Briefing

Public expectations and EU policies

July 2016

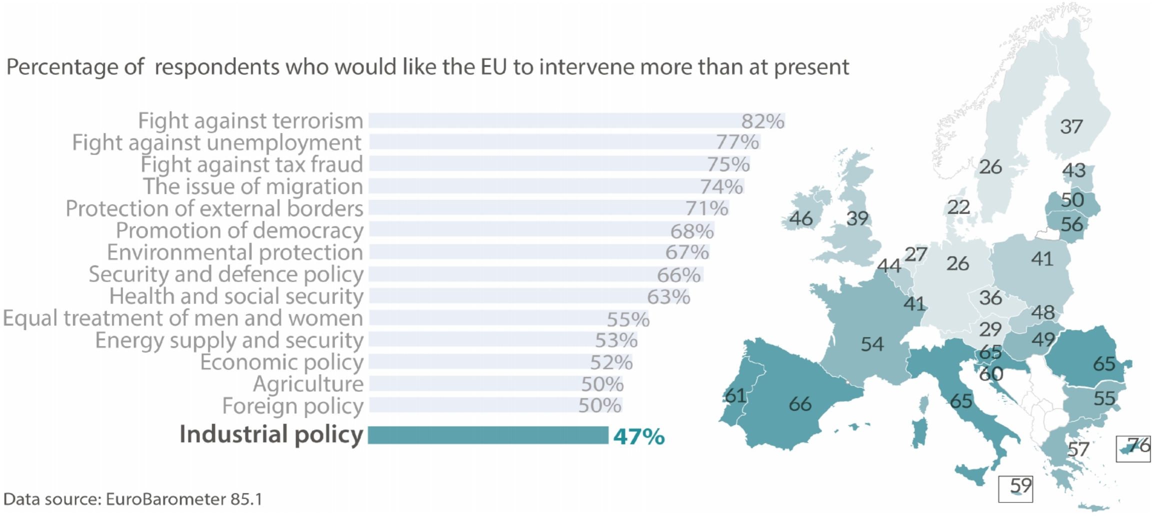
Industrial policy

OVERVIEW

Industrial policy has recently attracted the attention of EU policy-makers seeking sources of economic growth. It is a key element of the Europe 2020 strategy, and the Commission has set itself the target of increasing industry's share of GDP to 20% by 2020. The policies and programmes contributing to the EU's industrial policy are significant (amounting to almost €200 billion), and the policy coverage is wide in scope.

On the other hand, it seems that European citizens still perceive industrial policy as predominantly national in character. The Commission is addressing the challenge of reindustrialisation of Europe with a number of horizontal tools such as the Investment Plan, the Digital Single Market Strategy and the Single Market Strategy.

Public expectations and EU commitment on industrial policy – is there a gap?



Data source: EuroBarometer 85.1

According to a new Eurobarometer survey of the European Parliament on 'perceptions and expectations', industrial policy is not high on the EU public's agenda in terms of perceived importance, awareness of the policy area, or support for increased EU intervention in the area. The survey results do not show a significant gap between citizens' expectations and actual EU involvement in this policy area. Less than half of citizens would like the EU to intervene more strongly. Roughly equal numbers of people assess the current level of EU involvement in industrial policy as adequate and as insufficient (36% and 37% respectively).

Of all the policy areas mentioned in the survey, industrial policy is the one in which citizens are least likely to feel strongly about their responses: 21% cannot say whether current EU involvement is excessive, adequate or insufficient, and 17% do not have an opinion on whether the EU should intervene more, less or keep its involvement as it is.

