

EUROPEAN UNION



Committee of the Regions

ECOS-IV-001

Brussels, 26 June 2006

OPINION

of the

Committee of the Regions

of 14 June 2006

on the

**Communication from the Commission on Implementing the Community Lisbon Programme:
a policy framework to strengthen EU manufacturing –
towards a more integrated approach for industrial policy**

COM(2005) 474 final

THE COMMITTEE OF THE REGIONS,

Having regard to the Communication from the European Commission on *Implementing the Community Lisbon Programme: A policy framework to strengthen EU manufacturing - towards a more integrated approach for industrial policy*, COM(2005) 474 final;

Having regard to the decision of the European Commission of 12 October 2005 to consult it on the subject, under the first paragraph of Article 265 of the Treaty establishing the European Community;

Having regard to the decision of its President of 10 November 2005 to instruct its Commission for Economic and Social Policy to draw up an opinion on this subject;

Having regard to its draft opinion CdR 39/2006 rev. 2 adopted on 6 April 2006 by its Commission for Economic and Social Policy (Rapporteur: **Mr Onno Hoes**, Member of the Executive of the Province of Noord-Brabant (NL/ALDE));

adopted the following opinion at its 65th plenary session, held on 14 and 15 June 2006 (meeting of 14 June 2006):

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Whereas:

- 1) A new, modern European industrial policy, geared towards enhancing the competitiveness of EU industry, is an absolute top priority for the "*Growth and Jobs*" agenda. The underlying issues do, indeed, affect all of the regions of the EU and the dynamism of the respective processes is both considerable and compelling. The CoR therefore welcomes the ambitions expressed by the Commission and also its readiness to take robust action to facilitate the necessary reforms.
- 2) In the light of the rapid changes occurring in the world economy, there is a need to take action as a matter of considerable urgency, since the competitive position of EU industry is under substantial pressure. This, in turn, places extra pressure on the tempo and the decisiveness of the process of renewing European industrial policy. The CoR appreciates the commitment which the Commission has asked for and obtained from many sectoral organisations but wonders whether this provides adequate starting points for action. Against the background of global economic competition, Europe is developing its future strengths above all in a number of competitive regions referred to in this opinion as "valleys"; these valleys are inspired by the concept of Silicon Valley and the philosophy of the World Economic Forum. These European "valleys", which have been built on the foundations of old industries and industrial sectors, provide the future driving force for economic and social renewal.

- 3) Examples of such "valleys" are the following regions: Stockholm, Cambridge, Bavaria, Rhône-Alpes, south-east Netherlands, and emerging regions, such as Värmland, Riga and Saxony-Anhalt. The CoR calls upon the Commission to make the concept of "valleys" the core of its "new agenda" for European industrial policy and thereby to capitalise more effectively on the establishment of regional economic complexes in Europe. With this aim in view, there is a need to make the current proposals considerably more effective; these proposals go no further than proposing the establishment of "framework conditions" and, in this respect, provide too little impulse for renewal. It is essential that, above all, measures to stimulate trans-sectoral developments, geared to new technology-product-marketing-combinations, be placed at the heart of the new European industrial policy.
- 4) In this opinion, the CoR puts forward a number of concrete proposals for bringing about a considerable increase in the effectiveness of EU instruments and promoting more intensive integration of these instruments. A robust basis for action in this field needs to be established in the course of the forthcoming German presidency of the Council; the CoR calls upon the Commission and the European Parliament to put forward a forceful new policy.

1. **The Committee of the Regions' views**

Cross-sectoral proposals

- 1.1 In its outline of work, the European Commission sets out seven proposed cross-sectoral policy initiatives designed to address the common challenges across groupings of different industries and to reinforce the synergies between different policy areas. The proposed measures are as follows:
 - an initiative for regulating the protection of intellectual property rights;
 - a High Level Group on Competitiveness, Energy and the Environment;
 - measures in the field of market access (access to international markets);
 - a new Legislative Simplification Programme;
 - measures to improve sectoral skills (with a view to achieving a more highly qualified workforce);
 - the management of structural change in manufacturing;
 - an integrated European approach to research and innovation.
- 1.2 These proposals are, without exception, measures of outstanding importance with a view to enhancing the competitiveness of industries in the EU. The CoR therefore strongly supports the proposals from a general standpoint. In view of the CoR's own position, it calls for attention to be paid, in particular, to measures for managing structural change in industry, as well as parallel attention to the new simplification programme for legislation. This is the essential aspect in this context; the EU needs to move towards supporting and facilitating a new industrial policy deriving from the regions.

