



European Economic and Social Committee

INT/833

A comprehensive approach to industrial policy

OPINION

European Economic and Social Committee

Adopting a comprehensive approach to industrial policy in the EU – improving business environment and support for the competitiveness of the European industry
(exploratory opinion)

Rapporteur: **Gonçalo LOBO XAVIER**

Co-rapporteur: **Dirk BERGRATH**

Consultation	Bulgarian Presidency of the Council, 05/09/2017
Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Single Market, Production and Consumption
Adopted in section	18/12/2017
Adopted at plenary	17/01/2018
Plenary session No	531
Outcome of vote (for/against/abstentions)	134/1/0

1. Conclusions and recommendations

- 1.1 The EESC recognises that a renewed EU industrial policy strategy is a key factor in orienting growth and the rapid adaptation of Member States to the new trends and to a new economic model. Industry in the broader sense is essential to job creation. Therefore the EESC urges the Commission and the Member States to adopt a long-term and comprehensive strategy with a global vision to address the challenges as opposed to an approach based on short-term remedies that will not allow growth and job creation in a more concrete and sustainable way. In this context, it would be useful if the Commission were to draw up a comparative study on the different plans to support manufacturing industry recently adopted in the US, China, and Korea.
- 1.2 Fast-expanding business services are already crucial for manufacturing activities, especially for SMEs. The right combination of business services and manufacturing activities is fundamental to achieving efficiency and competitiveness and must be part of a modern industrial policy strategy. Start-ups must be encouraged to develop solutions that can boost industrial activities and increase competitiveness, especially if they want to be sustainable in the long term.
- 1.3 The aim that industry should account for approximately **20% of GDP by 2020**¹, compared with the current 15.1%, must not be only a political objective but also a priority adapted to a long-term perspective. European policy must remain focused on this goal but always bearing in mind the different structural situation of each Member State and the need to avoid fragmentation of the single market. This should remain the priority for the Commission. The definition of new, reliable and measurable targets could also improve Member States' commitment and awareness of the contribution of industrial activities to European citizens' welfare.
- 1.4 The EESC welcomes the main objective stated by President Juncker of making European industry stronger and more competitive, and remaining, or becoming, the world leader in innovation, digitalisation and decarbonisation. To achieve this, Europe needs a long-term strategy based on true smart specialisation and structural diversity and flexibility in its Member States and the anticipation of fundamental, rapid and unprecedented changes in the operating environment.
- 1.5 The EESC believes that, in order to achieve a better balance between the Member States in the field of competitiveness, structural reforms agreed by the social partners and civil society organisations must be implemented, and specific policy changes regarding education, R&D activities, public and private investment and productivity must be on the agenda. The best practices in these specific areas must be shared. Europe's current generally positive economic performance makes this the right moment to do it.
- 1.6 The EESC strongly believes that Europe's attractiveness must be a priority for any industrial policy based on innovation and competitiveness, and the reshoring of some sectors must be on the agenda. This reshoring must be based on Europe's main assets, such as an economic model based on knowledge, innovation, high-level skills, R&D activities and a friendly and sustainable environment for business respecting EU social standards. This can only be achieved through

¹ COM(2017) 479 final.

strong cooperation between "big" companies and SMEs in order to complete the virtuous innovation cycle. This cooperation must be reflected in the allocation of EU R&D+I funding and should be strengthened under the Multiannual Financial Framework (2014-2020). A positive fiscal stance would make it much easier to earmark new resources aimed directly at raising the competitiveness of European industry.

- 1.7 The EESC fully supports the annual "Industry Day" as a way of highlighting the EU's priorities and of raising awareness of this objective. The EESC draws attention to the need to involve the social partners and civil society organisations in Industry Day and to their ability to cooperate in tackling this challenge. It is essential for Europe that all citizens understand the power of the "Made in Europe" brand and everyone's role in meeting this challenge. European industry has an impact on society and that must be clear to European citizens.
- 1.8 The EESC draws attention to the need to design and adapt new policies on skills. Europe must face this challenge by involving civil society organisations and the social partners, in order to ensure respect for the current workforce and their rights and duties, but also with its sights set on the future and the need to speed up the adaptation of education and training systems to match the new jobs that are on the horizon.
- 1.9 The EESC welcomes the new initiative of the Commission to create a European framework for quality and effective apprenticeships which can help to overcome shortages in the labour market and provide companies with a labour force that has the requisite practical skills and knowledge². The quality and quantity of the European labour force is probably one of the most important challenges for Europe's competitiveness, and every Member State must be engaged in this huge task.
- 1.10 The EESC believes that it is crucial for a level playing-field that a compromise be reached concerning the respect of fair trade among global players³. Europe must lead by example and by actively engaging other regions regarding sustainability, respect for European social standards, and fair competition. But Europe cannot ignore the existing "bad practices" by other global players that put at risk European values, competitiveness, jobs and welfare. Europe must be vigilant and use the right tools in order to support its values and industrial companies. Overcapacity, illegal state aid and other forms of unfair competition must be tackled by European regulation, while respecting WTO rules. Antidumping measures imposed by the European Commission are essential to achieve a fair business environment, but they must be better monitored, swifter and more flexible in order to accomplish the ultimate goal without having indirect "side effects" impacting different industrial sectors⁴.