EPRS | European Parliamentary Research Service
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Graphics by Eulalia Claros, based on data from the Public Opinion Monitoring Unit, DG COMM
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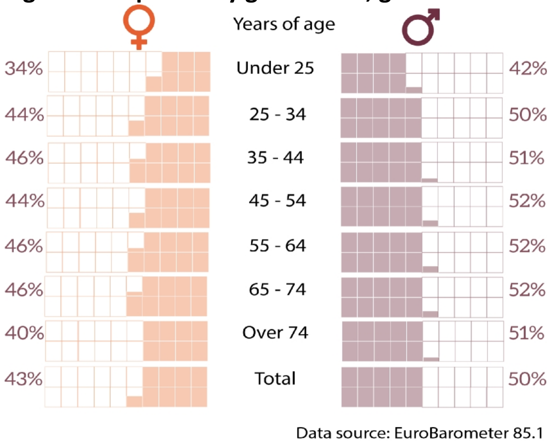
There is considerable variation in opinion across Member States, with northern and western Member States expressing weaker support for EU intervention than countries in the south and east. The lowest level of support was registered in Denmark (22%) and the highest in Cyprus (76%). Men and older generations tend to express stronger support for EU involvement in industrial policy than women and younger generations.

Figure 1 – Opinion by generation, gender



Legal framework

The foundations of a European industrial policy were laid by the Treaty of Paris and the Euratom Treaty, but it was only with the Maastricht Treaty in 1992 that competitiveness of industry became an objective of Community action.

Article 173 of the Treaty on the Functioning of the European Union is the basis for action to support industry. Competitiveness-enhancing measures should aim to accelerate industry's adaptation to structural change; create a favourable environment for establishing and developing companies (particularly SMEs); and exploit the industrial potential of innovation, research and technological policies.

Current implementation and EU action

While the EU puts in place the framework conditions to boost industry's competitiveness, primary responsibility remains with the Member States. The Union's remit is to support, coordinate or supplement Member State action. Over the years, the focus of industrial policy has broadened from supporting specific sectors to a combination of sectoral and cross-sectoral measures. As such, industrial policy is horizontal in nature and integrated into a number of other policies (in which the EU exercises regulatory power), such as those relating to the internal market, trade, research and innovation, competition, the business environment, intellectual property rights, energy, and environmental protection.

The policy is implemented through an array of initiatives within different policy fields and support programmes. Some of these – cohesion policy, Horizon 2020, the Connecting Europe Facility, COSME, Galileo and Copernicus – draw on the EU budget. Two recurring priorities across these programmes are to promote entrepreneurship and SMEs, and to spur innovation. Furthermore, key industrial sectors in the EU (such as chemicals, the automotive industry, textiles, tourism, electrical engineering, raw materials, biotechnology, and the aeronautics and maritime sectors) are supported by sector-specific action plans and, in some instances, 'smart' legislation.

Developing an integrated industrial policy became one of the flagships of the Europe 2020 strategy, which aims to boost science and innovation, competitiveness and employment in the EU. In three communications the Commission stressed the need for a re-industrialisation of the EU with a view to increasing growth and jobs. It developed a multi-pillar strategy to promote industrial competitiveness, identified six priority areas for investment in innovation, set a target of increasing industry’s share of GDP to 20% by 2020, and proposed to lay the basis for post-crisis growth and modernisation. The 2014-2019 Commission put in place a number of horizontal policy instruments designed to help strengthen the industrial base in the EU: the Investment Plan to finance the infrastructure needed to modernise industry; the Digital Single Market Strategy to promote the digitalisation of industry; and the Single Market Strategy to ease the free movement of industrial inputs and outputs.

Potential for better implementation and further EU action

New EU tools

The Capital Markets Union will focus on facilitating access to various sources of financing for entrepreneurs and SMEs by fostering a conducive capital market environment and overcoming information barriers to SME investment. Measures planned as part of the Energy Union and the Circular Economy Package will also help to boost industrial investment.

In April 2016, the Commission unveiled its Digital Industry package. Proposed measures include the European Cloud Initiative, which will help build the cloud and data infrastructure for science and engineering. The package also includes a list of priority areas where EU standardisation is to commence, and proposes a regular process of adapting them in the future. This will pave the way for a Joint Initiative on Standardisation which, together with measures to increase interoperability of new technologies, will help to make EU industry more competitive. Furthermore, the Commission plans to invest €500 million in a pan-EU network of digital innovation hubs; set up large-scale pilot projects to strengthen the Internet of Things, advanced manufacturing and technologies; and encourage public-private partnerships to mobilise €50 billion for digitalising industry. To further encourage industrial innovation, the Unitary Patent System will become operational after ratification of the agreement on the Unified Patent Court by the majority of the 26 participating Member States. The Commission will also consolidate and modernise its intellectual property framework, including sectoral and SME-supporting measures to strengthen EU-based manufacturing and competitiveness. Furthermore, the Commission will revise the Mutual Recognition Regulation to make it easier for industrial sectors to expand abroad, and propose new actions to keep non-compliant products out of the EU market.

