

## **Meeting note from webinar on The New Industrial Strategy:**

### **Managing Transformation, Fostering Transition. Towards a Roadmap to assist EU Industry and Regions in the Twin Transition**

**5 February 2021**

#### **Introduction**

In 2020 both the European Parliament<sup>1</sup> and the Committee of the Regions<sup>2</sup> played active roles in setting out responses to the European Commission's New Industrial Strategy for Europe<sup>3</sup>. The on-going effects of the health pandemic together with the EU's Green Deal and twin transition imperatives are placing new pressures on EU industry to confront a rapidly changing and complex operating environment.

This webinar brought together EU actors and experts from political, industrial, social and policy perspectives<sup>4</sup> to provide updated insights and fresh momentum that can support EU industry to navigate this challenging landscape.

With no immediate signs of a swift end to the health pandemic - and the associated social and economic consequences – regions and their industries have entered 2021 with a great deal of uncertainty concerning their future viability. The EU's Green Deal investment package has been heralded as the key to supporting industry's revival and future resilience. There is now an urgent need for a 'reality check' concerning how EU industry can navigate this pathway. Maximising the benefits of financial support to industry must be underpinned by knowledge and capacity of specific measures and actions linked to digital and energy transitions. The distance between the current reality for many EU businesses and high-level, EU aspirations is significant. How EU industry 'finds its way' will largely depend upon the nature of the framework conditions they face at local, national and EU levels, as well as their ability to access policy guidance and investment support for digital and energy transition.

#### **The EU background and policy context**

The EU financial packages announced in late 2020 – including the post-2020 multi-annual financial framework (MFF) and the EU's Recovery and Resilience Fund (RRF) – represent an unprecedented EU response of €1.75 trillion to addressing the health crisis and delivering on the EU's Green Deal growth

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<sup>1</sup> [https://www.europarl.europa.eu/doceo/document/A-9-2020-0197\\_EN.html](https://www.europarl.europa.eu/doceo/document/A-9-2020-0197_EN.html)

<sup>2</sup> <https://cor.europa.eu/EN/our-work/Pages/OpinionTimeline.aspx?opId=CDR-1374-2020>

<sup>3</sup> [https://ec.europa.eu/info/strategy/priorities-2019-2024/europe-fit-digital-age/european-industrial-strategy\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/europe-fit-digital-age/european-industrial-strategy_en)

<sup>4</sup> The webinar was jointly hosted by Committee of the Regions member and Zuid Holland Region Minister Jeannette Baljeu, and MEP Carlo Calenda. The 8 speakers were: Prof. Gabriel Crean, Adviser to the Minister of Economy of Luxembourg; Veronique Willems, Secretary General SME United; Mark Nicklas, Head of Unit DG GROW European Commission; Antonio D'Amato, President of EPPA and CEO of Seda Group; Mario Caldonazzo, VP Eurofer and Federacciai; Peter Berkowitz, Head of Unit, DG Regio European Commission, Felix Mailleux, Adviser ETUC; and Aigers Rostovskis, Co-Chair Eurochambres

strategy. This has been underpinned by a commitment to ensure that no one and no place is 'left behind'.

The EU aims to become the first climate neutral continent by 2050, with some 30% of the post-2020 MFF and 37% of Next Generation EU funds targeted towards climate action. Embarking on a recovery and regrowth pathway remains daunting for EU industry, not least the SME sector representing almost 99% of all EU enterprises. EU businesses face the challenge of addressing the Green Deal vision while – at the same time – recovering from the crisis.

The EU's Industrial Strategy is expected to be updated in the first half of 2021, reflecting the 'demand' for an inclusive green and digital approach where action extends well beyond traditional Industrial Policy parameters. While EU businesses must adapt to drive the delivery of energy, circular and digital transitions, they are also heavily influenced by regulatory change (e.g. in areas of fiscal policy, regulations for labour and skills, the social agenda and carbon pricing). Industrial greening will, therefore, be highly dependent upon policy coordination and coherence – at local, national and EU levels. There is a growing need to set in motion a clear pathway for industrial greening in a data-driven, global economy which addresses the gap between ambition and reality for EU businesses. The updated EU Industrial Strategy is expected to deliver a framework to guide this effort, but must be supported by aligned measures at national and regional levels.

### **Core themes guiding the webinar discussion**

The webinar covered a number of important topics with the aim of supporting an improved industrial pathway towards successful twin transitions. This generated a wide-ranging exchange of views. Key messages from the event have been brought together under 4 core recommendations:

- **Acknowledge the 'baseline' of gaps in the industrial pathway to securing the EU's green and digital future, including the gaps and solutions in the instruments and support currently available for interregional value chain collaboration**
- **Adopt a 'whole system' approach to the Industrial Strategy refresh, championing the need for alignment across the related policy spectrum at EU, national and regional levels**
- **Clarify the specific, added value role the EU can play to guide industry towards successful transition, underpinned by a supporting 'roadmap'**
- **Provide transferable, good practice examples of both actions and outcomes to deliver successful green and digital industrial transition**

The webinar was opened by MEP Carlo Calenda and Regional Minister Jeannette Baljeu. They emphasised the current, very challenging context for EU industry, grappling with the ongoing effects of the health pandemic while – at the same time – facing an urgent need to address their future viability in a digital economy with future competitiveness tied to the EU's net zero ambitions. Ongoing support to regional industry requires a specific place-based response to address the challenges and opportunities which face the EU's different territories, characterised by different economic structures, levels of resilience and administrative capacity to face an uncertain future.

