

Concept Paper – A new step for European Industrial Policy

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In view of the coming debates at the European Council about industrial policy, with a culminating point at the February 2014 Council, Belgium wishes to put forward some ideas and proposals aiming at consolidating a shared, strong, ambitious and proactive Industrial policy in Europe as a core piece of the EU recovery strategy. Belgium is available to engage in a thorough discussion and collaboration with EU institutions and other Member States and Regional authorities to build further on those ideas and put in place and implement an ambitious agenda for reindustrialization of EU economy.

I. General approach and objectives

Building on the Commission's recent industrial policy communications, Europe must re-found a real and common European Industrial Policy, based on shared objectives, activation of **all relevant policy levers and efficient multi-level governance**. This should constitute a **strong cooperation framework between European Institutions, Members States and Regions, allowing the combination of an approach based on strategic European priorities and a bottom-up approach based on smart specialization strategies at the regional /national level giving place to the necessary entrepreneurial discovery process**. Those should be articulated in an efficient way – notably through a **strong European Clustering policy** – as to accomplish decisive breakthroughs in the creation of new growth markets, allowing an effective transition of EU industrial activities.

Our **shared objective** is to promote in a long term perspective a strong, diversified and competitive industrial base in Europe offering growth and quality jobs while grasping the industrial opportunities of becoming less carbon and resource intensive. This should be the path to reindustrialization of EU. This objective should be embedded in all relevant EU, national and regional policies with a view to give life to a coherent industrial policy and enhance the local impact of the European Industrial Strategy thanks to the proximity of the regional policies. This industrial policy should be based on a **smart combination of different policy levers** and must be translated into **common roadmaps**.

Beside short term recovery action and the permanent concern for a challenging and stable economic framework, an **industrial growth initiative for boosting investment in the priority domains** must be a core element of the European long term strategy for the transition towards sustainable growth and jobs.

The Industrial policy flagship initiative “ An integrated Industrial Policy for the Globalization Era ” is of **key importance in the implementation of the Europe 2020 Strategy**. This communication initiated a fresh approach to industrial policy, based on a transversal vision of industrial competitiveness in the context of new and future challenges linked to transition towards a low carbon and resource-efficient industry, in a globalised world.

The Update of the industrial flagship initiative in the context of the crisis is a second important step towards a new proactive industrial policy at European scale. It must, together with the flagship, constitute a **central piece of the EU recovery strategy**, which should build on an ambitious vision for industry in Europe (‘A Third Industrial Revolution’), with a clear target of reindustrialization (the 20 % objective). New impetus must be given to industrial investment, and a long-term perspective on new market creation is necessary to accelerate

recovery. In this respect, full support should be given to the 4 pillars and 6 priority action lines for investment in RDI. This should complement the integrated approach impulsed in 2010 based on a **holistic view of industrial competitiveness and transition paths**.

In that perspective, some steps further are needed to anchor the new approach of industrial policy on the **ideas of industrial transition, value chains, synergies between policies, multi-level governance, and demand-side approaches**.

This paper proposes new policy impulses and operational proposals with a view to accelerate the deployment of real and common European Industrial Policy as a central piece for a reinvigorated strategy for sustainable growth and jobs.

II. New policy impulses needed

The new industrial policy must focus on the **transformation of the EU industrial activities** in order to serve the markets of the future that are built around solutions for the grand societal challenges. The Third Industrial revolution requires, beside the right framework conditions, new policy impulses to foster the transition of the industrial system along **cross-sector value chains** which is supported by **transversal policies and multi-level governance**.