Possible ways forward

Under the Treaties, there is a scope for further development of European industrial policy. The Member States will most likely retain control of this policy area, since different countries have different traditions and approaches to state intervention, which in turn has a significant impact on industrial development and performance. The EU is likely to continue contributing as a platform for exchange and learning, helping the Member States to better integrate existing initiatives and programmes in order to exploit existing synergies.

In the coming years, digitalisation of industrial sectors will be necessary if the Union is to remain competitive. Since industrial policy cuts across various sectors and policies, and is undergoing transformation, it might be useful to better define the EU's mandate in this area, to ensure consistency with energy, climate, environmental and trade policies. Such a clear mandate would also help to foster ownership of industrial policy at EU level. The policy should also take into account differences in the national expectations, competitive positions and needs. It is also worth underlining the industry policy potential of further European economic integration. The report 'Mapping the cost of Non-Europe 2014-19' shows that better integrating European energy markets and boosting energy efficiency could reduce the currently high energy costs faced by European industry, in turn making it more competitive. Furthermore, financial market integration is expected to reduce financing costs for European SMEs.

The EU budget and industrial policy

A significant amount of EU resources have been allocated to industrial policy under the EU 2020 strategy, which was launched in 2010 to generate jobs and growth and create the conditions for smart, sustainable and inclusive growth of the EU's economy. 'Apart from the EU 2020 strategy, there are at least seven initiatives financed from the EU budget which can be classified as elements of an 'EU industrial policy', including Horizon 2020 (sub-initiatives 'Key Enabling Technologies', 'SME instrument', 'Eurostars', 'Fast track to innovation', 'Sustainable Industry Low Carbon II', representing a total budget of €10.1 billion); the Connecting Europe Facility (sub-initiatives 'Energy infrastructure', 'Broadband infrastructure', 'Transport infrastructure', totalling €29.8 billion); the Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME – sub-initiatives 'Access to markets', 'Framework conditions', 'Entrepreneurship', with a total budget of €100 million); the Programme for Employment and Social Innovation (EaSI – sub-initiatives 'Progress Axis', 'EURES Axis' and 'European Progress Microfinance Facility', representing a total budget of €814.9 million); Cohesion Policy (specifically the European Regional Development Fund, the European Social Fund (ESF) and the Cohesion Fund, with a total budget of €163.4 billion); the European Agricultural Fund for Rural Development (EAFRD – totalling €100 billion); and the European Maritime and Fisheries Fund (EMFF – with a total budget of €6.6 billion).

Financial instruments outside the EU budget

The main instruments for the financing of industrial policy outside the EU budget come from the European Investment Bank (EIB) and from the newly established European Fund for Strategic Investments (EFSI). The areas supported by the EIB include **innovation** (with projects worth €18.7 billion financed in 2015), **SME access to finance** (€29.2 billion in 2015) and **strategic infrastructure** (€18.9 billion in 2015), while EFSI, with a potential total budget of €315 billion, invests among other things in key enabling technologies, the space industry, fashion, textiles, and cultural and creative industries, the circular economy and tourism. These instruments could contribute significantly to the modernisation of European industry, and thus to the objectives of industrial policy.

Potential for further financing at EU level

The Member States could increase the financial envelope for programmes such as Horizon 2020, COSME and the Connecting Europe Facility, which could generate substantial returns, but whose proposed budgets were cut by the Council during negotiations on the Multiannual Financial Framework (2014-2020). Furthermore, the creation of additional **own resources** for the European budget could allow it contribute more to reindustrialisation in Europe. The plethora of **European funds** financing energy efficiency improvements in industry could be better targeted and reprioritised. Some mapping of different funding and financing instruments may be necessary to help increase their efficiency. Regarding financial investment in renewable energy sources and energy efficiency projects in industrial sectors, revenue derived from auctions under the **EU Emissions Trading System** could be used for this purpose.

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