

## Orgalim position on how to incentivise private investment in Europe

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### Executive summary

To achieve the European Union's 2030 goals linked to the green and digital transition, the Commission estimates an additional private and public investment of nearly €650 billion a year until 2030. It is clear that the majority of this will need to come from the private sector. In this paper, Orgalim looks at the obstacles hampering investment in Europe and provides recommendations to incentivise desired levels of investments and to ensure Europe's and European industries' competitiveness globally.

Orgalim's main recommendations:

- **Provide for an innovation-friendly regulatory framework** – Regulation must be technology-neutral, flexible and ensure long-term stability and legal certainty. A good example of such legislation is the New Legislative Framework (NLF). We call for policymakers to **foster the NLF and its approach to new or revised regulation**, for example in the artificial intelligence regulation, the regulation on machinery products and the planned cyber resilience act. In addition, all proposals for **new legislation** should be **assessed taking into consideration their impact on innovation** and on the EU as a location for investments.
- **Digitalised and agile public services** – Support for the digitalisation of public services along with simplification of processes and better coordination across the administrative sector would make implementation of large-scale projects easier. Orgalim recommends **rigorous monitoring of public services digitalisation as part of the Digital Decade agenda**. The green transition is also dependent on more efficient (digitalised) processes.
- **Attract and leverage private capital effectively** – In light of their complementarity, it is crucial that **government and private venture capital are pooled together** more effectively and in a structured manner. A single transparent platform containing all information needed on the different funding instruments available is required. Orgalim welcomes the recent Council recommendations on the Pact for Research and Innovation in Europe. However, additional commitment to the target of 3% of EU GDP by 2025 is needed. We also welcome the efforts to design the EU funding instruments to support initiatives serving different technology readiness levels.

When it comes to funding programmes, we appreciate the changes made to shorten the time needed from the submission of an application to the financing agreement. However, the Commission needs to monitor closely the participation of businesses, especially SMEs, in the Horizon Europe, Digital Europe and other EU programmes. Finally, we remain convinced that the tool of the **Important Projects of Common European Interests (IPCEIs)** should continue to apply only when there are significant failures that the market itself

cannot address. IPCEIs shall be as inclusive as possible of European companies as they provide asymmetric competitive advantage to their members. The experiences of the first IPCEIs should also be assessed in a timely manner in order to evaluate their impact in terms of private investment and spillover effects.

- **Strengthen the connection between R&I and industrial policy** – Orgalim welcomes the discussions taking place in the Industrial Forum and the recent Council Recommendations on the Pact for Research and Innovation in Europe. Special attention should be given to **fostering and supporting advanced manufacturing technologies** which are fundamental to achieve the twin transitions and make businesses more resilient. In addition, we call for the close involvement of industry, research institutes and other relevant stakeholders in the **development of Technology Roadmaps and the Industrial Transition Pathways** to implement the European Industrial Strategy. We further call for an EU strategy that focuses on **investing in open Technology Infrastructures (TIs)** across Europe. Finally, we suggest **developing the Horizon Europe partnership model (PPP)** at European level to also deal with conditions for stronger competitiveness and sustainability of companies. PPPs could function as platforms for the development of innovation ecosystems, scaling of successful pilots and joint European initiatives for industrial deployment.
- **Support SMEs and strengthen the skills and capabilities needed for the twin transitions** – Much of the responsibility to ensure that business value-chains and ecosystems are well-functioning and better equipped to react to external uncertainties lies with the industry. However, the Commission and the Member States can promote resilience by linking financial support to leading companies to their **cooperation with and inclusion of SMEs** in their innovation ecosystems and activities. They should **facilitate cooperation between businesses, research institutes and academia** when this is spontaneously sought. Finally, **education and training systems** must become much more agile to foresee and respond to the changes in the job market and the wider society.

## 1. What are the obstacles hampering investment?

European technology industries play a key role in the successful rollout of the twin transitions and in pursuing a global leadership role in their implementation, particularly as Europe is striving to become climate-neutral by 2050. Businesses are increasingly expected to take into account and find solutions to the climate change, resource scarcity and loss of biodiversity from investors, regulators, customers and citizens. While challenging existing business models, this also opens new business opportunities for innovative companies. In this context, radically increasing R&I efforts, particularly those aimed at valorisation and commercialisation of innovation, are key to ensure global competitiveness.

