

wholesale policy briefing on the industrial strategy and recovery plan – 29 June 2020

Purpose and summary

This document serves as a briefing document ahead of the call with Mr Tokarski, director DG GROW on 29 June on the industrial strategy and the EU recovery plan. During the call, we will hear from Mr Tokarski how the Commission is progressing with its industrial strategy, what role it will play for the recovery and to put forward wholesale as a sector to be considered as a key player in the context of the strategy. This briefing note provides a summary of **the key points covered in the industrial strategy and impact on wholesale**, as well as the **recovery plan** and suggests some **key points to address** during the exchange with Mr Tokarski.

State of play

- on 10 March, the Commission published its **Industrial Strategy** with a clear objective to support the so-called “*twin ecological and digital transition*”. The strategy comes as a package of documents including a new strategy for SMEs as well as a communication and a report on single market barriers and enforcement of single market rules. These documents are complementary to the Digital and the data strategies released in February, the Green Deal, the circular action plan, and the Farm-to-Fork strategy, a more recent consultation on a new and open trade policy as well as the current revision of competition rules.
- on 27 May, the Commission put forward an ambitious **recovery plan**, including a €750 billion (€500 billion in grants and €250 billion in loans) Next Generation EU fund and a modest rise in the MMF to €1.1 trillion; the recovery plan is itself based on the principles laid down in the industrial strategy and will follow an eco-systems based approach.
- following dialogues with Commissioner Breton and DG GROW services, we were able to obtain that **retail and wholesale is recognised as one of the 14 eco-systems** most affected/ playing a key role in the recovery process.

1- Industrial Strategy

Key measures of relevance to retailers and wholesalers in the strategy include:

- **Industry vs Services** – It is clear that the paper regards “industry” as largely manufacturing; hence EuroCommerce’s reminder in its press notice that services make up 70% of GDP and should not be neglected. It includes support for consolidation of industrial eco-systems financing mechanisms and prioritisation of critical sectors – important projects of common interest, and a new pharmaceutical strategy.

As a result of our dialogue with Commissioner Breton and DG GROW, we have obtained that retail and wholesale is recognised as a key eco-system for the recovery and are asking that the retail and wholesale dimension is also recognised as part of other industrial eco-systems (eg textiles, foods, automobile, etc.). On this basis, we are working on a draft contribution to the consultation on the pharmaceutical sector. At a recent discussion with the EuroCommerce Environment Committee, the Deputy Head of Unit of the Sustainable Production, Products and Consumption Unit at DG ENVI referred several times to the eco-systems and highlighted that the Commission

wants to tackle the silo-thinking, which means that a lot of DGs will work in parallel on proposals that are overlapping and interlinked. As concerns, the EU Textile Strategy, our sector is seen as an important sector that needs to be involved.

- **supporting European champions / Competition rules** – Before publication of the strategy, there was much speculation as to how far Breton's inclination to favour European champions would seek to undermine existing competition rules. This is largely discounted in the initial statement that *"being competitive requires competition both at home and in the world"*. The industrial strategy mentions the ongoing review of existing vertical and horizontal block exemption rules, which we are keen to see adjusted to take account of digitalisation and the new online competitive challenges it presents. It points to the review of the market definition, which may not bring dramatic change, but its focus on review of merger control and state aid rules could be unhelpful if they lead to further concentration in suppliers. Cooperation and financial support for Important Projects of Common Interest, for example to build up battery production, plastics and others in Europe may be less problematic. We heard competition authorities raising concerns that the Covid crisis may lead to further concentration on the market. We will need to support Margrethe Vestager in keeping competition and consumers in the centre of policy-making.
- **Single market** – the strategy underlines usefully the need for **strengthening the single market as a springboard for global competitiveness**. Key points for us include the need to **remove emergency measures** adopted during the crisis but are incompatible with the single market once the crisis is past; Member States may otherwise be tempted to maintain these measures. We are further asking EU institutions to **address Member States' protectionism and discrimination effectively** to ensure interests of consumers are equally served in EU and national policy decisions. We further call for stronger **single market governance** eg through a review of the Commission's complaint handling procedures to be more predictable, act more quickly and leave less room for political dispute. We encourage the Commission to step up efforts to ensure that Member States implement country-specific recommendations in the **semester process**. We further ask the Commission to address **Territorial Supply Constraints** – brands segmenting the market to impose price differences across countries (an upcoming DG GROW study to confirm that TSCs are beyond anecdotal practice (a study underway in DG GROW is expected to show that these are widespread beyond anecdotal evidence as claimed by manufacturers). The EU institutions should also resolve **fragmentation of waste management and recovery**.
- **digital**: the data strategy aims at encouraging further data sharing as a means to support industrial European based eco-systems; while the digital strategy announces a digital services package before end 2020.

