

ORGALIM INPUT TO INDUSTRIAL FORUM QUESTIONS

Version 18 February 2021

1. What lessons have you drawn from the COVID-19 crisis of relevance for our industrial strategy?

It is important to highlight the impact of the COVID-19 crisis on Europe's technology industries. Even though it is difficult to make assessments in such a volatile climate, [the most recent economic report from December 2020](#) shows that the decline in production across Europe for 2020 is pronounced, but not as dramatic as feared in spring 2020. So far however, the assessments for 2021 have changed significantly – from a year of recovery to one where the crisis will continue. The extent to which production can recover is still fraught with great uncertainty. However, current opinion is that there will be no return to 2019 levels as we return to 'normal' in 2021. The investment climate still looks very weak and we see very few indicators of sustainable improvement.

It is paramount to accelerate and ensure proper implementation of the national recovery plans, and at the same time to keep a strong focus on enabling the green and digital transitions.

The COVID-19 crisis has served to further underscore the importance of a coordinated industrial strategy. Specifically, the points we mentioned in [our March response to the initial industrial strategy](#) already highlighted the importance of the Internal Market, trade, and industrial research, innovation and market deployment. These points have been reiterated by the COVID-19 crisis.

1.1 The Importance of the [Internal Market](#): During the height of the crisis, we saw strong pressures on the cornerstone of the European Union's market functioning with border closures as well as discussions on essential vs non-essential services. Thanks to strong action at the European level, we saw a gradual reopening of the borders. We called at the time for a stronger and more structural mechanism for coordination between Member States and EFTA countries to identify and address these issues, together with strong coordination and input from industry.

Another specific example of this challenge was the discussion on essential or systemically relevant economic activities. Orgalim believes that defining essential or systemically relevant economic functions, beyond the immediate urgencies, is not a purposeful and sustainable strategy. We recognise that some Member States felt such classification was required from an immediate health and safety perspective. We should learn from these experiences as they caused additional and unnecessary disruption to our economic operations.

- First, we do not believe it makes sense to designate individual companies as essential or non-essential.

- Second, even if a given part of industry is identified as essential, it can be heavily reliant on products or services of supposedly 'non-essential' sectors. Given today's complex and deeply integrated supply chains, particularly in the electrotechnical and mechanical engineering sectors, divergent attempts to define what is and is not essential in themselves cause disruption to the internal market and these supply chains.

1.2 Openness, importance of global supply chains: Our industries are heavily export-oriented and integrated into global supply chains. During the crisis, as various industries across Europe had to shut down production, industries in other Member States had to swiftly reorganise their supply chains to continue their operations. This meant they had to quickly adapt sourcing within the EU, as well as from other parts of the world. This highlights the need for global supply chains and diversification as a way of having enough resilience for economic disruptions or shocks in the global economy. This again highlighted why trade policy should become an integral part of the industrial strategy, to create a level playing field at home and abroad (for example tackling non-compliant and counterfeited products circulating on the EU market, dealing with unfair subsidies, ensuring reciprocal access to public procurement, and creating access to new markets through trade agreements).

1.3 Acceleration of digitalisation: Many digitally advanced companies have succeeded in reaching their growth targets during the pandemic. Covid-19 has shown that connectivity is vital for maintaining all sectors of society including the industrial activities. It has accelerated digitalisation, cloudification and virtualisation development. This has further underscored the importance of the digital transformation for longer term competitiveness. It is essential that actions catalysing digitalisation in industries and the public sector continue, and further accelerate even if the pandemic situation eases. New business models based on data have also shown higher resiliency in times of downturn, even in our industries.

1.4 Digital and climate transition: The twin objectives of the digital and climate transition and industrial renewal and competitiveness should provide the anchors for the EU's exit and recovery strategy. If the right choices are made now, this crisis can provide an opportunity to accelerate Europe's transformation and reinforce its global competitive position. Europe's technology industries are fully mobilised in support of this ambition.