1. Traditional industrial segmentations are now largely obsolete. The **transition towards sustainable growth can only be achieved through action both on rejuvenating present industrial activities and making new niches and new industries emerge**.
2. New growth opportunities require approaches aimed at innovative industrial value chains, which are cross-sector and cross-disciplinary by nature and are also largely embedded in present European industrial structures. **The industrial policy must be transversal and take into account inter-sector linkages, notably industry/services linkages, and the necessity to bridge the ‘valley of death’ to manufacturing and markets**.
3. Innovation and industrial dynamics have a strong **regional dimension**, and the crisis has asymmetric effects on regions and sectors. A **deeper involvement of the Regions in the implementation of the EU industrial policy and governance mechanisms** is needed to boost impacts. We also need further reflections on the way to better take into account the regional dimension in the policy tools and to better articulate industrial and cohesion policies.
4. The **Internal Market** offers the necessary economies of scale to favor the emergence of European lead-markets for the priority actions lines identified in the Industrial Policy update. Growing imbalances within the Internal Market can be countered by regionally differentiated growth strategies based on dynamic comparative advantages. Stimulating the connection between regional clusters at EU level will enable the emergence of **EU world-class clusters that capitalize on the combination of international scale and regional proximity** in a smart specialization perspective.
5. Consolidating competitive position of EU industry on global markets also require a stronger integration of **global competitiveness challenges** in the design of EU policies, and a **European Trade policy** more focused on this objective.
6. Given the scarcity of **raw materials** and the current geopolitical situation influencing the safety of supply, a move towards a “circular economy” is a vital challenge that needs to be addressed. This offers a transformation agenda that aims to **redesign global production and consumption systems**.

7. Given the threats caused by climate change and the gradual rise in energy bills, there is a need to account for, to facilitate and to grasp the opportunities offered by the **energy and low carbon transitions**.
8. The transformation of the economy will have huge impacts on the functioning of the **labor market** and on **skills and competencies needs**. Deeper integration of those aspects in the industrial policy is required as to allow swift transition and employment-rich growth (ensure higher levels of investments in skills, better matching of demand and supply, anticipation of needs,...).
9. Political leaders have to give guidance and **reassure the markets about the long term commitment of policy makers** to structural change in the priority action fields through an integrative approach and joint action plans.

III. New policy tools needed

In a perspective of structural change, **clusters** have a key and pivotal role to play in industrial and innovation policies. They are key drivers of smart specialization strategies in regional and local ecosystems by boosting innovation, technology diffusion and knowledge spill-overs, and notably by involving SMEs in innovation dynamics. By transcending sector, technological and geographical boundaries, they allow trans-sector, trans-disciplinary and collaborative approaches (notably multi-KET approaches, public-private partnerships) as well as a closer link to the markets and the users. They can also foster new innovative industrial symbiosis allowing efficient use of resources. **The absence of a strategic EU cluster policy as a change agent is therefore an important missing link in the European industrial policy up to now**. This is the missing link between regional clusters to move towards critical mass and the building of world-class clusters at the UE scale.

The undersupply of proof-of-concept, demonstrations and industrial pilots is clearly identified in the priority actions as a go-to-market bottleneck. But the innovation model behind the new industrial policy approach is still too much technology-driven, and should better integrate **non-technological innovation and user- and demand-driven approaches as well as financing of the go-to-the market phase**. A coverage of the full trajectory of innovation investment should not leave out the development of adequate business model required to incorporate the new (open) innovation dynamics in the development of new value chains. **Interlinkages between industry and business-related services and creative sectors** should be further explored as engines of industrial renewal and of the entrepreneurial discovery process within smart specialisation strategies.

To reach higher levels of **resource productivity**, the deployment of efficient technologies needs to be complemented by systemic and structural changes in industry (especially through **eco-design, industrial symbiosis, the economy of functionality, reuse and recycling**). Such an approach should be more integrated into the industrial policy.

IV. New governance mechanisms needed

To reverse the trend of deindustrialization in Europe and engage on the road of a Third Industrial Revolution, **bold and ambitious roadmaps** have to be designed and implemented. The goal of such roadmaps is to **spur a coordinated investment boost between different policy levels** that fits this ambition. The **Task Forces** that have been installed to design such strategies for the six priority action domains are a starting point of the governance needed but we need a more systematic approach and enhanced coordination and transparency.

The capacity to **couple regional smart specialization strategies with the European roadmaps** is a decisive factor. Smart Specialization is not specific for cohesion policy only

and must be a **bottom-up process** linking place-based innovation in regions to the overall objectives of European innovation and industrial policies for structural change. Thus, the governance for **coordinating the efforts and involvement of all stakeholders and policy levels** is of crucial importance for delivering the policy agenda, notably through efficient public-private partnerships.