We are working on our contribution to the stakeholder consultations under the DSA package. We are calling for a framework that ensures **high levels of consumer trust** (especially a level playing field for consumer direct imports in the EU), but also **fair competition** and supports **strong retail and wholesale eco-systems in the digital world** and avoid rules that could inhibit their development. On data, we encourage more **data sharing on a voluntary (contractual) basis** as key to the development of strong retail and wholesale digital eco-systems and are asking for some clarification in competition rules to ensure legal certainty; mandatory data sharing should be limited to very specific circumstances (last resort cases of market failures which cannot be solved by competition law).

Wholesale members have raised the importance of the digital transition and highlighted access and sharing of data, AI, traceability and tracking of products as key priorities. The Covid 19 crisis has further shown that operators who had or were able to swiftly develop an online operation suffered less from the crisis measures, even if digital sales did not fully compensate for the losses

incurred during the crisis. Mr Tokarski will be interested in any support measures that wholesalers would benefit from as part of the recovery plan.

- **Global competition:** the strategy announces an **Instrument on Foreign Subsidies**, revival of a dormant proposal on International Procurement Instrument to deal with unfair competition from state-subsidised non-EU competitors, and stronger customs controls to deal with illegal products, the latter taken up in the single market papers and responding to our calls for a level playing field for direct imports from e.g. China. **Protectionism** is on the rise and the global trading system under serious pressure -with global trade down about 30% as a result of crisis measures. Concerns may be arising as member states will be tempted to **seek a reshoring of certain production** after the crisis especially in certain strategic sectors. The importance of a well-functioning global trading system and diversification of sourcing should be stressed as part of the discussion. From a wholesale perspective the Commission's announcement in the trade strategy of "**making the most of the EU's toolbox of trade defence instruments**" needs to be challenged. As we have seen recently, EU producers push for excessive use of TDI measures to protect their industries to the disadvantage of traders and consumers, but also to the downstream industry.
- **Sustainability and circularity:** the industrial strategy refers to a **circular economy communication** (which members of the wholesale interest group discussed with DG ENVI in May), which includes action for smart sector integration; a Common European Energy data space ; a Just Transition Fund for workers in energy-intensive industry, a new chemicals strategy, sustainable and smart mobility; a regulation on sustainable batteries, a strategy on textiles, a circular electronics initiative, empowering consumers (information on reusability, durability and reparability of products). The strategy also foresees early adoption of proposals for a Carbon Border Adjustment tax, which will raise major trade issues with e.g. China and the US.

Wholesale members have raised the importance of raising visibility and proper understanding of the sector but also the need to look at opportunities in the circular economy package for wholesale to be part of the solution -eg renovation wave for the construction sector (some worrying statements in the field of energy initiatives); concerns were expressed on proposed measures related to waste management and climate. Our briefing with DG ENVI showed that the Commission had a high interest for the issues and concerns of wholesalers and suggested a number of workstreams where the sector could feed into the work of DG Envi.

- **Leading in research, innovation and deployment**, including developing an industrial innovation strategy and establishing an Innovation Council. This action is in close coordination with the Digital Strategy launched in February.
- **A pact on skills:** in the next 5 years, it points to 120 million Europeans having to be skilled or reskilled; the Commission foresees various measures, including support for public-private partnerships. Wholesales members have raised the importance of developing green technology skills, improving access to digital skills as well as reskilling; also a better image of vocational training as well as a further reflection of the impact of AI and automation on employment. Skills in wholesale are often highly specialized and closely linked to value chains in which wholesalers operate.
- **Governance:** the strategy announces an Industrial Forum with representatives from industry, including SMEs, big companies, social partners, researchers, Member States and EU institutions in autumn 2020; support industrial alliances to foster sustainability in specific sectors; continue with Industry days; make it a joint responsibility, develop KPIs to monitor progress in Competitiveness Council and European Parliament. We have written to the newly appointed Director General of DG GROW to **request full participation in the governance of the strategy**.