² COM(2017) 563 final – A European framework for quality and effective apprenticeships.

³ In line with Sustainable Development Goal no 9 on Industry, innovation and infrastructure which has been agreed by all EU Member States.

⁴ The Commission Implementing Regulation (EU) 2017/336 of 27 February 2017 imposing a definitive anti-dumping duty and collecting definitively the provisional duty imposed on imports of certain heavy plate of non-alloy or other alloy steel originating in the PRC was a good example of an anti-dumping measure, but the side effects must be monitored (http://data.europa.eu/eli/reg_impl/2017/336/oj).

2. State of play in Europe and the Commission communication

- 2.1 The request of the forthcoming Bulgarian Presidency arrived a few days before the Commission published its Communication on "Investing in a smart, innovative and sustainable Industry – A renewed EU Industrial Policy Strategy".
- 2.2 On 5 July 2017 the European Parliament called for the creation of an ambitious EU industrial policy strategy including "a Union strategy and an action plan for a consistent and comprehensive industrial policy aimed at Europe's reindustrialisation, with targets, indicators, measures and time scales".
- 2.3 The communication issued subsequently at the very least shows the Commission's concern regarding this issue.
- 2.4 The purpose of this opinion is not to focus on the communication. However, the following points cannot be ignored:
 - the communication presents European industry as developing in a steady upward trend since 2009. It is puzzling why the Commission refers to 2009, the worst year of the economic crisis. Neither the share of manufacturing value-added nor employment have returned to their pre-crisis levels of 2007, in spite – or precisely because – of the structural reforms and supply-oriented policies which are still hampering demand on Europe's periphery;
 - it is difficult to identify exactly what is new in the Commission's approach. The communication largely consists of the usual industry (supply-oriented) policy recommendations from the Commission: reducing bureaucracy, deepening of the single market and developing investment capital (revitalisation of the securitisation market for venture capital, EFSI, etc.);
 - in addition to the single market strategy, the Commission emphasises the necessity of additional qualification measures. However, except for its intention to expand its support for the development of "national competence strategies" to other sectors (i.e. steel, paper, green technologies and renewable energies), no concrete proposals are actually made;
 - when it comes to funding, the Commission lists the existing Structural and Investment Funds, supporting bodies and programmes (ESIF, EFSI, EIB, Horizon 2020, etc.), completely ignoring the crucial question of how a reduced post-Brexit EU budget would be able to support industrial policy initiatives;
 - in the areas of energy, transport, digitalisation and trade policy the Commission sums up the measures already taken;
 - with the emergence of a new economy based on technological start-ups that focus on services, it would be desirable to get those companies more involved with the industrial field

not only to better serve the different sectors but also to contribute to their sustainability. (50% of entrepreneurs experience business failure within the first five years of activity!⁵).

- 2.5 The communication is not completely new⁶. It is a summary of the policy measures already taken, without a new, coherent strategic approach as called for by the EP and promised in the title of the communication, "A renewed EU Industrial Policy Strategy". It is now time for Europe to learn lessons from the past and look to the future, bearing in mind the interests of its citizens and the sustainability of the European model.
- 2.6 In the context of a European industrial strategy there is a need for a consistent industrial action plan with binding targets, timetables, instruments and shared responsibility to tackle the four key challenges of the next ten years: digitalisation, climate change, globalisation and demographic change (in particular, the challenges posed by mobility and ageing).

3. **General comments**

- 3.1 European industry, and industry worldwide, is undergoing a huge transformation. This brings with it vast challenges. European industry is fundamental for European growth and the economy of the Member States. It accounts for 80% of Europe's exports and boosts private and public innovation and high-skilled jobs for citizens. It is also crucial for the internal market. Europe still enjoys a competitive advantage in high value-added products and services and it must continue to maintain this. But it must take advantage of this asset and sustain activities that create growth. Industry provides 36 million direct jobs and contributes to high standards of living for our citizens. It plays a key role in supporting Europe's global leadership and international stature. European industry is crucial to boosting research and innovation activities and makes a major contribution to job creation and growth.
- 3.2 The EESC believes that the current industrial revolution is based on a dramatic and rapid change in global players, a fundamental shift in consumer habits, and game-changing developments in science and technology. This is combined with the well-known progression of digitalisation, the circular economy, robotisation and new production processes. This implies that the long-term industrial strategy has to be prepared for unprecedented conditions brought about by e.g. the introduction of Artificial Intelligence and even further the emergence of "Industry 5.0".
- 3.3 This paradigm shift is already essentially changing business and society and, therefore, industry in all its aspects. One of the most relevant aspects of this revolution is going to be the transformation of work and skills. This new industrial order will affect most economic sectors. Industry 4.0 needs Labour 4.0, with a right of access to education and life-long learning. Only a qualified workforce will be able to react to changing markets and innovative workplaces.

