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Investing in a smart, innovative and sustainable industry

WORKING DOCUMENT

Consultative Commission on Industrial Change (CCMI)

on

Investing in a smart, innovative and sustainable industry

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For the attention of the study group members

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1. **Conclusions and recommendations**

The EESC welcomes the Communication on smart, innovative and sustainable development and its approach of empowering people and businesses. However, the longer-term continuity and predictability of the policy must be assured.

The EESC concludes that

- 1.1 the Commission has taken the approach of mainstreaming actions in several policy areas in order to create conditions conducive to industrial competitiveness and development, in line with what the EESC has proposed for years.
- 1.2 supporting individual industrial sectors by a selection of horizontal policies, tailored to their specific needs, can have a clear value added.
- 1.3 enterprises are challenged in an unprecedented way to swiftly transform new technologies into innovations and successes in ever more competitive markets. A central position in a global value chain is of great importance for many.
- 1.4 people are at the core of change. Labour market policies need to adapt to changing circumstances. A fair transition means support to people and regions confronted with structural change.
- 1.5 education and training are necessary facilitators of the industrial transition. All workers need upgraded skills, especially digital abilities, and many need new professions.
- 1.6 environmental requirements and climate change affect all sectors. All enterprises will have to adapt to more sustainable structures. New business opportunities may occur, but also challenges arising from costly investments and long lead times, which may lead to carbon leakage.
- 1.7 the level of investment in EU industry is low, but there are some signs of a positive development. In any case, investors are attracted only by the right framework conditions for industry.
- 1.8 Access to global markets is crucial to industry, and therefore the network of trade agreements must be further built out, based on the principle of fair trade.

The EESC proposes that

- 1.9 the overall objective of EU action should be to further develop a well-functioning toolbox of horizontal policies and a predictable legal framework in order to incentivise innovation, support investments and help industry provide solutions to societal challenges. This should add value with measurable impacts on growth and employment, be delivered with a minimum of administrative burden and spread benefits to society as a whole.

- 1.10 all actions should be taken to complete the Single Market, with emphasis on implementation by Member States. A vigilant implementation of competition policy, which is necessary as a driver of innovation and fairness, should however not hinder EU companies from growing.
- 1.11 an open and realistic attitude should be adopted towards new, disruptive technologies and business models, with emphasis on giving society, including enterprises, the opportunity to benefit from new possibilities.
- 1.12 flexible pathways are needed between work and education, such as apprenticeships and work-based learning. In many Member States, vocational training should be given better appreciation.
- 1.13 leadership in low-carbon and circular economies should benefit our economies. Political decisions with negative side effects, such as too-high energy prices and risk of carbon leakage, must be urgently corrected.
- 1.14 obstacles to turning present, big private savings surpluses into productive investments in industry and infrastructure should be explored.
- 1.15 EU support should mainly be directed at boosting innovation, scaling up SMEs, helping regions in trouble and empowering people. The leverage effect on private finance should be an important criterion.
- 1.16 R&D and innovation policies need additional resources in the next financial framework. These policies should be aimed more at the uptake of new technologies, scaling up and market successes.
- 1.17 official statistics should better reflect the changed features of the economy, such as the blurring of sectoral borders and new forms of economic activity. A common method of calculating value added from industry and services is needed.
- 1.18 in addition to the 20% target of GDP for industry, other, less aggregate indicators are needed to evaluate industrial development properly.
- 1.19 the mainstreaming of policies still needs to be enhanced and made more coherent through the decision-making process, whether with a stronger Competitiveness Council or otherwise. Silo thinking at EU and national levels must be removed.
- 1.20 the annual Industry Day and the High Level Industrial Roundtable should be welcomed as they allow for bottom-up research. This approach should cover all areas of industrial policy in order to increase ownership of the strategy among stakeholders.

2. **Introduction**

- 2.1 **The backbone** of the European economy is industry. It provides 24% of EU jobs – 32 million directly and 21 million indirectly, mainly in services. These jobs come with relatively high wages for both high-skilled and less skilled workers. Manufactured goods account for 75% of

exports. Industrial growth spreads to all parts of the economy. Industry is also the cradle of innovations in all sectors, including solutions to many societal challenges. However, increased interlinkages of manufacturing and services as well as integration within value chains form the essence of value added in our economies.

- 2.2 After many years of decline, industrial output, exports and employment in Europe now seem to be on a path to recovery. Still, this recovery is incomplete and the **competitiveness** of European industry is unsatisfactory. Insufficient investment, both real and intangible, slow productivity growth and innovation gaps with competitors, skill shortages, subdued internal demand and relatively high energy prices are frequently reported.
- 2.3 **Megatrends** with a bearing on industry are, in particular:
- revolutionary technological development; digitalisation with all its applications, but also nanotechnology, new materials, life science-based technologies etc.;
 - growing environmental requirements, including mitigating climate change;
 - spread of higher living standards, ageing populations and urbanisation;
 - globalisation, with open markets and value chain production, but also aggressive state entrepreneurship and protectionism.

