



Competitiveness – Industry Informal Council of 14 and 15 July 2010

Conceptual Framework

Introduction

Two flagship initiatives, “Industrial policy in the era of globalisation” and “Union for Innovation” are set to be published by this autumn within the framework of the Europe 2020 Strategy, the new European strategy for smart, sustainable and inclusive growth. They will be instrumental in converting the ambitions of the new European strategy into concrete policies and, in particular, in engineering the essential transition towards a greener and more competitive European economy on the world stage.

In a globalised economy, the European economy is increasingly being wired up to the world economy, making the consolidation of the external competitiveness of the EU a necessity. But while the achievement of the European objectives in the field of sustainable development imposes heavy constraints on European industry and is a major challenge, it also paves the way for new opportunities, new avenues for development and new markets.

Furthermore, given the central role of the SME in the EU’s economic fabric, it is absolutely vital that SMEs are given their rightful place within the Europe 2020 Strategy and within these two initiatives, in accordance with the principle of “Think small first”. The mid-term review of the Small Business Act, scheduled for mid-October, offers a major opportunity from this point of view.

In addition to the definition of the concrete priorities and of the tools to be developed within the framework of the EU’s industrial and innovation policies, the matter of their governance must also be addressed. The growing complexity of the world economy and of the value chains calls for integrated and coordinated solutions, as well as the setting up of new multi-level governance models.

The Informal Council of Industry Ministers being organised by the Belgian Presidency is the last window of opportunity to step up the political momentum before the publication of these different communications, which clearly overlap, and to define an integrated approach in favour of a modern and ambitious industrial and innovation policy.

The Presidency would like to prompt a broad, open and constructive debate about the new solutions that the European Union and the European players can think up in order to anticipate and facilitate the mutation of the European economy, and in particular of its industry, towards a more sustainable and competitive development model. These solutions are underpinned in particular by innovation. The debates will be hinged around two central themes: the EU’s new industrial policy and the SME-relevant innovation policy.

The background studies commissioned by the Belgian Presidency set out to inject new ideas into these debates. The Presidency hopes that they will serve to bring out the creativity of our exchanges.

A sustainable industrial competitiveness policy

Industry is and will remain a central cog in the wheel of the European economy. It is at the heart of the value chains and still largely determines the evolution of other sectors. The adoption of the Europe 2020 Strategy and the upcoming launch of the flagship initiative “Industrial policy in the era of globalisation” pave the way for a new modernised and ambitious European industrial policy that takes a comprehensive approach to European industry and its evolution in all its complexity.

This new “sustainable industrial competitiveness policy” must make it possible to anticipate and proactively broach the challenges, issues and opportunities facing European industry, in particular those linked to its transition towards a greener and globalised economy.

Today, the industrial sectors can no longer be considered as homogeneous, independent and national: they are at the heart of increasingly complex and interlinked globalised value chains that transcend the traditional geographical and sectoral borders. They include not only the manufacturing activities but also the tertiary sector. Policies directed towards specific sectors are therefore increasingly likely to affect other sectors. Other European policies also influence the competitiveness of industry (environment, energy, employment, transport, etc.) and horizontal methods of coordination should be defined along these lines.

In this context, the competitiveness factors at global level are evolving, becoming more diverse and complex to take on board the intangible factors (quality, related services, customisation) allowing greater differentiation and positioning on market segments with a higher added value. Adopting the right response to the challenges raised by the transition to a low-carbon economy will be another key element in the future competitiveness of European industry, on the one hand through the efforts that will have to be made in the field of eco-efficiency and, on the other hand, through its capacity to grab the opportunities offered by the green economy and to position itself as a leader in these high growth markets. Innovation – both technological and non-technological – is the crucial factor in these evolutions and in the future capacity of European industry to hold its own on the world markets.

Another aspect to be taken into consideration is the acceleration of the change, which calls for growing capacities to anticipate future developments and their impacts on industrial competitiveness, and greater flexibility in the responses adopted with regard to these changes.

The resource-hungry industries have already undergone a far-reaching change to meet the challenges of globalisation and climate change. However, their future competitiveness continues to depend on external factors such as worldwide demand and the evolution of prices, access to markets and access to energy and natural resources. The future competitiveness of these industries and their survival in Europe have important repercussions for all of the sectors that they supply, but also for the global environmental objectives.