In the debate on how to meet the challenges and the opportunities provided by globalisation, the competitiveness of the EU needs to be the central issue if we are to guarantee prosperity for our children. We reject a backward-looking protectionist approach, geared to preserving past achievements. Initiatives, such as the globalisation fund proposed by the Commission, must not be used for defensive purposes but rather to promote development, for example by providing training for new sectors which provide a wealth of opportunities.

- 1.3 The CoR calls for more vigorous efforts to be made to tie in with the European Commission's regional innovation policy, which also focuses on promoting the establishment of clusters and new forms of cooperation. Within the EU, there is already a number of good examples of cooperation between the European Commission and the regions; attention may be drawn in this context to the Noord-Brabant Innovation Act Programme 2005-2010 entitled "Connecting, creating and enabling winners".
- 1.4 The formulation of cross-sectoral proposals, in particular, provides a possible means of establishing a modern, better integrated European industrial policy. With this aim in view, the CoR would like to briefly examine in the following paragraphs a number of the measures proposed by the European Commission, and would stress, above all, the need to exploit every opportunity to achieve a more integrated approach.

High Level Group on Competitiveness, Energy and the Environment

- 1.5 Over the next few years, energy and the environment will be global priority issues.

With the impetus being provided by the European Commission, a climate needs to be established in which threats can be transformed into opportunities. The fields of energy and the environment provide attractive new marketing opportunities and points of departure for both European industrial policy and research policy.

This approach will help to ensure that energy and sustainable development ("greener" products and production processes) are not addressed separately but rather as a really integral part of industrial policy and innovation policy. To this end, greater attention should be paid to developing alternative energy sources. Energy costs form a substantial component of the costs to be met by EU industry. The CoR calls upon the Member States to increase interconnection capacity so as to enable the liberalisation of the energy market to bring about a situation in which EU businesses can purchase gas and electricity throughout Europe. One way of making an active contribution towards the establishment of a level playing field in Europe is for local and regional authorities to be active shareholders in energy companies.

Improving sectoral skills

- 1.6 The CoR stresses that the new industrial policy must be seen in the framework of the Lisbon strategy and in the context of globalisation. Restructuring processes in regions and countries are consequences of this development. As stressed in the CoR's opinion on restructuring and delocalisation (CdR 148/2005 fin), it is necessary to ensure that restructuring is well-managed; in this context attention is also drawn to the observation made earlier in the present document to the effect that the proposed globalisation fund must be used for development purposes rather than defensive purposes. An essential prerequisite for commitment on the part of Brussels is that the action taken must promote economic and social cohesion; this must also provide the basis for a more effective and more flexible European labour market. It would be advisable to give a more central role to the priority issue at stake here, namely "social innovation". The key issue is how we can better put employees in the EU, across the board, in a better position to go along with the sometimes radical restructuring measures, without falling victim to structural unemployment.
- 1.7 Increasing labour productivity, the employment rate and labour mobility are essential prerequisites if the EU is to be competitive. More attention needs to be paid to this point both in the policies pursued by the Member States and in the EU programmes and Structural Funds. Furthermore, there is a need for increased scope for giving (temporary) access to the EU labour market to highly trained workers from non-EU states; this type of liberalisation, too, helps to promote the competitiveness of the EU.

Intellectual Property Rights

- 1.8 The CoR notes that some important European manufacturing sectors still have considerable advantages over their competitors, but globalisation may have negative effects on them as well. The provision of adequate protection for intellectual and industrial property is of vital importance for the maintenance of the competitive position of the EU. The existence of protection for intellectual property provides an incentive for innovative actions and the development of new business models. The regulatory framework needs to be adjusted to take account of rapidly changing technological and social developments. Legislation in this field needs to be more transparent and to provide more legal certainty. Rules need to be introduced and enforced at both European level (Community legislation) and global level (WTO, TRIPS). Many entrepreneurs in SMEs - which are the *drivers of innovation* - still do not know how precisely to deal with infringements of their intellectual property.

A major problem with which many SMEs have to contend is that of the extremely high level of enforcement costs in Europe which are far higher than those applying in, for example, the USA. Furthermore, turning to the subject of the cost of submitting applications, it is of the utmost importance that, after 30 years discussing the issue, the Community patent is now introduced.

Five years after the European Commission put forward a concrete proposal, this dossier still remains deadlocked at the Council as a result of a dispute over the question of language arrangements. The CoR calls upon the European Commission to put forward a harmonisation Directive, based on Article 95 of the TEC. Under this provision, national patent regimes may be maintained but would be subject to the principle of mutual recognition. By limiting the number of languages involved to the language of the Member State concerned, plus English, the cost of introducing the Community patent could be considerably reduced, which would benefit, above all, SMEs. In this way it would be possible to create an internationally competitive patent. Furthermore, it is essential to reduce to a minimum the charge for maintaining a patent, which is levied in many EU countries and acts as a disincentive to innovation.

