Opinion of the Committee of the Regions — Industrial Policy Package

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Reference documents
Communication from the European Commission — For an European Industrial Renaissance,
COM(2014) 14 final, and
Communication from the European Commission — A vision for the internal market for industrial products,
COM(2014) 25 final

I. KEY MESSAGES BASED ON THE COR’S EUROPE 2020 MONITORING ACTIVITIES

1. Since 2010, the CoR has addressed industrial policy primarily from the standpoint of the related flagship initiatives in the Europe 2020 strategy, which it has assessed in a series of surveys and conferences (1). This work culminated in the CoR’s comprehensive overall assessment of the Europe 2020 Strategy, presented on 7 March 2014 in the Athens Declaration (2) on a territorial vision for growth and jobs, accompanied by a Mid-term Assessment Report (3). In brief, the CoR advocates:

a. giving Europe 2020 a territorial dimension, and setting differentiated targets at regional level through a mixed bottom-up and top-down approach;

b. designing and implementing Europe 2020 on the basis of a multi-level governance approach;

c. adequately funding the long-term investments needed to support growth and jobs;

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2. notes that by involving cities more closely in all stages of the policy-making cycle, the EU will be better able to manage the changes that citizens are facing all across Europe. This requires a multilevel governance approach, working together with all tiers of governments (vertical partnership) and in cooperation on different scales with all stakeholders (horizontal partnership);

3. proposes that the Commission increase its activities in regional and local benchmarking, exchange of experiences and peer learning — all of which are crucial to building industrial innovation capacity and are therefore of great relevance to Europe 2020. To take on a coordinating role and offer partners a platform for finding solutions, LRAs’ administrative capacity in these areas needs to be strengthened;

Additional analysis on territorial dimension of the industrial package

4. The CoR has analysed the territorial dimension of the Industrial Policy Package and identified the main issues and needs of LRAs when implementing industrial policy: (1) the role of local and regional areas in the global value chain; (2) the uneven and persistent impact of the crisis on territorial, economic and social cohesion; (3) multi-level governance and policy coordination; (4) the institutional capacity and strategic governance of industrial policies; (5) the capacity to promote entrepreneurial discovery and to regulate the market fairly and efficiently;

5. notes that the analysis also included evaluation of links between these problems and needs and the Industrial Package communications, and benchmarking of some best practice cases. The outcomes include proposals for LRAs to support and promote industrial activity;

(1) http://portal.cor.europa.eu/europe2020/Pages/MTAR.aspx
(2) http://portal.cor.europa.eu/europe2020/Documents/2210%20Athens%20Declaration%20A5%20indd.pdf
6. Based on this analysis, the CoR recommends that LRAs pay special attention, in their research and innovation strategies based on RIS3 smart specialisation, to the following, where in many cases implementation will require Commission measures:

a. Performing a needs analysis based on the situation and potential at local level;

b. Identifying the appropriate context-specific priorities for structural change;

c. Peer reviews of strategy;

d. Integrating regional and local strategies in the national system;

e. Promoting the development of institutional and governance capacity;

f. Implementing a sound monitoring and evaluation system, so that outcome and impact objectives are supported by flexible administrative guidelines and auditing practices;

g. Promoting market rules and a bottom-up approach to policy design;

h. Exploring and promoting context-specific KET integration and development;

i. Job-creation capacity and mobilisation of local know-how in processes, especially production and service processes.

