Towards the 6th "Friends of Industry"

Ministers Conference

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Contribution from EU Industry organizations

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Executive summary

1. **The EU needs to adopt a new and reinforced vision on industrial policy**. It is essential to strengthen EU strategic autonomy on key technologies and future-oriented areas, to set up trade and competition policy tools capable of defending the EU's industrial interests and to use major industrial challenges, namely the energy and digital transitions, as industrial performance levers. This renewed industrial policy must contain ambitious 2030 industrial targets, indicators to monitor the implementation of the EC's industrial strategy and strengthened policy governance, including industrial mainstreaming. All this, within the framework of an international context that supports trade exchanges, multilateralism and the promotion of global value chains.

2. **The next EU budget is a tool to strengthen European industry's competitiveness.** The EC's proposal to increase the budget for RD&I to €100 billion is a positive step to ensure that innovation - more specifically disruptive innovation - constitutes a key theme in the EU budget. However, more ambition is needed, and we call to substantially increase the budget for Horizon Europe to at least €120 billion, as stressed by the Lamy Report. KETs must remain a priority of the structure and technological scope of RD&I funds. Coordination of EU institutions is key for its effectiveness.

3. **The launch and support of important projects of European interest (IPCEI), including industrial developments, will structure our strategic value chains**: EU industrial policy should identify and prioritise emerging or existing strategic value chains, which undergo major transformation and matter for the future of industry in Europe. In our view, the following sectors qualify as IPCEI: efficient, safe and integrated mobility; mechanical-electrical equipment; microelectronics; hydrogen; bio-based materials; chemical recycling; additive manufacturing; renovation of buildings; energy production and storage; aeronautics and space; innovative textiles; the health sector; the food industry; data and cybersecurity. IPCEI is an important tool to launch projects aimed at structuring value chains by connecting R&D results to new industrial developments. This is an essential step towards creating favourable conditions for the development of European "industrial champions".

4. **The EU needs to take industrial issues into account in its trade and competition policies and it needs to improve market surveillance to be more efficient and responsive to global threats.** In a context of increasing international competition and the protectionist tendencies of the US in recent times, the priority is to foster open and rules-based markets for trade and investment as well as to develop and enforce multilateral rules related to competition and non-market-oriented policies and players. This needs to be ensured through: 1) a positive trade agenda by the EC guaranteeing European investments in third countries; 2) real reciprocity with third countries regarding access to public-procurement and R&D&I programmes, and 3) an appropriate screening process identifying FDI to protect national security and public order. Competition policy should consider the global dimension of markets for European industrial companies. Finally, to guarantee consumers' safety and to ensure a level playing field for economic actors, market surveillance and analysis/benchmarking must be strengthened at the EU level.

5. **SMEs and start-ups must reap the benefits from an increased support to accelerate their digital transition, the adoption of the Industry 4.0 model and facilitate their sustainable growth.** Building on the success of the COSME and H2020 programmes, the EC proposed to increase support within Horizon Europe's 3rd pillar (the European Innovation Council) to scale-up SMEs, their digitization process and their growth based on R&I. Funding schemes should be designed to underpin the broad and balanced concept of innovation, offering support to all forms of innovation (i.e. enabling, breakthrough and market-creating innovation). There should be an effort to review financing mechanisms to promote non-bank funding for SMEs and to increase the resources available through the European Investment Bank.

6. **The future cohesion policy must be able to contribute to industrial policy objectives.** We welcome the EC's proposal on European Regional Development and Cohesion Policy, which focuses on investments mainly towards innovation, support to innovative businesses, digital technologies and industrial modernisation. Cohesion policy should follow an inclusive value-chain approach and not exclude mid-caps and larger companies from participating at cohesion funded projects. Enabling synergies with other EU funds is crucial to allow proposals that cannot be funded on a European level to be funded through other programmes and to facilitate joint programming.

7. **An EU dimension of policies to develop the skills needed by the industry of the future is necessary.** Therefore, the European Social Fund needs to be reviewed to allocate part of the funding to the development of digital skills. The European Globalisation Adjustment Fund's scope needs to be widened. Additionally, we welcome the EC's proposal to double the budget for Erasmus. Further, we think that the EC should develop an Erasmus for apprenticeship, professionals and vocational training students ensuring mutual recognition of competences leading towards a European network of national platforms on the evolution of skills, promoting the expansion of dual vocational training to industrial SMEs, and improving the technical skills of future workers (STEAM).