These well-known trends offer vast opportunities for European industry. They could also constitute severe risks for society and industry if not reacted to properly and successfully.

3. **General comments**

- 3.1 **The EESC welcomes** the Commission's Communication and largely agrees with its analysis of the situation and challenges facing European industry. The Communication is mainly an update to existing proposals, with a number of new actions to be tabled by the current Commission. It has been met with some criticism for not having presented a fully new industrial strategy with new measures and targets. In the view of the EESC, the Communication and its proposals are in line with the requirement for a continuous and predictable policy framework for industry.
- 3.2 **The EESC notes with satisfaction** that the Commission is consistent in presenting an approach to industrial policy that the Committee has proposed for years. Instead of developing legislation in numerous policy areas affecting industry with little concern for their impacts on and inputs from industry, the approach is now to mainstream these policy areas with a view to putting industry in the driving seat.
- 3.3 The EESC has during the last few years **presented opinions** on the Commission's proposals for different industrial sectors, social aspects, the Single Market, environment, energy, digitalisation, trade etc. These opinions are still mainly relevant in the context of this Communication. In this opinion the EESC wishes to underline some currently relevant aspects of industrial policy and add some new comments.
- 3.4 **Enterprises** are facing an unprecedented need to adapt, often radically. They have to swiftly grasp developing and new technologies and transform them into innovations, succeeding in ever more competitive markets. New technologies also need to be applied to enhance productivity

and real competitiveness. Positioning oneself well, preferably at the core of an international value chain, is imperative for many companies. SMEs can and should strive to play an important, innovative role in these chains, which are mostly built around big companies with required resources and networks.

- 3.5 New **industries** need to and will emerge. Digitalisation gives rise to innumerable new networks and interactions, fostering new spectrums of products and services, which are ever more fine-tuned to customers' needs.
- 3.6 Enterprises in existing industrial branches have to upgrade their operations continually. Outdated and unprofitable companies cannot be preserved by subsidies. Sectors that are currently strong in Europe, such as automotive, renewable energy, chemistry and pharmaceutical and defence industries, could become flagships of EU industrial development and offer important solutions to society's challenges, provided they keep up with global developments. Specific strategies for sectors with high potential could be developed within the framework of an overall industrial strategy.
- 3.7 **People** are at the core of change. Without qualified and devoted workers there is no industry. The opportunities provided by new technologies and innovations must be exploited, which will lead to the loss of some old jobs and the emergence of new ones. Labour market policies need to adapt to new circumstances. A fair transition means social protection for those in need. Shared experiences and innovative ideas are needed to revitalise less developed regions and those confronted with structural change.
- 3.8 **Education and training** are the necessary facilitators of the industrial transition. All workers need to upgrade their skills, especially digital abilities. Many need training in quite new professions. The speed of technological development is a big challenge to keeping educational curricula and numbers in line with industry's changing needs. Work-based learning solutions, such as Germany's successful dual system, should be applied much more widely. At least in some Member States, the societal and economic appreciation of vocational training should be reinstated in relation to academic education. Likewise, the attractiveness of STEM subjects should be enhanced.
- 3.9 **Investments** in European industry are still at a worryingly low level, while there is a big savings surplus in the EU that has not turned into productive investment. The reasons for this should be thoroughly studied. One thing is, however, clear: both domestic and international investors are attracted only by framework conditions that are conducive to sufficient competitiveness.
- 3.10 Nevertheless there are some signs of **possible positive trends** in investments. In a world faced with huge political instability, the EU is a safe and stable place to invest. Due to growing demand, production in some industries is reaching full capacity utilisation. This will trigger investments in new capacity, hopefully in Europe.
- 3.11 **Environmental** and climate change requirements affect all enterprises, directly or indirectly. Many new business opportunities are occurring, for instance in the emerging circular economy.

European frontrunner ambitions can help. To some industries, and energy intensive industries in particular, the necessary transition means costly investments and long lead times for new technology. Carbon leakage, with its negative effects on the climate, must be avoided by means of well-balanced policy measures.