II. BASIC POLICY RECOMMENDATIONS

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7. agrees with the Commission that a strong industrial base is of prime importance to Europe’s competitiveness and steady growth. Stressing that industry means much more than the traditional manufacturing sector which it is typically used to refer to, and stressing that industrial processes and ecosystems have an enormous impact throughout society, the CoR urges rapid implementation of the measures proposed in this statement;

8. points out that Europe’s competitive advantage in the global economy derives mainly from its sustainable, high-added-value products and services, and therefore that reducing during a period of economic crisis the innovation investment that is essential to industrial renewal has come to pose a serious threat to Europe’s future;

9. urges Europe to recognise its need to pursue global leadership in strategic sectors with high-value jobs. For this, existing industry needs to be stimulated by investing in new technologies, by improving the business environments, by easing access to markets and to finance, as well as by ensuring that workers have the relevant industrial skills;

10. stresses that the longest crisis ever experienced by the EU has underlined the importance of strong, competitive and sustainable industry as a cornerstone of citizens’ well-being. Industry accounts for more than 80 % of Europe’s exports and 80 % of private research and innovation. Nearly one in four private sector jobs is in industry, often requiring a high level of professional skills. Every new job in manufacturing results in 0.5-2 jobs in other sectors;

11. underlines that, in addition to measures taken by society, the responsiveness of, and measures taken by, each industrial business itself are crucial to enabling industry — as the backbone of the real economy and prosperity — to develop in a competitive way;

12. draws attention to change management skills at the local level across Europe. Industrial and also political competencies more than ever include an understanding of business processes, knowledge and technology management, as well as personal interaction skills. Industrial activities within value chains and networks are becoming ever wider and ever more complex, as large companies and SMEs operating in different sectors and countries interconnect with each other. The policies of large businesses and SMEs in the industrial sector must be effectively linked to the particular industrial policies of the states and regions in which they are located;
13. points out that the traditional product chain concept with its fixed phases and production factors is becoming blurred, because the reality is based on complex interactions in globally networked ecosystems. Technologies play a key role as enablers for new, sustainable approaches;

14. highlights the importance of emphasising the modernisation of traditional EU industries, above all those whose competitiveness was predominantly a factor of labour costs and in which there is a high level of know-how which can be capitalised on;

15. acknowledges the recent industrial development in which industrial products and services complement each other. Services represent about 40% of the value added in European manufacturing exports. About a third of the jobs generated by these exports are located in companies that supply the exporters of goods with auxiliary services. Services such as maintenance and training are crucial elements in the delivery of complex manufactured products. Expert services — such as financing, communications, insurance and Knowledge-Intensive Business Services (KIBS) — are playing an increasing role in the production of manufactured goods. This is one of several explanations for the increasing contribution of services to the overall output of an economy;

16. wishes to highlight the consequences of the ICT paradigm shift. Today, mobile networks are more prevalent in cars, consumer electronics, industrial production and healthcare than in people’s everyday activities. A modern machine tool company often has more than ten times as many computers and network devices as an office environment. Networked activities require effective knowledge management: information modelling for systems, as well as open innovation and cooperative activity, with benefits for all concerned. There is an urgent need for regional information modelling in urban planning, and process management at municipal and regional level;

17. wishes to promote the adoption of corporate social responsibility concepts in European industrial policy as a basis for a more productive, sustainable and inclusive economy;

Main priorities defined in the Commission communication and the European Council decision in March 2014

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18. agrees with the Commission on calling on the Member States to embrace the cause of revitalising industry and find common ways to strengthen European competitiveness and sustainable growth; believes that the European Commission must better harness all the potential in the area of industrial policy in the spirit of Article 173 of the TFEU, particularly by opting to ‘take any useful initiative to promote … coordination (of Member States in the area of industrial policy), in particular initiatives aiming at the establishment of guidelines and indicators, the organisation of exchange of best practice, and the preparation of the necessary elements for periodic monitoring and evaluation’;

19. stresses that the industrial strategy cannot be put into practice as a stand-alone policy, as it has numerous interactions with many other policy areas. Industrial strategy must be closely linked with energy, training, RDI, trade, infrastructure, social responsibility and health and safety policies; therefore asks for a more integrated and interdisciplinary approach to the industrial policy;

20. notes that SMEs should be recognised as a strategic component of European industrial policy, ensuring the effective application of the Communication on the Small Business Act;