Industry continues to form the backbone of the European economy. In Europe, industrial activity is a major driver to long-term competitiveness since it is closely tied to international expansion, innovation, digitisation, circular economy, qualified human resources and cooperation between large companies and SMEs. Today the European industry employs around 32 million people in Europe and additional 30 million people in industry related sectors.

The reality of industry and the way it operates have been radically transformed and challenged in the past few decades driven predominantly by globalisation and digitisation. Intense international competition, the emergence **of new competitors from emerging markets, the digitisation of production, new business models, investment** patterns increasingly shaped by software, patents and intangible assets and concomitant shifts in the needs of corporate finance are such common challenges that European industrial companies face. Besides, European manufacturing is becoming more diversified, increasingly transnational as well as knowledge intensive.

1. The EU needs to adopt a new vision on industrial policy

There is a need to reinforce an industrial policy with an ambitious European agenda and specific objectives on scale and it should – under the leadership of the "Friends of Industry" Member States - become the main priority for all EU institutions for the next legislative term and beyond. Within the framework of an international context that supports trade exchanges, multilateralism and the promotion of global value chains, a strong and ambitious industrial strategy will: strengthen the European strategic autonomy on key technologies (KETs, deep tech) and future-oriented areas; set up trade and competition policy tools capable of defending its industrial interest; make the European industrial actors a key part of their international value chains; and respond to the major challenges ahead in particular the transition to a low-carbon and digitised economies:

- **The EU is at the forefront in terms of regulatory framework for energy and climate action, which have an important impact on EU industry. At the same time, European industry plays a key role in the energy transition**. Therefore, Europe needs to use the energy transition as an industrial performance lever. On an international level, European industry needs a fair level playing field. EU must thus put all efforts in establishing a global carbon market and in the meantime take measures to prevent carbon and investment leakage. Lastly, it is essential to set up an effective European governance to coordinate national energy policies as a matter of competitiveness, security of supply and energy transition.

- **Industry digitisation is a key challenge, which must be accompanied by a European regulatory framework allowing industrial companies to seize opportunities of the digital revolution.** Therefore, connectivity and network coverage need to be increased, a harmonized European framework for cybersecurity needs to be established, active support needs to be given to standardisation processes related to digital aspects at European and international level, a framework guaranteeing the security and free flow of industrial data within the EU needs to be provided and the industry of the future and artificial intelligence need to be developed. In this regard, the Commission's initiative "Digitising European Industry" allowing the exchange of best practices between national initiatives of industry digitisation is a key instrument.

The EC's Communication "Investing in a smart, innovative and sustainable industry: A renewed EU industrial policy strategy" (September 2017) was a positive starting point, but a new 2030 European strategy should build on:

- Concrete and ambitious industry **targets** for 2030
- A set of pre-identified **indicators** that can be used to both, assess the health and the performance of the European industry, also in comparison to its competitors in the world, and monitor the progress made by the EU on the implementation of its industrial strategy. In this vein, we very much welcome the launch of the High-Level Industrial Roundtable "Industry 2030" to support the Commission.
- An updated industrial **governance**: Industrial policy needs to be defined as an equal EU objective to other policy areas. Additionally, political responsibilities, interconnected structures as well as suitable monitoring processes need to be established. This renewed governance should lead to an improved implementation of **industrial**

mainstreaming (as highlighted in the 2017 Council conclusions): **Industrial competitiveness issues need to be considered across all policy areas** in order to prevent potential negative effects of EU legislation. The principles of Smart Regulation need to be applied consistently to continue cutting red tape. An example for this would be the future of mobility, where innovative technologies developed by industry form an integral part and thus, should receive equal attention in policies and strategies designed for mobility.

In 2018, the Competitiveness Council (in March and November) and the European Council (in March) reaffirmed the need to have a stronger EU industrial policy confirming the **political momentum on EU industrial policy**. The practical implementation of an ambitious EU industrial policy requires a **combination of complementary dimensions**: a set of instruments and tools that can be effectively applied in the territory of the EU; the prioritisation of European strategic value chains based on key technologies, and the necessary interrelationship between industrial policy and the main economic policies implemented at EU level.

2. The next Multiannual Financial Framework (MFF) is a tool to strengthen European industry's competitiveness

In times of accelerated competition from Asia, the US, and other emerging areas, **innovation must be a key theme in the new EU financial framework with an increased EU budget for RD&I**. There is a need to address the innovation gap, by turning our excellent knowledge in Europe into new products, solutions and business models faster and more intensively. **We therefore acknowledge the EC's effort to increase the budget of its RD&I "Horizon Europe" programme to €100 billion.** However, in 2017, the Lamy Group report "LAB-FAB-APP – Investing in the European future we want" called for a doubling of the overall budget of the EU post-2020 RD&I programme. **We call for matching the strong policy ambition with an equally ambitious budget of at least €120 billion with a larger share for the Pillar II ("Global challenges and industrial Competitiveness").** Increasing the budget would also help to tackle the huge oversubscription problem.