Integrated approach to research and innovation

- 1.9 In combination with the Structural Funds, the European framework programme KP7 and the Competitiveness Innovation Programme (CIP) play a very important role in respect of facilitating and guidance. Funding provided under the KP7 programme is essential if we are to enhance the competitiveness of the EU and to strengthen those regions which exploit leading-edge technology. When the Financial Perspectives are set out, the budget in question must not be reduced.
- 1.10 In this opinion, the CoR stresses the need for attention to be paid to stimulating the establishment of regional economic complexes in Europe ("European valleys"). With this aim in view, it is essential that the use of the Structural Funds and the framework programmes, such as KP7 and CIP, in the regions can be pooled to a greater extent. The CoR calls upon the European Commission to put forward concrete proposals in this regard.

One aspect, amongst others, which is of particular importance is the concentration of resources on the most advanced research under the heading: measures to stimulate "open innovation" culture and "clustering" in the regions.

- 1.11 In order to develop a sustainable economic model for a region which exploits leading-edge technology, it is not simply a question of investing heavily in research. The experiences gained in, for example, the Eindhoven region's *Brainport* bring home this message. Promoting a great variety of applications of specific knowledge in several innovation chains creates new jobs at all levels and serves to firmly anchor knowledge in a given region. In this context, small and medium-sized enterprises are entitled to be provided with the same sort of incentive as those given to the parties who develop knowledge. The CoR calls upon the European Commission to target the European programmes and the Structural Funds more at stimulating the establishment of several innovation chains per region and urges it to exploit the multiplier effect to this end. This will make it possible to create a very large number of new jobs for persons in possession of higher education, higher vocational education and intermediate vocational education qualifications.

- 1.12 In connection with the last-mentioned point, the CoR calls for specific attention to be paid to the issue of the accessibility of EU framework programmes and funds to small- and medium sized enterprises. This is, in the CoR's view, a major problem; unless simplification measures are introduced, the ambition of promoting, above all, SMEs will have little chance of success. It is important to establish a greater degree of "open innovation culture" under which resources and projects would be made more accessible to SMEs and made available to them under provisions allowing for a higher level of pooling.
- 1.13 Experience gained with regional innovation policy points to the fact that SMEs derive benefit, above all, from interaction with larger enterprises. The CoR therefore draws attention to the fact that European industrial policy should pay more explicit attention to interaction between large¹ and medium-sized or small enterprises.

Interaction between SMEs and research centres is another aspect which is of major importance.

- 1.14 In conclusion, the CoR wishes to make just one further observation in respect of the possibilities of achieving a more integrated European industrial policy. Attention should be paid, in particular, to bringing about the integration of industrial policy with the policy in respect of sustainable development and social cohesion; this represents a key challenge for the EU. By pursuing this programme, the European Commission can help to ensure that, within the framework of the development of a sustainable knowledge-based society in Europe, a higher level of attention is paid to new forms of cooperation and product-market combinations in areas such as the health industry (medico-technical innovation), the environment and energy. This will provide European industries with interesting new markets.
- 1.15 Attention has already been drawn to the trend towards bundling and specialisation in respect of top-level economic activities in Europe. This trend may be strengthened in other policy areas, such as land-use policy and policy in respect of modern infrastructure. EU policy should be geared more towards creating effective conditions for (cross-frontier) top international locations, coupled with and opened up by modern European infrastructure.

Furthermore, the idea put forward by the President of the European Commission, Mr Barroso, to set up an EU university (EIT) deserves support. The establishment of a top-level institute of technology in the EU may prevent a further braindrain of talent to other parts of the world. It is high time that the EU had an institute which was on a par with, for example, MIT in Boston.

¹ The concept of large enterprises in this respect should also be given attention.