21. draws attention to the important role played by heavy primary industry in developing bioindustries in Europe, and recommends that the EU introduce new cooperation and financing mechanisms for applying the latest European technology and other know-how in complex, large-scale projects for renewing primary industry, especially in areas suffering from intractable unemployment;

22. wishes to emphasise the priorities proposed by the Commission to be pursued in support of the competitiveness of European industry. The CoR, however, stresses that those are basic requirements which need further development and concrete implementation;
welcomes the important decisions with respect to increasing industrial competitiveness made by the European Council on 20—21 March 2014. The Council stated that key enabling technologies (KETs) should be consolidated by defining projects of European interest as soon as possible, and also paid special attention to the role of cleantech as a cross-cutting element for enhancing the competitiveness of industry;

24. considers it necessary, in connection with Regulation (EC) No 1260/2012 implementing enhanced cooperation in the area of the creation of unitary patent protection, to stimulate innovation and ensure the maximum exchange of knowledge which could be a source of future technological progress. At European level, it is necessary to prevent the use of patents as a strategic weapon, for example through the abusive use of patent thickets or the fragmentation of patents, and to promote strict patenting criteria to avoid awarding patent monopoly rights to patents with a low added value;

25. acknowledges that the Council, in addition, urged the Commission and the Member States to address shortages in the area of science, technology, engineering and mathematics (STEM skills) as a matter of priority, with the increased involvement of industry. Measures are urgently needed to put this into effect, and the Committee recommends that these also include measures to improve language skills and thus improve the performance of the internal market;

26. calls for the Commission to take re-industrialisation measures that focus on excellence and promoting excellence across Europe's industrialised regions, supported by the Horizon 2020 programme. INTERREG programmes are certainly necessary instruments for strengthening networking between universities of applied sciences located in industrialised regions, however, in light of the ever greater interaction between the worlds of science and industry, the CoR sincerely regrets the absence of the ‘Knowledge Regions’ tool of the Horizon 2020 programme from the 2014-2020 programming period, a tool which had previously proven its worth in framework programmes in terms of coordinating the research agendas of regional clusters for a period of almost 10 years; underlines that the Horizon 2020 programme's first year of operation has shown that no sufficiently effective new tool has been developed to meet this requirement. The 'Knowledge Regions' tool should be rapidly re-developed and implemented;

27. encourages the Commission to stress the relationship between science, business, society, the public and policy-making, and supports the important role of regions in bringing together all relevant stakeholders on the basis of the Triple Helix and Quadruple Helix models;

28. highlights that the Council also emphasised that all available instruments, including EU structural and investment funds, should be used to achieve the objectives for Europe's competitiveness and sustainable growth;

**Investment package for growth and jobs**

29. stresses the joint responsibility of the European Commission, Member States and local and regional authorities for creating and implementing the 300-billion investment package for promoting growth and jobs, since they hold complementary legal and budgetary competences in this respect. New solutions with both short- and long-term impact can be based on the following principles:

- Industrial renaissance requires developing more effective financial instruments with better public and private integration, including venture capital, innovative public procurement, and loans or guarantees with greater risk capacity;

- Investments supporting industrial growth and jobs require new combinations of facility and infrastructure investments with industrial process renewal and new forms of university-industry research and innovation collaboration. This development can be sped by breaking silos and learning from latest research and industrial applications in different business sectors;

- Industrial recovery can be accelerated by enhancing the use of digital technologies and online services, and especially by finally implementing the European Digital Single Market;

30. supports the research of alternative sources of finance to strengthen ecosystems; such sources include crowdfunding, venture capital, and other innovative tools to break free of the traditional dependence on bank loans;
III. GENERAL RECOMMENDATIONS WITH RESPECT TO EU POLICY

THE COMMITTEE OF THE REGIONS

31. acknowledges that Europe’s competitive advantage in the world economy is based on sustainable, high value-added goods and services, the effective management of value chains and access to markets throughout the world;