Horizon Europe needs to:

- Maintain a policy excellence on R&D&I projects on key drivers to support European competitiveness and face social challenges (e.g. among others, sectors such as aeronautics, space, mobility, energy and environmental transition, waste, resources and secondary materials, digital, health, food and energy production and storage).
- Prioritise Key Enabling Technologies (KETs): they had a central role in the structure and technological scope of H2020 and the structural funds, they are the second highest chosen priority for R&I under the regional smart specialisation strategies, and states aids have also been modernised to help member states better support investments in KETs.
- Continue supporting tools such as PPPs and joint undertakings so that pre-competitive collaborative research continues to be funded for large groups as well as SMEs, universities, laboratories and that the spin-offs of these can be supported.
- Support the development of trans-European infrastructure projects in the fields of energy, transport and digital services as they are of strategic interest for the EU.
- Promote simpler rules to allow for a greater participation of companies to calls for projects, especially for SMEs, also through a dedicated SMEs' instrument built on H2020 experience. Likewise, it should foresee a strong industrial pillar with a renewed focus on key areas such as digital economy, cutting edge technology, recycling and waste treatment**,** energy transition, energy efficiency, decarbonisation and training.
- Put an emphasis on breakthrough innovation: the Commission's proposals for a **European Innovation Council** (€10.2 billion) and the **Digital Europe Programme** (€9.2 billion) are positive steps, which have the potential to contribute to the development of an industrial policy benefiting from disruptive technologies (and more generally disruptive innovations) keeping in mind that the existing programmes to fund such developments (e.g. Digital Europe, Horizon Europe, CEF Digital) need to offer a high degree of synergies.

In addition, in the implementation of corresponding policies, it is important to **ensure the coordination among the different EU institutions that support RD&I efforts at both the national level (e.g. Universities, Technology Centres, Science Parks, Incubators, High Technology Incubators, etc.) and the international level (promoting transnational projects within the EU)**. At the same time, a principle in the next MFF must be the simplification of the context and the need to foster cooperation between large industrial companies and industrial SMEs.

3. The launch and support important projects of European interest, including industrial developments, will structure our strategic value chains

The strong value chains created by the interlink of companies of different sizes are increasingly important for the European economy. A number of SMEs receive an impulse in terms of innovation capacity, knowledge and access to technology and emerge in connection with mid-caps and large companies.

Therefore**, EU industrial policy should identify and prioritize emerging or existing strategic industrial value chains undergoing major transformation (e.g. technology change) and which matter for the future of industry in Europe**. These strategic value chains must be the opportunity for Europe to maintain or build a strong competitive advantage, with regards among others its strategic autonomy (notably through security of supply and technological autonomy), energy transition and sustainable jobs, global market and competition, available industrial base, technology and know-how and skills. This is an essential step towards creating favourable conditions for the development of European "industrial champions".

- In this perspective, **strategic value chains should take into account the development of KETs** identified at EU level and which contribute to strengthening European value chains: micro and nanoelectronics, nanotechnology, industrial biotechnology, advanced materials, photonics, and advanced manufacturing technologies, artificial intelligence and security & connectivity. Being structurally enabling, KETs represent an essential leverage to the competitiveness of the EU industry.

- In the renewed industrial policy, **Important Projects of Common European Interest (IPCEI) can be very positive for identifying and promoting global value chains of particular interest to European industry.** In this regard, they can be a useful tool for launching projects aimed at structuring value chains by connecting R&D results to a new industrial development. Thus, the IPCEI instrument should be supported and extended, and its procedures deeply simplified. In this respect, the IPCEI in microelectronics should represent a pilot and help to understand the weak points, address the problems (such as the funding gap criteria) and introduce possible improvements. The **Strategic Forum on IPCEI** launched in 2018 by the European Commission is therefore central to discuss and identify these European strategic value chains and to develop by summer 2019 an action plan for each one of them.