Sector-specific proposals

- 1.16 The European Commission will put forward the following new initiatives:
- a Pharmaceuticals Forum,
 - a mid-term review of life sciences and biotechnology strategy,
 - new high level groups on the chemicals industry and the defence industry,
 - a European Space Programme,
 - a Taskforce on ICT Competitiveness,
 - a mechanical Engineering Policy Dialogue,
 - competitiveness studies (ICT, food, fashion and design industries).
- 1.17 The sectoral studies underpinning the European Commission's outline of work demonstrate that many European industries have the potential to remain competitive on the global level. The decisive factor in determining "world class performance" is the extent to which industry is able to respond to demands in respect of both knowledge and innovation in connection with new products and production processes.
- 1.18 It is important that this process of change and reform continues to be strongly supported by both the EU and the individual Member States. As regards facilitation by the EU, the present EU framework programmes do, in our view, provide an effective set of instruments when taken together with the (new) EU Structural Funds.
- 1.19 In the case of sectors such as the machine and systems industries, the issues of focus and mass are of decisive importance in connection with the establishment of the European strategic agendas. The European Nanoelectronics Initiative Advisory Council (ENIAC) and Artemis strategic agendas are, in this connection, of key importance to European and national investment in this field.
- 1.20 In addition to the need to pay ongoing attention to the competitiveness of particular sectors, it is, however, important to note that Europe's future prosperity will be increasingly dependent upon inter-sectoral activities. Particular attention needs to be paid to this aspect in the European Commission's outline of work. Industrial policy can help to step up developments in this field by promoting "cross-sectoral interaction". This can lead, by definition, to intermittent spectacular innovations in products and marketing. This is already beginning to happen in a number of sectors; examples which may be quoted are the food and pharmaceutical sectors (life sciences), biomedical technology, automotive and high-tech systems.
- 1.21 With the above aim in view, the four broad categories set out in the European Commission's outline of work do not constitute a sufficiently comprehensive list. In the case of life science industries, there is a need to refer also, for example, to the key area of "molecular medicine". Furthermore, explicit reference should also be made, in particular, to nanoelectronics and

embedded systems. In the light of current developments in the field in question, the category of "fashion and design industries" also needs to be expanded by referring to "creative industry".

- 1.22 It would therefore appear to be increasingly important to facilitate the development of coherent clusters of industrial activity and to promote new emerging industrial activities. The CoR urges the European Commission to make reference to this point in a more emphatic and explicit way in its outline of work.
- 1.23 The "cluster model" – which involves intensive structural cooperation between governmental bodies, enterprises and universities and research bodies – represents, in this context, a crucial factor in ensuring the success of all the innovative regions in the EU. Examples of such areas are: the Stockholm region, Bavaria, Ile-de-France, Rhône-Alpes and South-East Netherlands. Such an approach based on the promotion of clusters should be robustly supported with a view to securing a renewed, better-integrated European industrial policy.

2. Further recommendations made by the Committee of the Regions

Europe in 2027 (policy for the future)

- 2.1 The European Commission's outline of work further fleshes out the Lisbon strategy and the Gothenborg objectives and is, in this respect, a consistently drafted document. As has already been pointed out at several points above, this document does, in our view, comprise many good and useful plans. Few people will disagree with this verdict. What the document lacks, however, is a clear vision of the future as regards how European industry can rise above its competitors, in the rest of the world.
- 2.2 The CoR recommends that a vision be set out which is both stimulating and promotes enthusiasm. What will the situation in Europe look like in 2027? How have industries in Europe responded to the tasks set out in 2006? How has the strategy of setting up "intelligent regions" succeeded in bringing about economic and social renewal in all the EU Member States? In the drive to establish a sustainable knowledge-based society, how successful have we been in deriving new opportunities and markets in the fields of energy, the environment and the health industry? etc., etc.

Inviting enterprises to "Achieve your full potential in Europe" and pursuing a strategy of interaction with regions

- 2.3 The CoR recommends that greater emphasis be placed on the strategy of pursuing promising developments in the various regions, thereby bolstering the trend towards the concentration of economic activity and economic specialisation which will gather pace in Europe over the next few years. The starting point for such a strategy is that by facilitating the development of

leading-edge regions, we will make a strong contribution towards wide-ranging economic and social renewal in all the Member States of the EU.

- 2.4 As part of the drive to bring about a renewal of EU industrial policy, the CoR recommends that criteria for identification of prospective leading competitive regions in Europe and within each Member State be approved, allowing channelling of European investment programme funds towards these competitive regions in order to supplement national and regional investments, but also support their physical and intellectual production.

In keeping with the "new solidarity", the new European industrial policy, geared to promoting developments which provide a wealth of opportunity and the establishment of new regional-economic complexes, also needs to pay explicit attention to stimulating lagging regions. The CoR proposes that the European Commission make provision for a "leverage effect"; one example would be to set, as a condition for receiving contributions from the EU framework programmes and the Structural Funds, that beneficiaries must enter into inter-regional economic partnerships.