32. points out that a stable and predictable regulatory environment is a prerequisite for investment in industry to take place in the EU. This stability and predictability must be achieved both at local and regional level, and at national and EU level. Stability and predictability as a guarantee of legal certainty for businesses must be driven by EU legislation, preferably via directives;

33. supports the Commission policy of developing the Single Market as a cornerstone of competitive and sustainable industry. In addition, the CoR points out that the internal market legislation for products and services is a key factor not just for the competitiveness of European industry but also for consumer and environmental protection;

34. supports the Commission statement that to remain competitive, the European market for industrial products and services needs a regulatory framework that facilitates innovation and does not create unnecessary barriers to the timely take-up of new technologies and introduction onto the market of innovations. EU legislation and standards need to allow new products, services and technologies to be made available on the market rapidly so that Europe can avail itself of a first mover advantage in the global marketplace;

35. underlines that regions must be able to define their own growth potential and drive innovation, involving in this definition local and regional authority bodies, in a mixed top-down and bottom-up approach;

36. reiterates its proposal for territorial pacts to organise the levels of cooperation involved in regional development projects and promote cooperation between regions; proposes that this process be covered by a single programming document, ensuring that at the regional level, national and local policies reflect EU sectoral and cohesion policies;

37. calls for investments linked to these single programming documents to be included within a set of loans issued by the European Investment Bank (EIB) working to create new territorial ecosystems for economic and social innovation. This could be an excellent way to foster innovative solutions, provide demonstrators for companies and promote consortia in areas where companies need to establish new partnerships. These ecosystems would be public/private partnerships and would have to meet the dual objective of making companies more competitive and the public sector more efficient (thus helping to rationalise public spending);

38. is convinced that the key building block to support the EU’s industrial ambitions is represented by the regional policy of smart specialisation RIS3, founded on a systematic analysis of existing regional specificities and potential for innovation and growth;

39. suggests that Member States adopt spatial planning policies that allow them to decide in good time on the location of entrepreneurial areas and that do not create unnecessary obstacles which make the location of firms unviable;

40. urges regions to evaluate the need for technologies to promote the intended development in their own RIS3 smart specialisation strategies, and to take the necessary measures to promote industrial policy as a key funding priority as well as measures to increase their partnerships across the EU to achieve their targets;

41. calls on the Commission to support interregional networks in particular, cooperation between them and mutual learning. One example is the Vanguard initiative, which has put the industrial renaissance at the core of their S3-activities with a view to promoting an exchange of experiences, creation of stairways of excellence and joint processing of project applications;
42. calls on the EU to deliver financing for regions in helping them to create efficient innovation ecosystems and take joint European initiatives. The CoR stresses that decentralised EU supported innovation activities are the only way to achieve the RIS3 targets across Europe;

43. stresses that compared to the previous programme period 2007-2013, the rules and practices defined by the Member States and regional authorities should be renewed to emphasise and measure the outcomes and the impact. This essentially requires increased participation of all key RDI players in the region in implementing the region’s RIS3, as well as effective networking at the EU level;

44. agrees with the concerns voiced by many players across Europe that the Member States and regional authorities have not followed the Commission guidelines in cutting red tape, renewing the financing to be based on RIS3, and in building the flexible user-driven ESIF funding system;

45. urges the Member States to assess local business conditions with a view to making administrative procedures more efficient and cutting red tape for companies. This will make it possible to compare how different procedures and ways of applying rules affect the local business environment;

46. urges the regions jointly with the Commission to review their RIS3 and European Partnership plans with respect to KETs. According to the S3 Platform report, regional policy-makers have a lot of questions related to state aid and financing of KETs, including rules of financing demonstration projects and infrastructure;

47. points out that national instruments must also be deployed, notably market-based and other innovative funding instruments. The new funding priorities agreed on by the Commission and the EIB provide a significant opportunity for cutting-edge companies to invest in KET technologies;