- **Identified value chains should be those most directly linked to improving aggregate productivity, combating climate change and technological development**. In this regard, emphasis should be placed among others on: the efficient, safe and integrated mobility; mechanical-electrical sectors; microelectronics, hydrogen sector; bio-based materials; chemical recycling; additive manufacturing; renovation of buildings; energy production and storage, recycling and waste treatment; plastics recycling; aeronautics and space; innovative textiles; health sector or the food industry.

Furthermore, the adoption of the first European programme specifically dedicated to industrial defence projects (**European Defence Industrial Development Programme**) constitutes a positive step as an industrial policy's lever since it has the potential to boost European cooperative defence programmes and thereby address some of the key challenges industry is facing: lack of new programmes and investments, fierce international competition and increasing difficulty to maintain a highly-skilled workforce.

4. Taking industrial issues into account in European trade and competition policies and reinforcing market surveillance to be more efficient and responsive to global threats

An increasing international competition and the protectionist tendencies of the US in recent times endanger the multilateral system. Rising trade tariffs between transatlantic partners as well the extraterritoriality of US sanctions on companies operating in Iran have a harmful impact on EU industry. Thus, industry's priority is to ensure that companies compete on a level playing field by developing a coherent European industrial policy, this is achieved best by: 1) **fostering open and rules-based markets for trade and investment,** 2) **developing and enforcing international rules related to competition and non-market-oriented policies and players** (state-owned companies, industrial subsidies, forced technology transfer, IP protection etc) and 3) lastly, counteracting **measures taken by main competitors to support their industry**.

Therefore, industrial companies**:**

- **Welcome steps recently taken by the EC negotiating free trade agreements** so long as they ensure effective reciprocity with third countries and the protection of European investments in such third countries.
- **Look forward the modernization of the trade defence instruments in the EU to be soundly implemented** in the interest of EU producers.
- **Welcome the trilateral dialogue between the EU, Japan and the US on industrial overcapacities** and transparency rules on subsidies as well as more efficient means in enforcing the notification of subsidies under the umbrella of the WTO.
- **Stress the need to ensure real reciprocity** when participating in public procurement (first and foremost in the US and China) and R&I programmes in third countries.

Regarding Foreign Direct Investments (FDI), it is of utmost importance to strike the right balance between a climate of openness and the protection of national security and public order. FDI is an important source of economic growth, jobs, and innovation in the EU. The EU thus needs to retain an open investment regime and increasing protectionism pertaining to foreign investments would be a major threat to industry's competitiveness. If investments from third countries could have a negative impact on public order and security, it is justifiable to assess the possible detriment of such investments. However, these cases must be clearly and definitively delineated.

Moreover, the **EU's competition policy should take into account that European industrial companies are deeply integrated into globalized markets and supply chains**. To ensure that the global dimension of markets is taken into account, European industries call upon the EU: 1) to support state aid for projects pertaining to strategic value chains and assets (cf. IPCEI); 2) establishing a benchmark of third countries' competition policies and state aid control mechanisms; 3) to incorporate competition and state aid rules into future FTAs and international agreements and 4) to clarify the notion of « market of reference » in EU competition law as it regards to mergers and acquisitions.

Finally, because of their adverse impact on consumer safety and competitiveness, **counterfeited and non-compliant products must be addressed as a major issue by the EU**. In this context, market surveillance has to be championed strongly at the European level and in Member States.

5. Increased support for SMEs, and start-ups, to accelerate their digital transition and facilitate their sustainable growth.

The EU has more than 20 million SMEs, accounting for 98% of all businesses, 67% of the labour force and 58% of gross added value. Between 2002 and 2010, European SMEs accounted for 85% of job creation in the EU and they play a fundamental role as an important component of the whole innovation eco-system. **However, there is a worrying consistent gap in the number of innovative and highly valued new companies between Europe and the US or China**. The US and China have by far more unicorns (non-exchanged-traded companies valued for at least 1 billion USD) than all of Europe. Such unicorns have the ambition to lead the digital transformation and rely in their business models primarily on sharing platforms for data, software or material goods. Europe needs to address some crucial issues such as asymmetries and power imbalance between large digital platforms and their users. We need political commitment to ensure that Europe can take the lead in the digital sphere where American and Chinese players are competing at high level.