Moving from a sectoral approach to a cluster-based approach (new areas)

- 2.5 The task of stimulating those sectors of European industry which serve as a driving force for the economy so that they can achieve world-class level is, and will remain, one of the key objectives of EU industrial policy. The future prosperity of Europe will, however, become increasingly dependent upon inter-sectoral activities. It is recommended that the autonomous developments which are already taking place be given greater prominence in the "broad categories" set out in the European Commission's outline of work.
- 2.6 The CoR therefore recommends that, in the new industrial policy for the EU, the European Commission pays greater attention to the strategic importance of adopting an inter-sectoral approach, recognising the powerful impact of "cross-sectoral interaction". Structural cooperation between government bodies, industry and universities and research bodies, also known as the "Triple Helix", is therefore an essential prerequisite. This cluster model is one of the key features of the new European industrial policy.
- 2.7 The promotion of "cross-sectoral interaction" is geared towards innovation and completely new product-market combinations in industry. This interaction is however not confined solely to areas of industry; interaction with other, social fields produces a new dynamism. In this context, the CoR draws attention to interaction with art and culture (creative industry), interaction between cultures (new inter-cultural entrepreneurship) or interaction with vocational training (new expertise). In these areas, too, the EU can, and must, play an important role in providing a stimulus. The CoR calls upon the Commission to take account of these aspects in its programmes and in the new Structural Funds.

Boosting integration more effectively

- 2.8 the cross-sectoral proposals, in particular, provide starting points for giving a strong boost to integration in EU policy. The CoR calls for additional emphasis to be given to the following areas:
- in the fields of energy, the environment and the health industry, the EU should move away from classifying these matters as "social issues" and regard them rather as providing new marketing opportunities for the future as part of the drive to achieve a sustainable knowledge-based society (see point 2.1 above);
 - the EU should set up a European Task Force on Social Innovation which would not be separate from EU industrial policy but would rather lie at the heart of such policy, whilst taking account of the top levels of the labour market and also offering prospects for the lower levels of this market;
 - there is a need to adopt an integrated approach in respect of research and innovation: it is essential to achieve greater coordination between the framework programmes and the Structural Funds in respect of planning and guidelines, with particular attention being paid to the bundling of resources for top-level research;
 - tendering policy: this field has not been taken into account; it should, however, be one of the cross-sectoral policy initiatives with a view to promoting the interests of SMEs since these enterprises are finding it increasingly difficult to benefit from the EU policy on tendering;
 - steps should be taken in other areas of EU policy to help create (cross-border) international top locations in Europe.

Removing red tape and promoting access on the part of SMES to EU programmes

- 2.9 In its outline of work the European Commission rightly acknowledges the considerable value of the innovative power of SMEs. The extent to which EU measures actually embrace these enterprises does, however, depend to a considerable degree – and above all – on whether EU provisions can be simplified. As the proposals in respect of SMEs stand at present, the possibilities for, for example, subsidising R and D carried out by SMEs will decrease considerably, which is at variance with the need to boost the global competitiveness of these enterprises. An average SME in the USA already spends more than seven times more on R and D than does its counterpart in the EU.
- 2.10 There is not a single enterprise which will in the near future be either willing or able to take on board all the administrative requirements of the EU in order to qualify for a grant of 15%. The CoR therefore calls for a very intensive campaign to remove red tape with a view to

making the EU framework programmes and the Structural Funds more accessible to SMEs. The CoR will give its full support to all proposals from the European Commission to achieve this goal.

In this context, the involvement of regional and local authorities, as the level of government closest to SMEs, will facilitate their access to Community aid.

- 2.11 Deregulation and a reduction in the administrative burden resulting from Community regulations, together with an intensive cost-benefit analysis of these regulations, are essential prerequisites for achieving the goals set out in Lisbon. In this context, it is important to carry out a "business impact assessment" with regard to EU legislation. A prerequisite for ensuring the quality of such business impact assessments is that the assessments must be carried out objectively by an independent third party. The CoR calls upon the Commission to put forward proposals as soon as possible in this respect. The mechanism introduced in the Netherlands, involving the establishment of an independent audit body (the Advisory Board for Assessing Administrative Burdens [ACTAL]) could provide a starting point in this context.

Conclusion

In the light of the forthcoming interim appraisal to be carried out by the Commission, the CoR points out that it would very much welcome a response to the proposals and recommendations set out in this opinion.

The CoR also urges the Commission to consider introducing a system of annual monitoring. The CoR would be pleased to make known its views in the context of such an annual monitoring exercise.

Brussels, 14 June 2006.

The President
of the
Committee of the Regions

The Secretary-General
of the
Committee of the Regions

Michel Delebarre

Gerhard Stahl