As we outlined in our Position Paper on Innovation, competition in technology development, innovation, investments and markets is fierce and global. Based on the OECD's latest data<sup>1</sup>, the EU's R&D intensity in 2019 amounted to 2.1% of GDP<sup>2</sup> compared to 3.1% in the US, and 2.1% in China. Furthermore, in the ranking of the top 2,500 businesses investing in R&D, European companies have lost ground (17%) compared to companies based in China (20%) and the US (30%)<sup>3</sup>. Simultaneously, the European share in global value chains has decreased while China has seen an increase of its share in the 21st century<sup>4</sup>.

<sup>1</sup> OECD Main Science and Technology Indicators, Highlights on R&D expenditure, March 2021 release <https://www.oecd.org/sti/msti-highlights-march-2021.pdf>

<sup>2</sup> According to Eurostat figures published in November 2021, R&D investment in Europe in 2020 has increased to 2.3% <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20211129-2>

<sup>3</sup> EIB investment report 2020/21: Building a smart and green Europe in the COVID-19 era, key findings, 2021; p.10 [https://www.eib.org/attachments/efs/economic\\_investment\\_report\\_2020\\_2021\\_key\\_findings\\_en.pdf](https://www.eib.org/attachments/efs/economic_investment_report_2020_2021_key_findings_en.pdf)

<sup>4</sup> García Herrero, A. and D. Martínez Turégano (2020) 'Europe is losing competitiveness in global value chains while China surges', Bruegel Blog, 26 November 2020 <https://www.bruegel.org/2020/11/europe-is-losing-competitiveness-in-global-value-chains-while-china-surges/>

## 1.1. The pandemic has weakened many businesses' investment capacity and increased uncertainties in the financial market

Based on the World Investment Report 2021<sup>5</sup> the COVID-19 crisis caused a dramatic fall in foreign direct investment (FDI) in 2020. Global FDI flows dropped by 35% to \$1 trillion as compared to 2019. Although in the second half of 2020 cross-border M&As and international project finance deals recovered, FDI trends varied significantly by region and greenfield investment continued its negative trend into the first quarter of 2021. FDI flows to Europe fell by 80% and to North America by 42%, while flows to developing Asia were resilient and inflows in China actually increased by 6%, to \$149 billion.

According to a recent data analysis by Invest Europe<sup>6</sup> the total equity amount invested in European companies decreased 12% year-on-year to €88 billion in 2020. This nevertheless remains 18% above the 2015-2019 average. 8,163 companies received investment, 85% of which were SMEs. When it comes to Europe's technology industries, Orgalim's most recent [Economics & Statistics Report](#) shows that the level of investments of our companies during the pandemic years (2020-2021) remains below pre-COVID-19 levels. This development is all the more worrying as the currently low interest rates are encouraging investments. A further tightening of investment levels is to be feared if interest rates rise again.

Apart from the immediate cashflow difficulties, the pandemic has also affected many businesses' longer-term investment capacity as internal financing resources have shrunk and levels of debt have risen. The lower investment capacity is at odds with the need for companies to invest in digital and green capacities, shore up the resilience of the business ecosystems and reallocate resources across sectors.

It is clear that a significant increase in investment on intangible and tangible assets in the EU is needed to seize global technological leadership and to become a trailblazer in the implementation of the twin transitions. Based on calculations by the Commission<sup>7</sup>, to achieve the EU's 2030 goals linked to the green and digital transitions, the additional private and public investment needs amount to nearly €650 billion a year until 2030.

## 1.2. Turning investment into growth: several factors need to be addressed simultaneously

In addition to deteriorating finances and economic uncertainties, there are also other factors that affect technology companies' and other actors' future investment decisions, ultimately influencing the desired growth in investment in Europe. These are, among others:

- Regulatory barriers
- Time-consuming and inefficient administrative processes
- Shortage of the skilled people and capabilities needed for the twin transitions
- Fragmentation of resources and inability to scale-up innovative initiatives to global solutions
- Uncertainties related to availability of key components, such as semiconductor/chips and other materials

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<sup>5</sup> United Nations Conference on Trade and Development (21 June 2021): World Investment Report 2021, investing in a sustainable recovery; p. 2. [https://unctad.org/system/files/official-document/wir2021\\_en.pdf](https://unctad.org/system/files/official-document/wir2021_en.pdf)

<sup>6</sup> Investment data analysis by Invest Europe: [Investments | Invest Europe](#)

<sup>7</sup> Statement by Executive Vice-President Dombrovskis at the European Business Summit, 18 November 2021: [https://ec.europa.eu/commission/commissioners/2019-2024/dombrovskis/announcements/statement-executive-vice-president-dombrovskis-european-business-summit\\_en](https://ec.europa.eu/commission/commissioners/2019-2024/dombrovskis/announcements/statement-executive-vice-president-dombrovskis-european-business-summit_en)

To reach the policy goals and attract private investment, Europe must be able to attract talents from all over the world, ensuring the availability of skilled people needed in the industry; minimise uncertainties related to government policies, public administration and decision-making; introduce smart regulation that opens up new business opportunities; and increase public funding to channel investment in digital and green transitions.