- **other points:** a key aspect of the strategy will be the cost of legislation and how the strategy will support the economy and not put additional burdens on businesses as well as the impact of the crisis on several dossiers (circular economy, packaging, sourcing of products, plastics, waste management). This is all the more important in the context of the crisis and need to support recovery.

Recovery plan – Implications/opportunities for wholesalers

- **impact of the crisis:** retail and wholesale is one of 14 strategic ecosystems identified by the Commission under the Industrial Strategy. The economic analysis accompanying the recovery proposal expects recovery to be quicker in retail and wholesale than in other sectors – this is due to expected ‘robust demand’ (which is not quite in line with members’ experience so far). It sees retail and wholesale hit particularly hard by liquidity and working capital shortfall, with a heightened risk of bankruptcy, and liquidity shortfall particularly marked in vulnerable large (over 250 employees) and medium sized enterprise (20 to 250 employees). The analysis suggests equity losses of € 57 to 94 billion, based on estimates of expected lost turnover for 2020, and an investment gap estimated €115 billion, estimated on the rough share of our sector in ecosystems’ pre-crisis level of investment.
- In principle, retail and wholesale should be able to benefit from the increased resources in many of the announced programmes, including the Recovery and Resilience Facility, the Solvency Support Instrument, REACT-EU, Just Transition (particularly for SMEs), the Strategic Investment Facility, Globalisation Adjustment Fund and cohesion funding. We will also need to see how to harness the funding under digitalisation, sustainability and clean mobility programmes, all of which have extra funding.
- **an eco-system approach:** during our meeting with K. Jorna, we heard that DG GROW would play a key role, essentially through the semester process, in managing the recovery plan and that they would look at projects with an eco-systems approach. However, there is no sector / eco-system specific approach to allocate funds. We asked the Commission to support our sector navigate through the variety of programmes.
- We will need to be aware of the strong pressure from manufacturing industry for the lion’s share of recovery aid, and pressure (repeated by President Macron and Chancellor Merkel last month) for action to create European global champions. We are discussing with the Commission to encourage them to ensure that eco-systems most in need have a fair share of the funds. As the bulk of the recovery plan will be managed by member states, we encourage our members to do the same at national level.

Key messages for Mr Tokarski

We have received an interest in contributing to the discussion from Metro, Maarkant, WBA, FECC and FIGIEFA.

During the introduction, we suggest raising and illustrating the following points:

- Wholesale as an important sector, which plays a key role in often sophisticated eco-systems and facing structural changes arising from digitalisation and greening of the economy; wholesalers often below the radar and risk being caught by legislation with unintended effects; a recent example is the issue of electric isolation, for which it is not clear if this is treated by the new Circular Economy Action Plan as a construction product or as an electrical product; an issue which the Commission had not anticipated. Wholesale as essential service through covid but also hit

hard for those not providing essential services; companies that had an online / digital capability suffered but less than those who did not; digital sales did not fully compensate for the losses incurred during the crisis;

- industrial strategy focuses on relevant challenges impacting wholesale; wholesalers should be represented and accounted for in the industrial strategy; they should be part of the governance as well;
- investment support through the recovery plan should focus on supporting the digital and sustainability transition; digital, sustainable and resilience are not mutually exclusive and reinforce each other -eg supporting omnichannel or robotization reinforces digital capability but also resilience; investing in energy efficient building also supports resilience; skills is also an important aspect;
- regulation should also support the transition; the need to repair the single market and address global protectionism are key priorities; but also a regulatory framework that supports strong ecosystems facing global competition especially in a digital economy; regulators should be mindful not to undermine EU based companies and support their ability to grow, compete and innovate;
- Support a stronger SME strategy, focused on addressing key structural challenges -digitalisation and navigating the digital economy; greening; skills; ensuring SMEs have access to support funds