Despite the key role played by SMEs in Europe’s industrial fabric – they directly account for 45% of the added value and 59% of jobs in the manufacturing industry – they can be particularly vulnerable to the effects of globalisation and their place in the global value chains must be consolidated. Recent studies have demonstrated a close link between a SME’s international reach and its competitiveness, with innovation being a central factor in this equation. The integration of the SME within clusters that put them into contact with large companies and international partners can help boost their global prospects.

Indeed, the growing internationalisation of the economy implies the development of close interrelations between economies at European and worldwide level, new forms of cooperation

at regional, national, European and international levels, and therefore the development of a multi-level governance allowing a greater involvement of the Member States and of the Regions in the implementation of European industrial policy.

Within the context of globalisation, the European industrial policy therefore needs to reinvent itself to take on board the new factors of competitiveness, the growing complexity of the value chains, and the close interrelations between economies, sectors, policies and levels of governance. In view of this, it is maybe time to move away from the traditional distinction between horizontal and sector policies and towards an innovative approach combining generic and targeted policies (on specific categories of companies or particular links in the value chains, or on the reinforcement of the links and synergies between enterprises).

Questions for the debate :

Session I – Tools of a modernised industrial policy (14 July 2.45-4.15 p.m.)

1. *Which three major mechanisms should be used at European level to facilitate and steer the transition towards a more competitive industry at international level and thus support the external competitiveness of the European Union in the long-term ?*

In particular, which key measures should European industrial policy adopt to address the issue of resource-hungry industries ?

2. *How can SME be helped to incorporate the new globalised value chains and to access external markets ?*

Session II – An integrated approach to industrial policy : new modes of governance (14 July 4.45 -5.45 p.m.)

3. *Which Community policies are most likely to boost the EU's industrial competitiveness? What can be done to ensure greater consideration for policy interactions? In particular, what links can be developed with the “Union for Innovation” initiative and the Small Business Act?*

Towards a SME-relevant European innovation policy

SMEs make up the vast majority of European companies (more than 95 %). The success of an ambitious European industrial and innovation strategy therefore inevitably depends on the broad dissemination of innovation practices within the web of SMEs.

Furthermore, SMEs can play a central role in the transition of the European economy towards a greener and more sustainable growth. Hence the importance of their participation in the development of European eco-industries and in the efforts made in the field of eco-efficiency.

Although most SMEs do not carry out any R&D activities in the formal sense, most of them innovate, innovation being understood in its broadest possible sense, encompassing the production processes, the business models, organisational change as well as technologies. Indeed, recent studies have underscored the importance of innovative and dynamic start-ups for economic growth and industrial transformation.

SMEs are however still faced with specific obstacles in the field of innovation that must be removed: access to funding, difficulties in building on the benefits of R&D and innovation, a low absorption capacity, regulatory and administrative charges and access to skills. Furthermore, special constraints hamper the growth of young, innovative companies: fragmentation of the markets, barriers to market access, operation of the financial markets and in particular of the European risk capital market.

These elements plead in favour of an approach that combines generic measures that set out to deploy innovation throughout the economic fabric and specific measures earmarked for innovative companies posting strong growth.

By structuring the regional innovation systems and by stimulating the creative interactions between users and producers of technologies, small and large companies, low and high tech companies, innovative clusters can prove to be an efficient tool to stimulate the transfer and dissemination of technologies, in particular generic technologies, within SMEs. They can also be a vector to develop innovation in line with the demand and the market. Furthermore, bundling dynamic and innovative SMEs within clusters is essential to allow them to achieve high levels of excellence and innovation.

As regards the central role of innovation and of SMEs to achieve the ambitions of the Europe 2020 Strategy, it could well be necessary to step up the innovation and eco-innovation dimension of the Small Business Act and certainly to give due consideration to the SMEs within the “Union for Innovation” initiative, in accordance with the principle of “Think small first”.

Questions for the debate (15 July 10.25-11.45 a.m.)

- 1. Which three core measures should be implemented at European level to promote innovation within SME ?*
- 2. Which innovation support measures should be included in the Small Business Act!?*
- 3. How to better cater for the needs of SME in the different community initiatives in the field of innovation (Clusters, Lead market initiative, Technological platforms, Joint technological initiatives, public-private partnerships , standardisation, RDFP, CIP, Financial instruments EIB/EIF,...) ?*