



The President

Tomas Hedenborg

Estonia visit, 10 March 2017

“A Vision for the Future of European Manufacturing”

Ladies and gentlemen,

Thank you for inviting me to speak with you here today. I am very happy to have the opportunity to share with you Orgalime’s vision for the future of European manufacturing. As President of Orgalime, the European Engineering Industries Association, I speak on behalf of a sector that directly employs almost 11 million people across Europe and had a turnover of €1,900 billion euro in 2015. And both of these figures are on the rise. The strength of these statistics is not only important for our sector. It matters to Europe as a whole – as a strong manufacturing sector is the foundation of a strong economy. There can be no doubt that manufacturing is changing: the dawn of digitisation, in particular, is presenting us with fresh challenges and exciting opportunities. There is no need for me to stress this more here in Estonia, where you are showing the rest of Europe the lead in the area of digital networks and digitisation of government. But the impact of digitisation on the competitiveness of our companies is even more exciting as I am convinced the central role of industry in driving economic growth and prosperity will not change. If anything, the current transformation is both reinventing and cementing this role for the 21st century and beyond.

A change has also taken place in how policymakers view manufacturing, both at EU and national level. For many years, industry took a back seat to the service economy on the list of priorities. But now, industrial policy is firmly back on the political agenda. EU institutions and Member State governments have recognised that the manufacturing sector is a vital source of jobs and growth across the economy. Indeed, for every manufacturing job our industry creates, at least two services jobs follow. Moreover, the innovative technology we produce provides solutions to many of Europe’s societal challenges. But we believe we can do even more, if the right conditions are put in place to help our businesses innovate and grow.

For this reason, we have been calling for some time now for an ambitious EU industrial policy. I am not talking about an old-style industrial policy of “picking winners” and neglecting spill-over into services. Rather, I am talking about a truly coordinated strategy – one that joins the dots between all policies affecting manufacturing. We know the awareness is there at the European level: the Council has called for industrial competitiveness to be mainstreamed across all policy areas. But we have yet to see this call really become focused action.

There is no time to lose. As I have mentioned, our industry is in a state of flux. Digitisation is no longer hype – it is reality. We often hear talk of the ‘factories of the future’: well I can tell you, they are up and running today. Manufacturers are already investing in sensor technology and data analytics to enhance efficiency and boost productivity. Take the case of a well-known manufacturer of energy production equipment in Hungary that used sensors and digital technology to analyse its production facilities. The insights generated by this data has helped them to re-engineer their processes – leading to an increase in productivity of over 60%, well above the rated capacity of

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their production line. In other cases, producers are using real-time monitoring to enhance quality and fix problems before they arise. The result is safer workplaces, less downtime, and more efficient operation.

As CEO of a mid-sized family-owned company specialising in factory automation and digitisation, I see in my day-to-day work how the digital transformation is revolutionising manufacturing as we know it. And the changes I am seeing only strengthen my conviction that manufacturing will be the engine driving Europe's competitiveness for many years to come. Yet we are only starting out on this journey. By 2020 it is expected that one billion people will be connected – but no less than 50 billion devices. Digitisation of industry is creating a whole new eco-system based on gathering and analysing the data generated by these connected products and production systems. If we can unlock the power of this data, we can unlock valuable new service offerings and business models.

We do not yet know the many shapes these business models will take – so it is far too soon to consider regulating them. To take another example: for a company from one of your Baltic neighbours that produces nano-coating machines at a cost of 10-million-plus euro a piece, 80% of the value-added in fact comes from the software. By continuously gathering data from their customers' machines, they fine-tune their customers' processes – while improving their own software at the same time. They have created an innovative business model to share the value-added with their customers. And the result has been a significant growth in business. This example shows the dynamic nature of the changes taking place. We must be careful not to repeat the mistakes we have made all too often here in Europe, where regulation stemming from an over-cautious approach by politicians has driven investment in innovative new technologies offshore. Rather, we must ensure businesses have the freedom and the incentives to experiment and innovate here in the EU – allowing European manufacturing to stay at the leading edge globally.

Support for digitisation, however, will be only one piece of the puzzle. To make a success of Europe's Industrial Renaissance, we need the sort of joined-up policy thinking I referred to earlier. We need an ambitious, coordinated EU industrial policy to help manufacturers create jobs and bring investment back to Europe.

One area that will have a crucial role to play is energy policy. Here, the EU has made significant progress in the past year – rapidly ratifying the Paris Agreement and launching the Commission's 'Clean Energy for all Europeans' package. It's clear that the commitment is there. But now we need to see it put into action on the ground. Technologies 'made in Europe' are ready to drive the change. European firms are already world-leading – mostly outside Europe – in areas such as renewable energy, energy efficiency and smart grids. What we need now is the political commitment at EU and Member-State level to implement a framework to help them succeed at home. Delivering on ambitious energy policies can become that rarest of prizes in the political world: a win-win for all stakeholders – for our planet and our citizens, but also for European manufacturers.