Therefore, building on the success of the current programme for the Competitiveness of Enterprises and Small and Medium Sized Enterprises (COSME) and of H2020, the EC proposed to strengthen support within Horizon Europe's 3rd pillar (the European Innovation Council) given to small businesses and start-ups especially in their scale-up phase and in their growth based on R&I. We underline the following:

- **The funding schemes should be designed to underpin the broad and balanced concept of innovation, offering support to all innovative businesses.** A broad definition of innovation is strongly needed and supported through a proper range of financial instruments supporting all innovative companies acting in a competitive market. SMEs are indeed heterogeneous firms ranging from well-established companies to start-ups and research-backed spin offs whose contributions to the innovation system are broad and diverse. Their approach to innovation includes not only R&D based new products and services, but also improved designs and processes and the adoption of new technologies and business models.
- As part of the 3rd pillar of Horizon Europe governed by the European Innovation Council it is crucial **to keep grants as well as develop news means of finance (loans, equity) needed for high *Technology Readiness Levels* (TRL).** The new programme should help companies to better exploit the potential of the Single Market by putting in place information tools, developing standards and supporting cooperation between administrations.
- In order to accelerate the digital transformation and allow sustainable growth, it is important to **foster all companies' (especially midcaps enterprises and innovative start-ups) digital capacities, such as supercomputing, research and application of AI, cybersecurity and advanced digital skills.**
- As in the EIC the SME instrument has not come back, **it needs to be secured that sufficient measures are taken to make sure that SME participation in Horizon Europe will not significantly drop** leading to a weakening of the R&D&I ecosystem.
- In addition, there should be an effort to review financing mechanisms to promote non-bank funding for SMEs; improve guarantee instruments, as well as bankruptcy regulations; and enforce the effective application of late payment legislation. Furthermore, to increase the resources available through the European Investment Bank and improve access to them (conditions, procedures, etc.).

6. The future cohesion policy must be able to contribute to industrial policy objectives

Cohesion policy has to be considered one of the main tools, in economic terms, to support competitiveness at EU level: in this sense, it should set explicit objectives for the competitiveness and attractiveness of the manufacturing sector (e.g. research and innovation, digitisation, circular economy, energy, environment, human resources development) as well as simpler rules with the aim of improving the system's effectiveness, reducing the burden on beneficiaries and administration and facilitating synergies between shared and direct management resources. There is a link between social and economic cohesion and the productive activity of a territory. The more competitive the industry, the more employment and shared wealth will be generated. Industrial activities are fully involved in territories where their operations are located, which contributes to economic cohesion. In that sense, Smart Specialization strategies will have to develop a stronger cooperation between regional territories and their respective economic systems.

In that sense, **we welcome the EC's proposal on the European Regional Development and Cohesion policy post 2020,** which mainly focuses on investments towards innovation, support to businesses, digital technologies and industrial modernisation. EC's proposals are a good basis, not only because of the key role for competitiveness, but also for the emphasis on some key principles like simplification, concentration, subsidiarity, synergies and partnerships, as well as for the focus on regional cooperation based on complementary specializations of the European regions. This new proposal **should not exclude mid-caps and larger companies** from participating at cohesion funded projects. Indeed, especially in the industrial sector, innovative practices often develop out of cross-firm collaboration of different sized companies, universities or other research institutions. At the same time, a stronger role for infrastructure has to be provided, considering the role played by this kind of investment in territorial competitiveness.

The **link between the cohesion policy and the European Semester has also to be taken into account**: in order to create a growth-and business-friendly environment in Europe (so that both EU and national investments can deliver their full potential), by supporting the implementation of Country Specific recommendations if consistent with the aim of Cohesion policy. This Cohesion policy support to structural reforms will ensure full complementarity and coordination with the new, enhanced Reform and Support Programme and the priorities set forward by the national reform programmes.

7. A European dimension of policies to develop the skills needed by the industry of the future is necessary

To reinforce the European approach on skills, it deems necessary that the EU supports Member States' efforts to invest more effectively in education, apprenticeship and vocation training. Therefore, the **European industry welcomes the Commission's proposal to double funding (up to €30 billion) for the Erasmus Programme within the next MFF** and calls upon the EU to:

- develop an Erasmus for apprenticeship,
- develop an Erasmus initiative for professionals as well as for vocational training students,
- review the European Social Fund in order to allocate part of the funding to the development of digital skills,
- widen the scope of the European Globalisation Adjustment Fund to the restructuring of smaller scale and to raise its budget,
- promote the expansion of dual vocational training to industrial SMEs and extend it to the university level (with student internship programmes in companies in order to acquire certain skills and competencies that are more suited to the productive needs of the economy),
- ensure mutual recognition of competences within the EU and to explore the creation of a European network of the national platforms on the evolution of skills,
- improve the technical skills of future workers to satisfy the needs of industrial enterprises, with special focus on STEAM methodology (Science, Technology, Engineering, Artistic and Mathematics).

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