48. emphasises the importance of the European Structural and Investment Funds (ESIF) and the Horizon 2020 programme for strengthening the industrial competitiveness of the EU. It is particularly important to enhance multidisciplinary top-level research and the practical application of its findings at regional level. Multifund packages of measures are needed through which in particular the latest ICT and KET research knowledge is used to modernise the various industrial sectors and to create the new practices needed to achieve lasting social outcomes;

49. in addition, support from the European Globalisation Adjustment Fund (EGF) continues to be an important practical tool that helps people and regions to recover from the consequences of the economic crisis and the impact of globalisation by helping people who have been made redundant to find new jobs;

50. draws attention to the crucial role of human capital, first-rate know how and skills in tackling industrial challenges. Skills mismatches and training issues will be a key challenge for EU industry in the coming years, especially as progress in manufacturing technologies increases demand for specific skill and training sets; believes that public awareness needs to be raised and multidisciplinary and cross-sectoral training and educational programmes need to be established so that the findings of research and innovation can be further developed, made permanent and implemented;

51. challenges the young digital generation and their start-ups to contribute to the design and implementation of regional smart specialisation strategies by helping to identify gaps and to fix the processes in the necessary value chains in the regions. The new innovative solutions should focus on both public and private industrial processes and behaviour of citizens as customers;
52. urges the EU, Member States and regions to direct cohesion funds and Horizon 2020 into competitiveness enhancing investments in industrial cross-regions, cross-border and cross-sector opportunities. Particular attention needs to be paid to energy, transport and digital infrastructure, enabling cooperation between countries, supply chain integration, and enhanced internal EU trade;

**Urgent need to speed up change**

THE COMMITTEE OF THE REGIONS

53. has pressed in its opinions for structural reform of industry and emphasised the importance of society’s and companies’ responsiveness in the competitive environment created by globalisation and digitalisation. These recommendations are also tied to measures raising the level of skills required, and to lifecycle thinking that emphasises overall impact and climate change targets. These statements include:

a. Industrial policy needs to be one of the pillars of the European venture, treated as a genuine political priority on the same political footing as cohesion, infrastructure and agriculture; Forward-looking management of skills and change should be viewed as a crucial component of industrial strategy at every level (**). The EU must provide financial support for regions that introduce innovating mechanisms for forward-looking change management;

b. A comprehensive approach above all creates great opportunities to develop new sustainable materials and helps meet the CO₂ targets enshrined in the EU 2020 strategy. A consistent lifecycle approach already starts in the product [the word ‘car’ is used in the original opinion] design phase. This also covers environmentally relevant effects in the production process, as well as the operational phase and, finally, recycling and/or processing for subsequent re-use as well (**);

54. has already identified the key changes needed to industrial policy and the necessary investment for modernising business activity as well as the means for implementing these. The following quotations from the CoR opinion adopted three years ago show that these same guidelines are still in preparation and that EU measures are too slow to respond swiftly to changing economic and business needs. The CoR (**):

a. agrees that progress needs to be made on smart specialisation to make industry more competitive, and calls on regional and local authorities to give impetus to their own innovative niches. Smart specialisation is the key link between the Communication on industrial policy and the Flagship Initiative Innovation Union;

b. considers that the public authorities could be a significant driver of business competitiveness through innovative public procurement;

c. agrees that there is an urgent need for structural reforms given the sweeping changes that are affecting the business environment;

55. emphasises that the pace of change can be enhanced by allocating more resources to the local and regional levels. We need innovative and high-quality pioneering activities and replication of results across Europe. The regions are ready to start experimenting and rapid prototyping, which is a key for success;