⁵ <http://www.eesc.europa.eu/?i=portal.en.int-opinions.41082> (point 2.4).

⁶ COM(2014) 14 final.

- 3.4 The European Economic and Social Committee calls on the European Commission to draw up a comparative study on the different plans to support manufacturing industry recently adopted in the United States, China and Korea, and to make this study available to it. Such a quantitative and qualitative analysis of the resources mobilised, as well as of the sectoral and thematic priorities, will provide the information needed to "develop a comprehensive EU industrial strategy with a focus on 2030 and beyond, including medium to long-term strategic objectives and indicators for industry and to be accompanied by an action plan with concrete measures"⁷.
- 3.5 The EESC believes that there is a direct link between education programmes and facilities and social cohesion. Up-to-date skills and qualifications for digital technology users and reskilling are key issues. Social partners and civil society organisations should be closely involved in developing curricula for all levels and forms of education. Other global players besides Europe – namely the United States ("America First"), China, Japan, India and Korea – are already taking measures to address these challenges, and a new skills approach is crucial.
- 3.6 Similarly, the "Make in India" strategy is seeking to prepare the country to be the "next manufacturing destination". This process concerns not only technology but also, and most importantly, to skills. It is interesting to note that the People's Republic of China is already preparing a state-driven programme entitled "Made in China 2025", based on the German Industrie 4.0 and other European trends. This means that Europe is once again leading this change. But to lead the process might not be enough. At the same time we must be aware of the challenges ahead and how we need to adapt in order to advance and consolidate Europe's leadership, with results and growth for all.
- 3.7 Europe's industrial competitiveness must be perceived globally in spite of the differences between the Member States. Several studies show a clear division between "Member States leading in competitiveness" (10), "Member States following in competitiveness" (7) and "Member States catching up in competitiveness" (11)⁸.
- 3.8 This means that EU policies originally based on convergence do not sufficiently take into account the deepening of divergence between EU Member States: one size does not fit all, and this must be addressed with courage and always bearing in mind the principle of growth for all. The link between competitiveness, convergence and cohesion must be re-established.
- 3.9 This can also be applied to R&D+Innovation activities. It is very important to increase and at least maintain investment in these activities, but always taking into account the specific situation of each Member State. European policy must take account of the structural diversity of the Union, also regarding R&D+I activities⁹.
- 3.10 Finally, the EESC stresses the need to enhance labour relations as a *sine qua non* of comprehensive reindustrialisation.

⁷ Conclusions of the Competitiveness Council of 30 November-1 December 2017.

⁸ Factors for Growth – Priorities for competitiveness, convergence and cohesion in the EU; Lighthouse Europe.

⁹ EESC Information Report on the Interim evaluation of Horizon 2020 (INT/807).

4. **Specific comments**

4.1 Trade and globalisation (including companies' internationalisation activities)

4.1.1 There is no doubt that the internal market is crucial for Europe's growth, and it must offer a fair environment for creating, launching, developing and maintaining businesses. It is very important to create the right conditions for operating in the EU area. We must not of course forget Europe's position in the world and the need to interact with other economic regions. The recent trade agreements with other economies and the negotiations with other possible partners must be far-sighted and seen as an opportunity for growth and for developing industry. But at the same time Europe cannot overlook certain unfair practices in other economic regions of the world, and it must react firmly to such action.

4.1.2 European social standards must remain at the heart of every policy, and although Europe cannot impose these standards on the world, measures must be taken to defend them and create a friendly "lead by example" corporate social responsibility culture globally.

4.2 Energy and sustainable industry based on the circular economy

4.2.1 Europe must continuously invest in a sustainable industry that can be accepted by citizens. A society that can reduce its burden on nature by ensuring that resources remain in use for as long as possible is one that is better prepared. The concept of the circular economy must be at the heart of every industrial policy in order to recover, reuse, remanufacture or recycle to create new products in a sustainable environment.

4.2.2 The use of alternative and green energy is more than ever a priority¹⁰. Citizens must be made aware of these activities that create jobs and allow European manufacturing industry to lead in many fields of knowledge transfer. This particular "industry" shows Europe's ability to combine the knowledge gathered by academia and other institutions and the manufacturing system.