- **Acknowledge the ‘baseline’ of gaps in the industrial pathway to securing the EU’s green and digital future**

The EU’s Industrial Strategy refresh comes at a time when EU industry has been significantly weakened by the global health pandemic. Large swathes of EU industry remain on publicly financed, ‘life support’ as the world responds to the continuing fallout from Covid-19. This creates a great deal of uncertainty concerning how and when EU industry can emerge from the crisis, with confidence and clarity in their pathways towards a green and digital transition. Continued surveillance of the multi-faceted needs of our businesses is needed, helping to set out a credible (and accurate) assessment of the distance to cover in working towards a green and digital industrial recovery. The webinar emphasised that EU industry faces significant financial and economic challenges linked to liquidity, debt and leverage. Industrial investment capacity is likely to remain very weak for the foreseeable future, affecting how businesses can plan for and finance their industrial transition trajectories.

Furthermore, there are significant asymmetric effects of both the health pandemic and industrial transformation in the context of green and digital transition. This risks perpetuating and exacerbating existing inequalities in disadvantaged EU territories, with associated shocks in more exposed and vulnerable EU industry sectors. Fragmentation is likely to continue to affect the EU’s social, economic and territorial cohesion, with an associated, uneven industrial recovery.

The EU’s industrial strategy refresh must be designed with this context in mind, with strong sensitivity to the risks associated with industrial ‘winners and losers’. Without sufficient, targeted support to address place-based challenges and scarring effects from the pandemic, some EU territories could be left even further behind in the industrial transition process.

- **Adopt a ‘whole system’ approach to the Industrial Strategy refresh, championing the need for alignment across the related policy spectrum at EU, national and regional levels**

There is growing awareness of – and demand for – an EU Industrial Strategy which reaches beyond the traditional limits of ‘business policy’ (e.g. SME support; business rates) to embrace the full spectrum of policy measures, interventions, financial instruments and regulations associated with a green and digital industrial transition. This requires both upgrading and reframing of the EU’s policy framework underpinned by more fluid inter-service collaboration within and across the European Commission (e.g. GROW, REGIO, CONNECT?, RTD?, Energy, Employment, Climate and Competition). Setting out the core policy ‘building blocks’ for an EU Industrial Strategy to support the twin transition will provide a template for member states and regions to review and realign their domestic policy contexts accordingly.

The webinar also generated a number of key insights linked to specific policy areas where improvements and updates were deemed necessary, in line with the vision of a successful industrial twin transition. These included the following points:

1. **EU Digital Policy and EU industry’s shift to a data economy** – transitioning to the ‘4<sup>th</sup> industrial revolution’ has been hastened by the health pandemic, where digital solutions and social distancing requirements can work hand-in-hand. This implies a radical departure from traditional business models and processes. Preparing industry – beyond the frontrunners - for this shift is now urgently required, recognising the significant distance to cover. For example, EU-wide broadband connectivity – while an essential element of the digital / data economy – is still far from complete.

2. There is a need to **clarify the legal framework to underpin the digital transition** (e.g. in relation to the EU's Digital Services Act and Digital Market Act), as well as associated standards and the related pathway to managing industry's guaranteed access to data, including the role of gatekeeper platforms.
  3. **Collaborative, industrial partnerships with a core digital dimension** can incentivise cooperation between the EU's digital frontrunners and followers. In turn, this can generate mutual benefits linked to the strengthening / upgrading of EU value chains. The EU's Smart Specialisation Partnership model offers clear insights into the value of interregional, industry-led collaboration. Many Partnerships have strong technology components, supporting synchronisation of efforts and investment, while championing tech diffusion and uptake. This model should be reinforced to support the twin transition.
  4. **Future-proofing the net zero regulatory system to facilitate industrial greening** - there is a need to acknowledge the challenge of the inevitable timelag between the availability of new scientific / research evidence and its impact on policy and regulations. Energy intensive industries, responding to the demands of a green economy, must be assured of the reliability of evidence concerning changes to the regulatory framework. This could be supported by continuous, high quality dialogue between different actors (including industry, the scientific community and regulators) which values an honest and frank exchange of the related trade-offs involved (e.g. single vs multi-use plastics; the energy intensity of recycled paper production).
  5. During the webinar it was noted that a **'just and fair transition' ethos should underpin the EU's Industrial Strategy refresh**, in addressing the multi-faceted policy agenda underpinning both green and digital transitions. The EU's recent Just Transition Fund (JTF) is championing a strong, place-based approach to energy transition, acknowledging the significant support required, across whole communities, to deliver a successful energy transition. This approach and ethos could be upscaled across the EU to address the twin transition agenda. Furthermore, social partners must play an important role in facilitating social acceptance of the industrial transition agenda, given the impact on the lives of workers and citizens.
  6. **The EU's education, skills and training agenda requires significant upgrading**, which recognises the need for investment across the whole learning continuum, in line with green and digital transitions, placing new value on the role of lifelong learning.
- **Clarify the specific, added value role the EU can play to guide industry towards successful green and digital transitions, underpinned by a supporting 'roadmap'**. A clear guidance pathway is needed to outline steps and stages towards the twin transition pathway from an industrial perspective, with particular emphasis on the needs of SMEs and business start-ups. Some characteristics of this 'roadmap' were proposed at the webinar:
    1. **A framework which advocates multi-level policy alignment (EU, Member States and regions) to concentrate efforts and investments** – this would help to champion a place-based approach to the twin transition where a 'bottom-up' orientation has parity of esteem with an overarching, 'top-down' EU policy and investment framework. Implementation would require significant flexibility in the multi-level governance structure, with effective targeting of support positioned as a key measure of success. This