It is of crucial importance to go further in the development of **stronger links and articulation with other EU policies** (competition, trade, energy, environment and climate, education and training policies,...) as to better integrate industrial competitiveness perspective in the design of those policies, including the **external competitiveness** dimension.

There is also a need for a much **deeper system analysis of the industrial transition and globalized value chains** to better understand (more quickly, efficiently and regularly) the bottlenecks and barriers, risks and opportunities, anticipate future evolutions and identify the accelerators and levers for structural change.

The Commission's efforts to further embed industrial policy within the **European Semester process** should be pursued and supported. But this must go hand-in-hand with a review of the role and functioning of the **Competitiveness Council**. It should develop a more transversal approach of industrial competitiveness through its three components, and a common vision of industrial challenges and strategy. Furthermore, the industrial policy flagship initiative and industrial competitiveness and transition challenges should be fully integrated within the **Multiannual Financial Framework 2014-2020** and the different programs linked to it (COSME, Horizon 2020, Cohesion Policy,...).

V. *10 operational proposals for a European Industrial Growth Agenda*

On the road to the European Council of February 2014, the Competitiveness Council can contribute to build **an ambitious Industrial Growth Agenda**, as a new step in the European Industrial Policy, aiming at bundling resources on a European and multi-level scale (EU, Member States, Regions and Industry) and pave the way towards the reindustrialization objective. We develop hereunder ten operational proposals that could constitute the framework for this agenda with a focus on a **European Industrial Growth Initiative** to boost investments in priority areas, needed for ensuring long term competitiveness of the EU industrial base.

Review and development of key EU policies to meet the shared objective of industrial competitiveness

1. Develop a **coordinated approach of industrial competitiveness through all relevant EU policies** :
 - Put industrial competitiveness, durability and transition matters at the core of the priorities of the new generation of structural funds programs. The **Cohesion policy** can play a strong role in implementing the industrial policy on a multi-level basis. The thematic menu of the Cohesion policy should be used in an integrated way to develop coordinated policy approach of regional competitiveness. It allows furthermore combining competitiveness and cohesion objectives. Though, the regional dimension of industrial policies can't be confined in the Cohesion policy, and other policy fields must integrate this dimension, notably through regional clusters.
 - Pursue deepening of the **Internal Market**, with a priority on key elements for industrial competitiveness (European patent, standardization, public procurement, digital internal market, energy internal market,...). Standardization is a key element allowing developing a first-mover advantage for EU in emerging industries.

- Further develop the use of **competitiveness proofing and Think small first principle** when developing new EU legislation and policies, not only to minimize negative impact on industrial competitiveness and SMEs, but also to design adequate accompanying measures if necessary and enhance expected positive impacts on industry and SMEs of the relevant policies.
 - **Trade policy** is an essential lever to consolidate European position within globalised competition, and should be fully activated in line with that objective, both on offensive and defensive approaches with a view to ensuring a level playing field, including through clauses regarding social and environmental standards and regulatory convergence. The development of quick, transparent and efficient procedures to activate Trade Policy tools in support of European industrial competitiveness should be ensured. Analysis of trade distortions should be enhanced as regards State aid related matters, support to innovation and emerging markets (notably KET). When updating certain aspects of Trade defense instruments, the Commission should ensure balance to better address pressing challenges brought by an increasingly global and intertwined marketplace. Unfair raw materials trade practices should be a priority. Access to external markets should be further enhanced as to allow EU enterprises to fully seize new market opportunities.
 - **Energy policy** is at the heart of the “Third industrial revolution” and is a key element of future industrial competitiveness and sustainability (safety of supply, internal market). The Smart grid therefore is a core infrastructure, but the update seems quite vague on energy provisioning for industry. The specific situation of energy-intensive industries should be taken into consideration for managing transition.
 - **Environment and climate policies** must provide the predictable framework – including a robust carbon price signal – needed to foster investments in emerging technologies enabling the transition towards a low carbon and resource-efficient industry in line with our long term climate targets while providing a first-mover advantage.
 - **Education and training policies** are crucial to ensure the matching between growth perspectives and available (present and future) competencies. Further impulses are needed as to ensure further investments in skills and anticipation of skills needs and accompanying transition paths.
 - **Employment policies** must also play a role in the matching of demand and supply on the labor market, the support of transitions and the accompanying of restructurings.
 - As a competitive internal market, the EU should adopt common **tax standards** and deepen **tax coordination** between Member States.
2. In particular, overhaul of the present approach of the **modernization of State Aid Policy**, by putting a stronger focus on the answer to industrial competitiveness challenges, and giving a long term investment perspective to the markets. The aim is to allow Member States to deploy efficient policy tools, in line with EU orientations, to support an innovative, sustainable and competitive industry and to ensure the attractiveness of Europe at the global level. The regional aid, RDI aid, risk-capital and environment and energy aid guidelines are of particular interest for industrial competitiveness in a period of transition, especially for emerging industries. **The external dimension** of competitiveness must be duly taken into account in the reflections, with a view to ensuring a level playing field.
- Maintaining of the support possibilities for large enterprises in all areas covered by the regional aid maps. Regional aid to large companies plays a key role in the