Digitisation will go a long way to supporting EU energy targets, too. Connected machinery and data analytics can be used to discover significant potential for energy savings. Take again the manufacturer I mentioned in Hungary: by hooking up their compressor's cooling system to the hot water production for their employees' showers, they also reduced their energy consumption by 100,000 euro a year in that one plant. Plus, the digitisation of energy networks through smart grid technology will provide new opportunities for empowering consumers, while delivering more flexibility in the networks and more affordable energy.

And of course, at a time when everyone is talking about the need to better protect our environment and to promote a circular economy, digitisation, much more today in my view than regulation, is an enabler of resource efficiency. Why do I stress this? Simply because all manufacturers whether from my industry or our customer industries are permanently focusing on reducing the costs of inputs. This is an issue of productivity and of course competitiveness. So, we are not only talking about energy, but also about water, chemicals and of course raw materials. As you know, 3D printing is a clear case of saving on materials, but let me give you another example: the Austrian skiing resort of Mayrhofen has equipped its snow groomers with sensors. In combination with GPS

and a detailed, electronic map, this system measures the exact height of the snow coverage when they work on the slopes during the night. This system is interconnected with the operation system of the snow generators. The precise data transmitted allows the skiing resort to produce less additional snow, but, under ideal metrological conditions and precisely at the places where needed. Besides saving on capital through less equipment and a better maintenance schedule, which staff appreciate, the skiing resort managed to save per season up to 25% of the water and electricity previously used for snow production.

Two further areas where joined-up policy action is essential are the Internal Market and trade with markets outside of Europe. The Internal Market is one of the EU's greatest achievements – and it has been a cornerstone of the manufacturing industry's success. This is why it has been worrying to see growing economic nationalism at Member-State level threatening to weaken the Single Market. We need the European institutions and national administrations to stand up for the benefits the Internal Market delivers to EU businesses, workers and all citizens. The efforts being devoted to establishing the Digital Single Market are timely and necessary. But there is little sense in dismantling barriers in the digital world just to resurrect them in the physical world. Without a strong Internal Market, the EU is a far less attractive prospect as an investment location.

We have seen similarly worrying developments in trade policy. A politicisation of the debate in national and regional parliaments is slowing progress and undermining the EU's position on the global stage. This almost spelled the end for CETA – despite the undoubted benefits it will deliver across the economy. The promotion of free trade in Europe and globally has brought our continent unprecedented prosperity for 70 years. We must continue to defend and build on this achievement.

Of course, public spending also has a role to play in supporting the competitiveness of industry. On the one hand, this entails investment in infrastructure and particularly in high-speed, secure network infrastructures. This is something you enjoy in Estonia, I believe, but many EU countries do not. On the other hand, R&D spending will continue to be a key driver of innovation. The EU's Horizon 2020 programme has made great progress in this regard: under the industry pillar, investment has been targeted towards innovative production systems, big data and connected technologies. In particular, Public-Private Partnerships have proven an effective instrument, with public funding acting as a multiplier of the money that companies are keen to put into R&D. This is why we are pushing to keep the focus on industrial research in the upcoming FP9 research programme. Targeted spending on innovation will help European firms keep pace with global competition.

Finally, a core issue for my company and many others remains finding staff with the skills we need to grow. The issue of training is largely a national and regional one. There is no doubt that skilled employees will continue to be our most valuable asset in manufacturing. We need to make sure Europeans are ready to fill the many exciting new jobs digitisation will create. Because far from the fears that automation is making manufacturing jobs obsolete, digitisation is in fact generating new employment by extending the reach of manufacturing companies to the whole of the service area. Let me again give you an example: a privately-owned Dutch company has over the years developed as one of its specialties the supply of baggage handling facilities at airports. Now they not only supply the facilities and the software to run them; they are in fact managing the complete luggage handling of one of the terminals at Heathrow, Europe's busiest airport. Their staff has grown exponentially and today 25% of their staff are permanently stationed with their customers in order to manage these complex installations.

To conclude then, we often hear laments that European firms are not emulating the innovators of Silicon Valley start-ups. Well, to that I would respond: we have the manufacturing know-how, we have the skilled staff, we have technological leadership, we have the innovative drive. What we need is a framework that allows us to fully exploit these strengths.

From Brexit to the recent US elections, it is clear that we are living in turbulent times. And it is no coincidence that this unrest is coming in the wake of a severe economic downturn. When policies fail to deliver economic stability and employment, citizens will lose faith in policymakers. This is

why the EU and its Member States must take the lead and create the conditions that will attract manufacturing investment back to Europe.

I spoke to you at the outset about Orgalime's vision for the future of European manufacturing. Fast forward ten years: what do you see? I see a Europe where industrial strength works in tandem with digital innovation – creating new and better jobs, new business models, new opportunities. A Europe where leading technologies generate sustainable growth. A Europe that draws investment from all over the world, and that trades openly with the rest of the world. I am certain this vision can become a reality. But to really make it happen, we need to work together to create and implement truly visionary policies – across all areas, brought together as a real modern EU industrial policy.

Thank you again for inviting me and I look forward to working closely with you and your government for making the forthcoming Estonian Presidency of the EU a real success.