implies strong alignment of relevant instruments to improve policy and investment connectivity and coherence.

2. **The EU's value chain orientation was very much supported across the webinar discussions as a means to engage industry** – all EU industry sectors and types of business would benefit from a shared awareness and understanding of the EU's vision to drive the process and delivery of successful energy and green transitions through a value chain dynamic. This logic provides the cornerstone of the twin transition pathway and should become a pervasive element of the Industrial Strategy refresh. Correspondingly, the EU's industrial ecosystem vision can only be fully realised when all industry actors can identify with its purpose and value. There is still much work to do – across EU member states and territories – to connect EU industry to this strategic rationale, and to actively engage them in this effort.
- **Provide transferable, good practice examples of both actions and outcomes to deliver successful green and digital industrial transition** – for EU industry to cover the distance in making the shift to a green and digital future, member states and regions will need access to an extensive toolkit of ideas, actions, models / processes and practices, which can be adjusted for different places and industry needs (e.g. sectors, business types and sizes). The EU level is best placed to deliver this toolkit, by drawing on examples from across the member states and regions. These will include good practice efforts and actions in areas such as industry-driven interregional collaboration, specific initiatives providing clear accessible support to SMEs and start-ups. Below are three examples which were illustrated during the webinar:
    1. **Luxembourg's data-driven innovation strategy, underpinned by 6 pillars, offers a comprehensive place-based approach to digital transition** – this includes: digital transformation of key sectors; enabling Circular Economy transition; developing resilience in Strategic Value Chains to develop digital capabilities.
    2. **The EU's Smart Specialisation Partnership model has encouraged a large-scale industrial 'testing ground' in bringing together industrial actors across EU territories and regions.** It is generating new learning and insights into, for example, the development and deployment of digital and green technologies in areas such as cyber-security, photonics, the use of AI in SMEs, smart grids and marine renewable energy. Joint innovation investment is now expected to be accelerated, albeit that the tools and mechanisms to facilitate this remain complex. The EU's new interregional innovation investment mechanism is expected to make in-roads to support this effort and should be positioned at the heart of the EU's industrial, twin transition agenda
    3. **The EU's Just Transition Fund (JTF) is characterised by a strong place-based orientation to support regions experiencing the most complex challenges in embracing energy transition.** This ethos is underpinned by inclusive governance, which acknowledges the need for broad social acceptance and ownership of the process and actions associated with energy transition. Furthermore, the EU's Smart Specialisation policy agenda can demonstrate significant added value in supporting 'just transition' regions to adopt a more inclusive governance role by adopting a 'quadruple helix' approach to inclusive governance. This provides a framework for engaging social partners in regional consultation, with the aim of facilitating citizen acceptance of, and engagement with, the energy transition process. Diffusion of learning and practice – across all EU territories – from this initiative should play a key role in supporting industrial transition.

Importantly, the webinar concluded that the overall success of the EU's new Industrial Strategy to deliver successful twin transitions will be strongly influenced by the extent to which the EU can champion and incentivise a new wave of industrial experimentation. There remains a great deal of uncertainty concerning the success criteria to promote industrial transitions. The inevitability of setbacks and failure along the way must be acknowledged but should be balanced with the identification and diffusion of success. Creating both the 'space' and investment routes to facilitate industrial experimentation will be crucial.

Overall, EU industry requires to navigate a clear pathway towards industrial transition, at a time when the negative impacts on business of the health pandemic are becoming clearer. The need for a robust and supportive twin transition pathway has never been greater. This will very much influence the survival, regrowth and future competitiveness of EU industry. A coherent, multi-level support framework must account for the specific needs of different EU businesses - micro companies, start-ups, SMEs and large businesses, as well as those working in traditional / non-traditional sectors and companies based in places across the EU with differing levels of economic resilience and capacity to take the bold steps needed towards digital and energy transition.

While much work remains to be done, the financial firepower of the recently agreed MFF and Covid recovery package – together with the commitment and drive of the EU's industrial community – provide solid grounding for a green and digital industrial future.