical size that companies must obtain to compete internationally. Countries, like Germany, that lack (new) companies[9] of this critical size, cannot de facto participate I the world market. it de facto means an important and growing

A NEW ROLE FOR THE STATE

BMWi is careful to note that Germany subscribes to a market economy worldview and will remain an open economy that encourages foreign investment, but that the State must create the right framework for industry to thrive in Germany. In the recent past, this frame has sometimes changed in Germany, e.g. the Energiewende to protect climate goals, in a way that hurt German competitiveness compared to geographies that did not take these steps. BMWi feels State aid to redistribute these impacts and build a level playing field is justified, should not be called a subsidy, and should be allowed under EU law.

Furthermore, any mergers blocked by the State will remain an exception in cases where national security is impacted. Foreign attempts to acquire companies in key industries where innovative leadership and technology are at stake are for the private economy and market to prevent, by making more appealing offers. The State should be able to support in this case. Furthermore, in "very important cases" the State should be able to purchase shares of companies as a temporary measure. The portion of shares is fixed and cannot grow. The grounds for this partial nationalisation of companies depends on several factors, including the importance of the sector (more important = more capacity to intervene, less important = less capacity to intervene) and considerations of proportionality (no more than what is needed). The State will at no time be involved in the internal decision-making of companies.

NEXT STEPS

GERMANY

The strategy now enters a consultation period, being neither comprehensive nor wholly uncontroversial. BMWi will speak to relevant players including policymakers, industry, unions and academia. Following this, the revised strategy will be presented to the cabinet for approval. Once approved, a road map of concrete steps for Germany will be released. Finally, BMWi outlines a monitoring process to follow implementation of the strategy. The monitoring will begin from 2021.

EU

BMWi calls on Brussels to be more active in punishing competition distortion in other countries, including with measures such as temporary subsidies in innovative sectors or to prevent dumping and abuse of monopolistic status. BMWi calls for an encompassing a review of competition law and a relaxation of merger and acquisition law in the case of companies that need to attain a certain size to compete.

The German Federal Government will call for Brussels is to develop its own industry strategy based on the strategies of the most important EU industrial Member States and work to reverse the process of deindustrialisation in the EU. Altmaier is already in close contact with French counterpart Bruno Le Maire and plans conversations with the Netherlands, Poland and the Baltic states soon to determine how to proceed.

BMWi also suggests the creation of a new Council configuration dedicated to industry. This would replace multiplicity in configurations like the trade, competition, telecoms and energy councils.

[9] The strategy notes that hardly any new companies of this size have emerged in Germany in years and that earlier world leaders (like AEG) have shrunk. Germany relies disproportionately on its historic champions like Siemens, Thyssen-Krupp or Deutsche Bank.