2. How can the ecosystem and partnership approach best help to address some of your challenges and build linkages with recovery investments?

2.1 Ecosystems: In our view, industrial ecosystems should be supported based on five main considerations:

- There should be a strong European competitiveness rationale and an ability to generate economic value beyond the ecosystem itself.
- Action should actively bring us closer to our 2050 climate and energy goals as well as digital targets.
- The ecosystem has to contribute to the objective of technological leadership, by fostering the development and implementation of innovative technologies.
- The ecosystem should represent a concrete opportunity for coordination amongst various companies from different member states, as well as stronger coordinated action and investments at EU level.

- The ecosystem approach should firstly be used to analyse the strengths, weaknesses, potential and vulnerabilities. Secondly, it is important to identify the horizontal enablers which are needed to support ecosystems (horizontal technologies, networks, capabilities, R&I, infrastructure) - See figure 1.

The Strategic Forum on Important Projects of Common European Interest has done important work on identifying industrial ecosystems that may require a strategic EU focus. However, we welcome the European Commission's efforts to involve more industry representatives in the new Industrial Forum and call for a new governance model for identifying, amending or phasing out policy and financial support measures for industrial ecosystems to be introduced. The Industrial Forum needs to work out the key principles and a transparent framework for identification of new opportunities for European-wide/cross-country industrial ecosystems and value networks and to enable European ecosystems and strategic value networks to emerge bottom-up and be industry-driven. More efforts are also needed to involve SMEs and mid-caps in the European collaboration. Effective tools and KPIs for monitoring and assessing the outcome and impact of such measures should be established.

Policy implications and the choice of instruments will vary according to the type and the situation of the ecosystem: from no need for action, to shaping the market conditions, coordination measures or even the need to offer state aid as a last resort. From the technology industry point of view, effective stimulus for industrial ecosystems could include qualifying for EU level regulatory sandboxes, fast-track access to Horizon Europe funds based on excellence, or prioritisation under other funding instruments.

2.2 Towards resilient global value-adding networks: The disruptions have dramatically shown the tension between specialisation and risk-diversification in highly complex value chains. The more concentrated and specialised an element of the value chain is, the more difficult it is to switch to substitute products and the more profound the consequences of an external shock. Therefore, there is a need to diversify the value chain risk by establishing robust value-adding networks where a failure of a node can be quickly compensated for by remaining nodes – wherever these nodes maybe located. However, moving away from single sourcing towards diversified procurement strategies also implies higher procurement costs, more bilateral contracts and a need for more comprehensive market information. It is therefore essential to leave this balancing exercise to companies which know their markets and processes. In order to achieve this, multilateral openness is more important than ever to minimise the additional burden of tariffs, divergent standards and bureaucracy.

2.3 Embedded in a transversal approach – advanced manufacturing: It is essential that the approach on ecosystems, global value-adding networks and partnerships is part of a renewed focus on delivering the transversal enabling conditions that are required for long-term and sustainable competitiveness across ecosystems and industry verticals. Crucially, **this requires the deployment of transversal enabling technologies**, such as those needed for advanced manufacturing, which will generate the future global industrial leaders here in Europe and enable the sustainable industrial solutions coming from Europe, whilst also making European industry more resilient.

We believe this means that we need a strong focus on strategic value networks or areas of excellence that would cut across many of the identified ecosystems (fig. 1). **The critical role of advanced manufacturing technologies should be fully reflected to that end, including in the upcoming update to the industrial strategy.** With the convergence of operational technology (OT) and information technology (IT), advanced manufacturing creates breakthrough innovations in both industrial products and production processes and

enables the emergence of new business models. These are transforming manufacturing across sectors and ecosystems, unlocking new competitiveness opportunities, and supporting the green and digital transformations.