## 2. Orgalim recommendations

In light of all of the above, these are our recommendations to incentivise desired levels of investments on intangible and tangible assets and to ensure Europe's and European industries' competitiveness globally.

### 2.1. Ensure innovation-friendly regulatory framework conditions and agile administrative services

The European technology industries cover a wide range of advanced technologies, business models and use cases. The sector is comprised of big companies, a high number of SMEs and a growing number of start-ups, which mostly work in a business-to-business (B2B) context in global markets and develop customer-specific solutions. To stay competitive, companies must act fast, serve specific needs and scale quickly. To support them, the EU must protect the integrity of the Single Market and further pursue its completion. A deepened Single Market will facilitate the scaling of companies throughout Europe and increase the chances of creating EU unicorns. A rigorous application of EU competition and state aid rules is a key driver for an innovative and globally competitive European industry.

#### Innovation-friendly regulation must be technology-neutral, flexible and ensure long-term stability and legal certainty

Innovation-friendly regulation is a key element to support investment. It must be flexible to adapt both to the variety of use cases and the speed of innovation, and it should be technology-neutral, proportional, and efficient while ensuring long-term stability and legal certainty. The New Legislative Framework (NLF) is a great example of how a regulatory instrument can be innovation-friendly. By leaving the definition of the state-of-the-art to the economic actors and foreseeing efficient conformity assessments procedures such as the manufacturer's self-declaration, it supports the smooth introduction of new products into the market. Orgalim fully supports this approach and encourages policymakers to foster the NLF and its approach to new or revised regulation, for example in the artificial intelligence regulation, the regulation on machinery products and the planned cyber resilience act.

Similarly, an effective and efficient standardisation system allowing new solutions to reach the market quickly is crucial. Industry should remain a key driver of the standardisation process and should be involved at an early stage in pre-standardisation activities linked to research, development and innovation.

We welcome the ongoing work of the Commission on the EU taxonomy framework (EU/2020/852) as long as the criteria remain technology-neutral and transparent. We believe that the taxonomy should redirect much-needed private capital into both the technologies and the economic activities that produce them, while rewarding and encouraging innovation and competitiveness. However, we stress that the Commission should abstain from introducing the taxonomy in other financial instruments, such as the Recovery and Resilience Facility (RRF), the InvestEU programme, Horizon Europe, public procurement, etc. as the work on defining sustainable activities is still ongoing. Especially in early stages of R&I, the contributions of technological innovation to sustainability might not yet be fully clear. A strict taxonomy used as selection criteria will create additional conditionalities and hamper early-stage financing and start-up investments in Europe.

Finally, the Commission should assess the impact that any new proposal for legislation has on innovation and on the EU as a location for investments.

## Support digitalisation of public services to improve coordination and faster decision-making

Uncoordinated and slow decision-making by the different administrative sectors concerning environmental permits, land use, building permits, etc. discourages private investments. Clear investment regulations, guidelines and fast-track procedures by the government would provide the international and domestic investment community with the expected stability, transparency and more effective decision-making needed for the implementation of large-scale projects. Digitalisation, simplification of administrative processes and better coordination across the administrative sector would enable faster decision-making across the public sectors. For example, a basic principle should be that any business data or information would be requested and collected by the public sector only once. The Commission and the Member States need to rigorously monitor the progress of these aspects, set standards for good governance, and facilitate the sharing of good practices as part of the Digital Decade agenda.

### 2.2. Attract and leverage private capital effectively

#### Big leaps in the twin transitions require access to a variety of financial instruments

Until now, modularity in the product design, advanced and flexible manufacturing systems, digital twins and other innovations have made the phasing of investments over a longer period of time possible. However, businesses, Member States and the EU institutions are now facing the challenge to mobilise massive investments to meet the green and digital goals. In addition to the framework conditions discussed earlier, a crucial factor, both in the start-up and in the growth phase, is the availability of risk capital. Cooperation between government and private venture capital is particularly welcome as they complement each other. Private venture capital often has more market-oriented expertise and can better determine which projects are innovative and commercial, while government venture capital can bridge the early phases where the risk is judged to be too big by the private sector.

To support scaling up research and new inventions into successful, exponentially growing business, the public and private venture capital funds need to be pooled together more effectively from the early phases. A single platform where businesses, and particularly SMEs, could find all the information needed on the different instruments available would greatly facilitate the identification of the right tools and improve transparency.