56. has indicated in a number of its opinions what should be stressed in implementation. The following examples taken from the opinion on Horizon 2020 (**), which the CoR adopted two years ago, are relevant, among others, when it comes to implementing the Industrial Policy Package. The CoR:

a. notes that internationally successful products are the result of world-class expertise based on value chains and ecosystems. Horizon 2020 needs to be able to create the conditions for functional innovation chains; only then will it be possible to respond to major societal challenges and the need for industrial regeneration;

b. emphasises the role of key enabling technologies in Horizon 2020. Technologies should not only be developed in separate science and technology programmes; rather, they should be linked as early as the R & D stage to industrial value chains and global innovation value networks, and to activities that develop regional ecosystems and innovation clusters and strengthen expertise;

(*) CdR 2255/2012 fin.
(†) CdR 1997/2013 fin.
(‡) CdR 374/2010 fin.
IV. SPECIFIC POLICY RECOMMENDATIONS WITH RESPECT TO THE BUSINESS ENVIRONMENT

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57. acknowledges that the global competitive environment has changed fundamentally and it is necessary not just to adapt to the situation but also to become a motor of change in many respects. The long-term global competitiveness of EU business needs to be given greater weight when evaluating existing EU regulation and deciding how to target RDI funding:

58. underlines that the EU legislation on industrial products lays down the main requirements for companies in respect of safety, health and other matters of public interest. It is particularly important that industry should not be excessively burdened with pointlessly frequent regulatory changes, but, on the contrary, have concrete mechanisms available aimed at facilitating and supporting business investment. Controlled dismantling of regulatory barriers is important as technology develops ever more rapidly and global supply chains become even more interconnected;

59. encourages European regions and cities to create and implement a regulatory framework that stimulates innovation and ICT investment throughout the economy in their territories. The EU’s re-established role as a global innovator will trigger a virtuous circle of productivity gains, growth and job creation;

60. points out that the Commission has promised to ensure that regulation is stable over the long term and that rules are substantially simplified. This objective is an immediate priority. Thorough impact assessments should be carried out of new rules. EU standards serve in practice as a model throughout the world, and the Commission will continue to promote a system of international standards;

61. once again, calls on the Commission to enhance its powers of analysis and its support measures for businesses, by looking into the possibility of creating, as it has agreed for the agri-food industry, a new category of mid-sized enterprise somewhere between SMEs and large enterprises, employing between 250 and 750 workers and with a turnover of under EUR 200 million. This category could receive appropriate rates of aid, higher than those for large enterprises and lower than those for SMEs (8);

62. points out that new state aid rules for General Block Exemption Regulation GBER and Research, Development and Innovation RDI came into effect in July 2014 (9). The new rules enable increased R&I investment, especially in large-scale, complex project clusters, with one aim being to significantly influence industrial renewal;

63. notes that facilitating the implementation of EU structural and investment funds by extending the scope of application of the GBER represents a significant improvement;

64. notes that the GBER sets out the conditions under which state aid is exempted from the obligation of prior notification to the Commission, and that the GBER sets out increased notification thresholds and aid intensities, and introduces additional new categories of exempted aid such as aid to innovation clusters and investment aid to research infrastructure;

65. notes that the framework for state aid for RDI includes aid for experimental development and industrial research and that higher maximum aid intensities for applied research are now possible;

66. emphasises that the Important Projects of Common European Interest IPCEI instrument has an extended scope beyond R&D which includes first deployment, and the deployment of IPCEIs often requires a significant participation from public authorities since the market would not otherwise finance such projects;

(8) See point 18 CdR 2255/2012 fin.
67. reiterates that IPCEIs may represent an important contribution to economic growth, jobs and competitiveness for the EU economy and industry in view of their positive spill over effects on the internal market and EU society;

68. underlines that Member States and industry should make full use of the possibilities offered by new state aid rules when promoting business activity, industrial renewal and job creation in Europe;

69. highlights that even though unfair conditions are imposed on European companies operating in key emerging markets, European companies should improve their innovation capacity and become key players within dynamically expanding networked value chains.

Brussels, 3 December 2014.

The President
of the Committee of the Regions
Michel LEBRUN