The EU should create a platform – bringing together Member States, industries, research organisations and experts – to map Europe’s strengths and gaps regarding advanced manufacturing technologies, identify joint priorities for production investment and implementation and potential new strategic European value networks, and define supporting policies. This could build on the previous work related to the Industrial Internet of Things (IIoT) undertaken by the Strategic Forum and **could be done as a sub-group of the Industrial Forum, according to the IF-EG Rules of Procedure.**

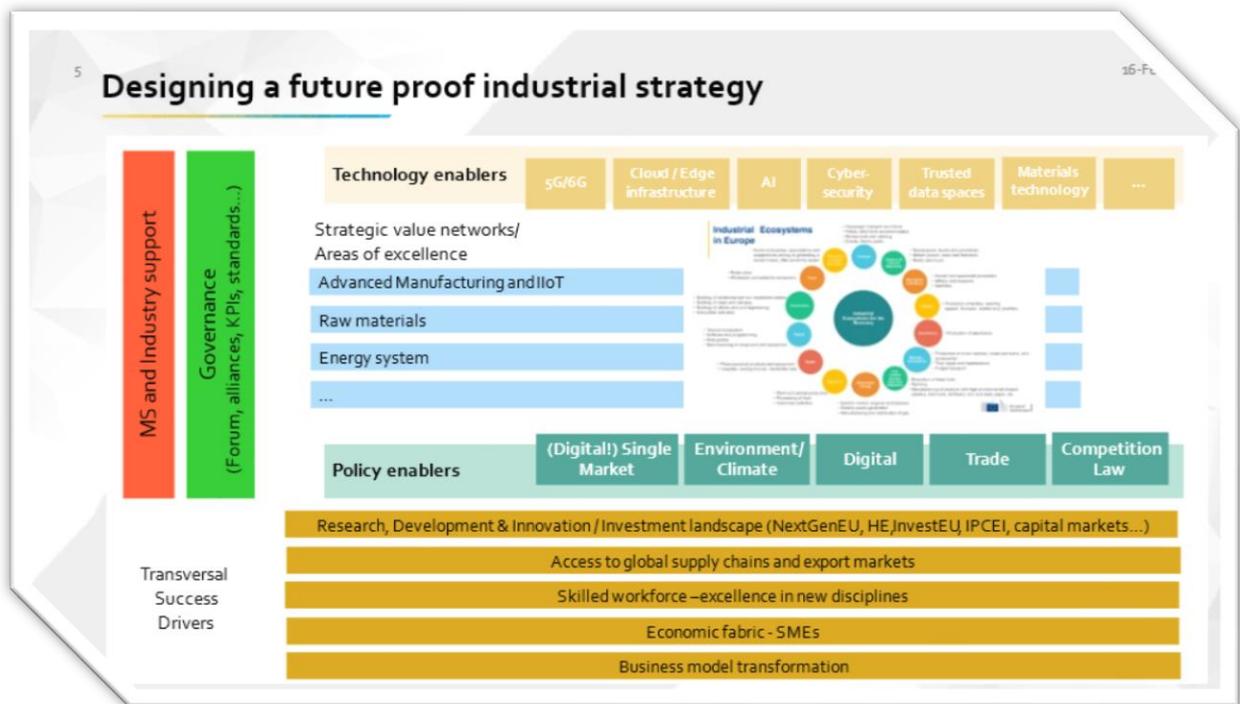


Figure 1. Outline of a future proof industrial strategy

3. What do you see as the biggest obstacles for building up strategic capacities to successfully master the green and digital transition?

Building on the above-mentioned points, we believe that the following areas are some examples of potential obstacles if not addressed in the right way.