#### Public programmes on R&I and the first industrial deployment of new technologies need to leverage private investment effectively

To succeed in the goals set for the twin transitions, the public sector needs to contribute with long-term financing of research and development as well as testing, demonstration and even the first industrial deployment of new technologies through a well-defined and competitive process.

Some progress in this direction has been made with the recent Council conclusions on the ERA package<sup>8</sup>. Orgalim welcomes Member States' intentions to strengthen the Single Market for Research and Innovation, however remains concerned that no commitment is made as regards the level of investment that will be achieved. A concrete roadmap jointly prepared by the EU and the Member States is needed to show how the increase in the investment in research and innovation will be achieved. A rigorous monitoring of progress in R&D intensity, ensuring that the target of 3% of EU GDP will be reached at the latest by 2025, is necessary.

Orgalim welcomes the Commission's and Member States' efforts to design the EU funding instruments to support initiatives serving different technology readiness levels. The changes made to shorten the time needed from the submission of an application to the financing agreement for the approved initiatives, e.g. in the Horizon Europe Programme and in the Innovation Fund large scale projects, are steps forward and appreciated by the business

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<sup>8</sup> New Pact and governance structure for the European Research Area (ERA): <https://www.consilium.europa.eu/en/press/press-releases/2021/11/26/new-pact-and-governance-structure-for-the-european-research-area-era/>

community. Still, it remains to be seen to what extent the existing programmes and tools can really help SMEs to further develop their operations and networks and to integrate into innovative ecosystems. The Commission needs to monitor closely the participation of businesses, especially SMEs, in the Horizon Europe, Digital Europe and other EU programmes.

Overall, there is a continued need to pool resources together more effectively at the regional, national and EU levels and to tie the funding more to the achievements and outcomes instead of micromanaging the use of the funding. Particularly for SMEs it is often difficult to get an overall picture of the different funding options, and the overall portfolio of instruments is seen as fragmented and administratively time-consuming. It is crucial that the programmes and instruments are regularly evaluated to ensure that they fulfil their purpose.

## IPCEIs are not a miracle cure and should be used restrictively

Orgalim welcomes the Commission's recent decisions to increase the possibilities of SMEs to participate in the Important Projects of Common European Interests (IPCEIs), to require the participation of at least four Member States, and to take actions to increase the transparency of the preparation and monitoring of the IPCEIs. Upholding EU competition rules and maintaining a strict application of EU state aid policy is central for an innovative and long-term competitive European industry. Orgalim believes that the IPCEI instrument should continue to apply only when there are significant failures that the market itself cannot address. This shall be based on economic considerations, i.e. market failures, and not political ones such as shielding European industry from global competition. It is also important to assess the experiences of the first IPCEIs in a timely manner, e.g. those in microelectronics and in batteries, in order to evaluate their impact in terms of private investment and spillover effects.

### 2.3. Strengthen the connection between R&I and industrial policies

Orgalim welcomes recent efforts to strengthen links between R&I and industrial policies, particularly through the initiatives brought up by the Commission Communication on a European Industrial Strategy<sup>9</sup>, the related activities of the [Industrial Forum](#) and the Council Recommendations on the Pact for Research and Innovation in Europe<sup>10</sup>. Nevertheless, we believe more needs to be done in this area. Corporate R&I is a fundamental part of Europe's overall R&I activities, it is inextricably linked to industrial policies, and it is crucial to ensure the EU's competitiveness as well as the transformation of industry, which is, and will be, a key element for achieving the green and digital transitions. Proximity and cooperation between production sites and research hubs bring shorter lead times, therefore increasing competitiveness and speeding up market uptake. For these reasons, Orgalim believes that a number of activities should be developed and supported by the EU Institutions and Member States to continue strengthening this connection.

## Foster and support advanced manufacturing technologies

The Commission and the Member States should pay special attention to fostering and supporting advanced manufacturing technologies which are, and will be, fundamental to achieve the twin transitions and make businesses more resilient. Both EU and national funding programmes should specifically target advanced manufacturing and/or cross-border and cross-ecosystem collaboration involving advanced manufacturing.

## Ensure the synergies between the development of Technology Roadmaps (TR) and Industrial Transition Pathways (IRP)

Orgalim welcomes the Commission's efforts to facilitate the development of Technology Roadmaps and the Industrial Transition Pathways as a part of the implementation of the European Industrial Strategy. It is essential that there is a close collaboration between these two processes. By involving industries, research institutes and other relevant

<sup>9</sup> See European Commission [documents](#) related to the European Industrial Strategy

<sup>10</sup> Council Recommendations on the Pact for Research and Innovation in Europe <https://data.consilium.europa.eu/doc/document/ST-13701-2021-INIT/en/pdf>

stakeholders in the process right from the beginning the Commission can enhance the implementation of the roadmaps and the pathways.