4.2.3 Instead of focusing solely on domestic measures, the EU should aim at favourable conditions for EU industries to export technologies, products and solutions, so as to contribute to tackling the global climate and natural resources challenges in the most efficient way.

4.3 Research, Development and Innovation

4.3.1 European R&D projects should be boosted by public funding and coordinated with the initiatives taken internally by the Member States. Increasing the level of investment in R&D+I

¹⁰ The recent results on "wind energy" performance (<https://windeurope.org/about-wind/daily-wind/>: on Thursday 23 November 2017, 19.2% of Europe's electricity demand was covered by wind energy. Top 3 countries: Denmark 93%, Germany 47% and Portugal 46%) show that it is possible to improve energy efficiency.

activities in each Member State must be a priority. In addition, the EESC calls (again) for simplification of the processes for accessing EU finance for innovation¹¹.

4.3.2 The EESC also believes that the innovation ecosystem truly benefits from EU investment in "big companies" to boost the participation of SMEs. The virtuous circle of innovation is possible only when the investment of big companies and the search for solutions from SMEs are brought together. In this area, European projects like COSME should have more visibility in the Member States in order to change the narrative among citizens.

4.3.3 Furthermore, the EESC calls for Responsible Research and Innovation (RRI) to be strengthened. This is a holistic approach established under Horizon 2020 involving the participation of all players (from the research community to institutions and governments) through inclusive and participatory methodologies.

4.3.4 The EESC has not forgotten – and would draw particular attention to – the most recent technological developments resulting from advances in research and in implementing findings in the area of artificial intelligence (AI). In this respect, the EESC points to the impact and consequences of its application in respect of not just industrial production processes but also on work and generally on the very way people live.

4.4 Brexit

4.4.1 The impact of Brexit on different sectors will vary depending on the agreement ultimately negotiated between the UK and the EU-27. Some sectors are likely to be more sensitive to the impact of Brexit, others less. However, the exposure of individual sectors should not be examined separately since there is high interconnection between sectors which may amplify the impact for each individual one. Problems faced by food and drink manufacturing will impact hotels and restaurants, for example, while setbacks for the metals industry will affect automotive manufacturing.

4.4.2 Two aspects seem to be particularly important: access to the market and access to labour on both sides. While the UK's access to EU labour tends to be broadly similar across many sectors, the relative importance of exports to the EU varies significantly, with some larger sectors such as construction and wholesale and the retail trade being more domestically focused.

4.4.3 For the EESC, it is crucial to protect the integrity of the single market. In addition, it is important to ensure legal certainty.

¹¹

Some indicative estimates show put investment under Horizon 2020 at EUR 74.8 billion, including EUR 16.4 billion for industrial leadership. Under the current MFF, funding from the Structural Funds for research and innovation amounts to EUR 43.7 billion; for the competitiveness of SMEs the figure is EUR 63.7 billion and for the low-carbon economy EUR 44.8 billion. News about the Made in China project indicates a total of state investment of USD 1.5 billion.

5. Investment plan

- 5.1 Investment plays a key role in the context of a new industrial era. The EESC believes that a number of measures could be taken to improve the effectiveness of investment and to take industrial companies into another dimension:
- expanding public investment: fiscal leeway for Member States, easing the debt criteria for public investment ("golden rule"); increasing the EU budget for industrial transformation processes, investment in sustainable (trans-)European infrastructure;
 - strengthening private investment: stimulating the investment activity of the European Investment Bank, establishing new funding programmes from national banks and strengthening existing ones. The aim is to provide SMEs with a secure and long-term financing framework, in particular with regard to complex transformation processes;
 - supporting the European Commission's sustainable financing strategy in the context of the Capital Markets Union, which will facilitate long-term investment by directing private flows of capital towards sustainable investments. In this connection, the Committee stresses the importance of the forthcoming final report by the High-Level Expert Group on Sustainable Financing and the subsequent action plan.
- 5.2 The allocation of EU funding must be focused on the achievement of industrial policy development goals, particularly with added value for the EU (CO₂ reduction, energy efficiency, renewables, digitalisation, etc.) and linked to EU social standards and benchmarking.
- 5.3 These sustainability objectives are fundamental for European industry and European leadership. However, these objectives require an appropriate investment framework for SMEs that allows them to stay competitive.
- 5.4 The EESC also considers that the possibility for Member States to include social and regional procurement criteria in their own procurement practices (concept of "good content") should be examined.
- 5.5 Finally, it also proposes rethinking the corporate taxation system with a view to addressing tax evasion and tax competition issues.

Brussels, 17 January 2018

Georges DASSIS

The president of the European Economic and Social Committee