3.1 Fragmented, vertical approaches, that do not consider a holistic view and focus on transversal aspects.

3.2 We need to reduce our reliance on imports on key areas where possible, to remain, or become, a leader in future technologies

It also means that we should accept the reality of continued mutual technology dependency between Europe and other major economies. These considerations are not mutually exclusive – and in fact should be understood as mutually reinforcing. If European technologies can continue to set the global standard in certain areas, providing a clear value proposition in other markets, Europe’s technological leadership will also be safeguarded. In turn, for our products and services to be attractive to non-EU markets, our companies need continued access to cutting-edge innovation, whether developed in the EU or abroad. Therefore, the EU must help companies to maintain leadership in the global competitiveness race by leading the global response to protectionism; standing up for free, fair and open rules-based trade; and enhancing market access for our companies. Open trade is in Europe’s DNA. Our companies need access to the world’s largest and most dynamic economies. This, in turn, will create growth and jobs in the EU, resulting in tangible benefits for workers, consumers and society at large.

3.3 A rigorous and faster implementation of the Commission’s Action Plan for Better

Implementation and Enforcement of the Single Market (03/2020) is needed. An Internal Market that is missing opportunities and facing implementation issues is a clear challenge: one example being obstacles to a well-functioning standardisation framework. Harmonised standards are an integral part of a well-functioning Internal Market. They are needed to achieve presumption of conformity and free movement of products within the EU. We are concerned that the current system, as understood and operated by the Commission today, does not support the market needs of industry and is undermining the standardisation system as we know it, with serious consequences for the functioning of the Single Market, European competitiveness, and innovation. We believe that to support the green and digital transition, it is of the utmost important that we move beyond the current challenges.

3.4 Industrial-focused research and innovation needs to be put at the very heart of the EU. The EU industry’s long-term global leadership, leadership in the transition to carbon neutrality and turning societal challenges into drivers of prosperity are closely connected to industrial-focused research and innovation.

- European RD&I expenditure remains relatively low compared to our global competitors. The target of 3% of GDP invested in R&D should become a reality to secure Europe’s place amongst the frontrunners of the technological revolution.
- The EU funding instruments play a critical role in laying the foundations for innovation, technological and business development, the creation of new business and kick-starting industrial production – and ultimately economic growth. Therefore, the EU’s investments and programmes in R&I need to be designed for industry-driven partnerships with greater impact including funding for industrial demos and piloting. The monitoring and evaluation systems and processes need to be developed accordingly.
- The support of collaborative research on industrial key enabling technologies is one of the strongest assets of the EU and is crucial to ensure that the technological building blocks and capabilities for future competitiveness and sustainability are available. This requires the involvement of industry in both priority-setting and projects in order to ensure relevance, uptake and private R&I investments. It is therefore essential to establish a structured dialogue with industrial stakeholders, for example through public-private partnerships such as “Made in Europe” or “Photonics”.
- It is essential to facilitate the uptake of technologies by companies, in particular SMEs, by appropriate support of technology transfer and networks.

- Finally, these programmes should be as inclusive and collaborative as possible with third countries which already have leading RD&I institutions.

3.5 Skills: as the EU is facing great challenges in the labour market, along with ageing societies and the brain-drain, the skills mismatch in the labour market and the fast development of technologies are making it more difficult to anticipate the future of work and to respond to new demands. This all affects European trade, and the growth and wellbeing of the people. Skilled labour and mobility are key factors for successful and vigorous growth in the EU. We must fight for the global talent and create new policies for making Europe the best place to work and live, to invest, and to do business.

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ANNEX: links to key Orgalim positions

- [Industrial strategy response March 2020](#)
- [Call to maintain industrial production March 2020](#)
- [Statement on EU exit and recovery strategy, April 2020](#)
- [Industrial Policy: Advanced Manufacturing: unlocking a future-proof EU Industrial Strategy January 2021](#)

Orgalim represents Europe's technology industries, comprised of 770,000 innovative companies spanning the mechanical engineering, electrical engineering, electronics, ICT and metal technology branches. Together they represent the EU's largest manufacturing sector, generating annual turnover of €2,298 billion, manufacturing one-third of all European exports and providing 11.55 million direct jobs. Orgalim is registered under the European Union Transparency Register – ID number: 20210641335-88.