A coherent and comprehensive approach to the twin transitions and the development of TRs and ITPs needs to be adopted for all ecosystems, encompassing technology integration and the need to bring technology and sustainable business development closer together.

## Invest in Technology Infrastructures<sup>11</sup> (TIs) and test beds based on industrial needs

TIs are becoming essential to innovative industries who need to test, validate, and upscale new and more and more complex products before they can be placed on the market. Orgalim calls for an EU strategy that focuses on investing in open Technology Infrastructures across Europe. Such strategy should support the development of pan-European TIs, to be developed in close cooperation with all relevant stakeholders and ensure appropriate financing models.

Technology infrastructure can also be used to test policies that change decision-making, such as systems thinking, regulatory greenhouses and real-time data analysis. From this perspective, technology infrastructures can be a useful tool for public authorities and improve knowledge-sharing between Member States. In particular, the EU needs to shift its work and efforts to invest in open test and demonstration environments and “sandboxes” to develop the regulatory framework needed to promote research and innovation.

## Bring the PPP model to the next level

We see great potential in further developing the Horizon Europe partnership model (PPP) at European level. This model has proved to be very successful, particularly in bringing together effective collaboration between different industries as well as with universities and research centres. However, PPPs are currently mainly focused on R&D activities, while we believe that in the future the model can also evolve to deal with conditions for stronger competitiveness and sustainability of companies. It should be explored whether PPPs such as Made in Europe, and others involving several businesses, could also function as a platform for the development of innovation ecosystems, scaling of successful pilots and joint European initiatives for industrial deployment.

## 2.4. Support SMEs and strengthen the skills and capabilities needed for the twin transitions

### Support businesses, particularly SMEs, in reinventing their networks, ecosystem and innovation strategies

Successful businesses are those who are capable of adapting their business models and adopting new technologies and production methods to remain competitive. Nowadays, this means embracing the green and digital transitions, developing new processes and deploying technologies that are environmentally and socially sustainable, while still making a profit. This requires a lifecycle-based design of business processes and products, continuous investments in skills and capabilities, and co-operation within the value-chain and ecosystem. Many businesses, particularly SMEs, need to reinvent their collaboration, networks and innovation strategies, to increase the diversity of their partner networks to capture the opportunities the twin transitions offer, and to adapt to the disruption the pandemic has caused in the value chains, the markets and the global economy. While much of the responsibility to ensure that business networks and ecosystems are well-functioning and better equipped to adapt to external uncertainties (e.g. shortages of semiconductors) lies with the industry, the Commission and the Member States should link financial support to leading companies to their cooperation with and inclusion of SMEs in their innovation ecosystems and activities. In this way,

<sup>11</sup> With the term Technology Infrastructures (TIs) we refer to demonstrators, testbeds, piloting facilities, living labs, and all other types of physical or simulated users' environments that allow companies to test their products (or services, or processes) in a safe and close-to-real environment before they enter the market.

SMEs can gain a fair share of support when it comes to innovation activities and be incentivised to strengthen their resilience.

## Provide for collaboration opportunities between businesses, research institutes and universities

Research and innovation in technology industries are increasingly being developed in the interaction between industrial companies, knowledge-intensive growth companies, research and technology organisations (RTOs) and universities. The availability of dynamic R&I ecosystems is a prerequisite for both start-ups and the established industry to be able to keep pace with international competition and be at the forefront of the green and digital transitions.

While policymakers should not regulate the direction or the way in which business decides to innovate, we believe they should facilitate cooperation among different stakeholders when this is spontaneously sought. Opportunities for collaboration with top-level research groups and universities are factors that also weigh heavily in businesses' localisation decisions for R&I investments. By enhancing strategic collaboration and mobility between business and academia, the EU can be an attractive location for European and third-countries' talents. Greater focus should be placed on supporting strong, primarily business-driven research and innovation environments/clusters. Orgalim supports the development of the Digital Innovation Hubs as a way to gather and focus resources and collaborations.

## Design education and training systems able to respond to new market and society needs

High quality education and private and public investments in reskilling and upskilling are key prerequisites to form the workforce of the future. Following the trends in the new working environment, the education and training systems must become much more agile to foresee and respond to the changes in the job market and the society at large. This is another reason to strengthen private-public collaboration and links between academia and industry.

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 over €2,076 billion, manufacturing one-third of all European exports and providing 11.33 million direct jobs. Orgalim is registered under the European Union Transparency Register – ID number: 20210641335-88.