- improvement of the regional competitiveness as they lead to the creation of new jobs in the region, to the development of new activities, and as they have a domino effect especially on SMEs.
- Definition of a new approach of the State aid rules as regards support to clusters (see above).
 - Improvement of the rules for support to innovation, allowing the creation of a level playing field with the main competitors, notably as regards support to pilot and demonstration projects, the go-to-the-market phases and the deployment of Key Enabling Technologies (KET). Ensure an adequate treatment of new policy measures aiming at promoting innovation in services, non technological innovation and demand-side tools.
 - Definition of well-adapted rules as regards SME access to finance, taking into account their needs, the reality of the market, and the regional dimension of SME financing.
 - Revision of the current approach to support infrastructure creation and development, with a view to facilitate and accelerate public investment in key infrastructures needed as pre-requisite for industrial competitiveness (transport, ICT, business and knowledge infrastructures).
 - Definition of well-adapted environmental and energy aid rules allowing a swift transition to a resource efficient model, appropriate support to eco-innovation, development of renewable energies, development of resource-efficient business models and processes,....
 - Preserving an equilibrated and appropriated approach to the *de minimis* aids (equilibrium between necessary control procedures, authorized amounts and administrative burden).
 - Avoid imposing administrative requirements which could delay or discourage the realization of innovation or industrial projects.
3. Develop a **strong European Clustering policy** that connects the different regional clusters into **cross-European world-class clusters**, allowing to build a European approach to smart specialisation. This policy should build on present actions lines, to develop an integrated set of policy tools :
- Develop, within relevant EU programs, support to **inter-clustering** activities.
 - Consideration of **regional innovation clusters as innovation actors in their own right** and as privileged partners in a number of European initiatives (Horizon 2020, EIP, ETP, JTI, EIB/EIF,...).
 - **European leverage of new financial instruments** that mobilize quickly and easily finance for innovation and transformation projects of clusters.
 - Definition of a new approach of the **State aid rules as regards support to clusters**. Support to animation of (regional) clusters should be treated on the same basis as other innovation intermediation activities. Those activities fall within the public service missions and do not constitute State aid within the meaning of the Treaty.
 - Consolidation of existing tools as regards policy learning, policy and experience exchange and collaboration between regional and national authorities in charge of clustering policies (in particular European Cluster Alliance).
4. Further develop new concrete policy responses and tools as regards **business-related services, new business models (including those related to resource-efficient economy), cultural and creative industries, innovation in services, non technological**

innovation and demand-side innovation policies. Financing of the go-to-the market phase (proof-of-concept, demonstration and industrial pilots) should also receive more emphasis. Those themes should be clearly embedded in the Horizon 2020 and COSME programs as well as in Structural funds programs. State aid rules should also be designed in a way that allow to take into account the specificities of those new policy approaches.

5. Development by the European Commission of **new analysis tools of European industrial value chains** within the global competition, including dynamic and prospective dimensions. The aim would be to better understand the current evolutions in industrial structures and global value chains, the European positioning, the bottlenecks and barriers, risks and opportunities, anticipate future evolutions and identify the accelerators and levers for structural change. Such tools would be useful to feed and facilitate the dialogue and cooperation mechanism to put in place for the implementation of a real European industrial policy.