- 3.12 **Sustainable development** is about reaching economic, social and environmental objectives simultaneously, in a balanced way. The principle of corporate social responsibility is important for contributing to sustainable development. This also includes paying a fair share of taxes. Ensuring this is basically a political question of good legislation and its enforcement. New rules for taxing the digital economy will be needed.
- 3.13 **Cooperation** between all players – the EU, Member States' governments, authorities, regions, universities and schools, stakeholders and enterprises – could and should be better. For example, collaboration between enterprises and universities must to be improved. Schools should turn to enterprises for help with timely curricula and apprenticeships. Most importantly, Member States should cooperate with the EU and with each other by promptly implementing and enforcing agreed policies and legislation.
- 3.14 Present **statistical methods** do not produce a timely, useful picture of the industrial situation in Europe. The sectoral division into manufacturing, services and other productive activities is outdated. A considerable part of economic activity is not included in the calculation of GDP. Statistics on imports and exports do not describe industrial activity well in an era when roughly half of industrial production is part of global value chains. A common method of calculating value added and interlinkage of industry and services is urgently needed.
- 3.15 It does not seem likely that the target of a 20% share of manufacturing in GDP will be met by 2020. To be able to evaluate the development of European industry – and even the influence of this industrial policy – some additional, less aggregated **indicators** are needed. They might include, for instance, actual industrial output, industrial employment, joint production of industry and services and annual investment of the manufacturing sector.
- 3.16 The Communication only **spans** the rest of the mandate period of this Commission, some two years. For the programme of proposals from the Commission this is fully understandable, but for the main philosophy and objectives of the policy it is of crucial importance to ensure longer-term continuity and predictability.
- 3.17 **Mainstreaming** of policy areas affecting industrial competitiveness and development still needs enhancing. Better regulation and ex-ante, transparent impact assessments are important. Coherence throughout the decision-making process should be ensured by strengthening the role of the Competitiveness Council or other institutional arrangements. Silo thinking at EU and national levels must be removed in order to respond to increased dynamics in the global economy.

4. **Specific comments**

- 4.1 **Making Europe's industry stronger:** The EESC agrees with the need for a holistic and forward-looking vision of Europe's industry. To make Europe's industry stronger the overall objective of EU action should be to create a well-functioning and predictable legal framework, that incentivises innovation and helps industry provide solutions to societal challenges. It should add value with measurable impacts on growth and employment, be delivered with a minimum of administrative burden and spread benefits to society as a whole.
- 4.2 **The Single Market:** The EESC welcomes the approach of empowering people and businesses and agrees with the proposed actions to strengthen the Single Market. Most importantly, Member States must fulfil their obligation of compliance. Vigilant implementation of competition policy is essential for innovation and price formation. The Commission's vigilance concerning big global players is highly appreciated. European enterprises should, however, not be hindered from growing – the size of the median EU (excl. UK) listed firm is only about half of the size of the median US firm. It is a question of the interpretation of the definition of the relevant market in competition law enforcement.
- 4.3 **Digital age:** The EESC has presented its detailed views on digitalisation in other opinions. These have dealt with big data, 5G, advanced manufacturing, robotics etc. and the use of these technologies in tackling societal needs. The digital Single Market and the Digitising European industry strategies are paramount. An important question of principle is how to strike the right balance between, on the one hand, utilizing and benefitting from new disruptive technologies and, on the other hand, ensuring security and fairness. The emphasis should be on giving society, including enterprises, the opportunity to benefit from new possibilities by having an open and realistic attitude. The EESC also supports the Council's request to the Commission to launch an EU strategy for artificial intelligence.
- 4.4 **Low-carbon and circular society:** Maintaining leadership in these areas is a big challenge in an environment of increasing competition. Leadership should, however, not be an aim in itself; rather, it should benefit our economies and societies. The energy transition needs to be supported but energy prices need to be competitive for industry. The new ETS system must guarantee 100% free emission rights at the level of the best 10% of performers. Industry is not to be seen as a problem, but rather as the main provider of solutions to environmental challenges.
- 4.5 **Investments:** The numerous EU instruments to support investments – both real and intangible – should mainly be directed at boosting innovation, helping SMEs scale up, supporting regions in trouble, upgrading infrastructure and empowering people through education and training. One important criterion should be the leverage effect on private investment. SMEs and others with scarce resources may still need more help to find their way to the right source amongst the numerous different possibilities, and much easier processes for application and reporting.
- 4.6 **Innovation:** The EESC agrees that policies should be aimed more at the uptake of new technologies, scaling up and market successes. Innovative public procurement should be applied to promoting new products and services. The work and scope of Key Enabling Technologies

should, as the Commission proposes, also aim at maximizing their industrial deployment. Horizon 2020's successor should be allocated more resources in the next financial framework. Whenever possible, the first industrial application of publicly funded R&D should take place inside the EU.

- 4.7 **The international dimensions:** There is broad agreement that trade must be open but fair and sustainable. Access to global markets is crucial for industry and therefore the network of trade agreements must be further built out. The EESC supports the Commission's proposals on measures to tackle unfair trade practices. Special attention should be paid to new forms of protectionism from non-EU countries which have received favourable treatment (Turkey, Ukraine etc.). The EU should ensure that its environmental and social standards are spread globally through future trade agreements. As for the screening of foreign direct investment, it is important to identify risks of threats to security or public order. Simultaneously, when more investment is needed in EU businesses, foreign direct investments should be welcomed – they are also signs of Europe's potential.
- 4.8 **Partnerships:** The EESC welcomes the introduction of an annual Industry Day and the High Level Industrial Roundtable and announces its strong interest in participating in both. This approach should cover all areas of industrial policy in order to increase ownership of the strategy with stakeholders. More transparency and collaboration are needed, especially when starting impact assessments.
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