Those new tools should also aim at reinforcing and consolidating the data, expertise and analysis already present in different Commission's DG (analysis of industrial competitiveness, innovation scoreboard, restructuring observatory, skills panorama, trade analysis,...).

Furthermore, the Commission should promote exchange and consolidation of information and experience between Member States and Regions as regard that kind of analysis. Belgian Regions are ready to share their own experiences and results.

6. Develop adequate **governance and coordination mechanisms of EU instruments** :
 - Define clear and concrete modalities for the combined use of different financing sources (Horizon 2020, COSME, structural funds, EIB/EIF, European Globalisation Fund,...) and clarify State aid rules regarding those financing mechanisms, in particular to leverage the investments in priority domains.
 - Accelerate the adoption of the new generation of programs and financing tools, allowing a timely implementation.
 - Ensure adequate governance modalities of UE programs relevant for industrial competitiveness, with a view to ensure that work programs are built as concrete answers to industrial challenges. In particular for Horizon 2020, a strong involvement of industry, clusters and SMEs should be ensured, as well as appropriate governance associating Industry and Research parts of the Council and relevant DGs of the Commission.
 - Focus the European financial instruments and work towards their alignment with the national en regional financial tools.

Development of an adequate multi-level governance framework between European Institutions, Member States and Regions

7. Establishment of a **more systematic and structured dialogue between EU Institutions, Member States and Regions, industries and social partners**, allowing better-informed policies, better anticipation mechanisms and proactive policy-making, as well as quicker policy responses to industrial adjustments and crisis. This should allow for better definition of the adequate policy-mix taking into account new market opportunities and transition needs of industrial sectors. The Commission should build on the experience of CARS 2020 and Steel Task Force to develop a comprehensive approach, based on value chains rather than on a NACE basis.

8. The **Task Forces** for the implementation of priority roadmaps and projects should be based on a **multi-level approach** (EU, Member States, Regions, Industry) and foster effective policy coordination, as well as **fluid information flows**, allowing the combination of an approach based on strategic European priorities and a bottom-up approach based on smart specialization strategies and entrepreneurial discovery processes at the regional /national level.

This has to be geared to **action and investment boost for a European industrial growth initiative**. Those Task Forces should therefore receive a clear and operational mandate, develop operational roadmaps, with clear objectives and appropriate methods for effective collaboration. Those should deepen a value chain approach, allowing cross-sector and cross-disciplinary conceptions, building on innovative interactions between regional specializations, sectors, competencies and emerging market demands. Doing so, it could guide an operational path to the development of world-class clusters at EU level.

To ensure a coordinated and coherent approach, a **transversal Task Force**, associating Commission's relevant DG and Member States could also be created, to monitor the implementation of the European Industrial policy and feed the work of the Competitiveness Council.

Beside those specific Task Forces, other platforms – European Innovation Partnerships, Joint Technology Initiatives, Public-Private Partnerships, European Technology Platforms,... – should develop a more multi-level and transparent governance, with a view to mobilize appropriate stakeholders, notably industry, clusters and regional authorities. The articulation of those initiatives with key priority roadmaps should be ensured.

9. Building on the tools proposed above, the Competitiveness Council should prepare a comprehensive **industrial growth initiative** that is built around common roadmaps for boosting investment in the six priority action domains allowing reversing the trend of deindustrialization and paving the way towards the 20 % objective. This should generate a shared political commitment and could also be a driver for effective multi-level governance on EU industrial policy, based on a shared vision as regards common industrial challenges and synergies in investment efforts. This would also allow putting the industrial policy at the heart of the priorities and agenda of the Europe 2020 Strategy.

Furthermore, this could lead to the development of a **single European “voice”** to oppose to global industrial players and competitors.

10. This requires reinforcing the **role of the Competitiveness Council**, also within the annual growth survey, notably by stronger inputs to the debate and priority setting, underpinned by a solid analytical base and strategic debates about industrial policy objectives and roadmaps. This asks for a reshape of the **functioning of the Competitiveness Council** with a view to manage industrial competitiveness and innovation matters in a holistic way. The articulations between the three components of the Council should be enhanced.

Furthermore, the role and functioning of the Competitiveness and growth High Level Group should also be reviewed in that perspective.