

A NEW INDUSTRIAL STRATEGY FOR EUROPE

Steering the Recovery by Ensuring EU Strategic Autonomy?

VideoTalk, 16 July, 9:30 – 10:45 | Zoom

Europe's industry: an overview in response to Covid-19

Industry is a driving force for the well-being of EU Member States representing more than 20% of the EU economy and employing around 35 million people, with millions of jobs involved both at home and abroad. It represents 80% of exports and is one of the primary reasons behind the EU's position as the main global source and destination for foreign direct investment. Small and medium-sized enterprises (SMEs) make over 99% of all European enterprises and are an important economic and social backbone¹. Since mid-2003, total industrial production has followed a relatively constant growth path. Production levels reached their highest in April 2008 and then began falling continuously up to April 2009 dropping 21 percentage points below its previous peak. However, production began steadily to pick up again, recovering over 90% of its pre-crisis value by May 2011. In the second half of 2011 and 2012, industrial production in the EU-28 recorded a slow downward trend. Since the beginning of 2013, the value of the index slightly but steadily increased and almost regained its pre-crisis level by the end of 2017². In 2018 and 2019, industrial production in the EU-28 stagnated, before the collapse due to the Covid-19 pandemic.

Covid-19 infection has been diagnosed in all EU Member States and in order to combat the pandemic, Member States have had to adopt a range of measures resulting in a negative impact on demand and production. This was due to the interruption of production in non-essential areas, restrictions on travel between EU countries and towards the EU, the cancellation of public events, and the closure of schools, restaurants, hotels and many shops. In March 2020, industrial production in the now EU-27 decreased by 10.9% compared to February 2020, and by 12.2% compared to March 2019. In the Euro zone, the decline was more marked. Production decreased by 11.9% compared to February 2020 and by 13.5% compared to the previous year. The fall continued in April 2020. EU industrial production decreased by 17.3% compared to March 2020 and by 27.2% compared to April 2019. In the Euro zone, the decline was

¹ European Commission, A New Industrial Strategy for Europe, 10 March 2020

² Eurostat, Industrial production (volume) index overview, October 2019

17.1% during March 2020 and 28.0% over the previous year³. The drop in industrial production involved many industrial groupings, namely intermediate goods, capital goods, energy, and durable and non-durable consumer goods. In the EU-27, industrial production of durable consumer goods showed the biggest reductions in March and April 2020 compared to the previous months (-25.3% and -27.8%). The drop in capital goods (-16.1% and -27.3%) was also quite pronounced. The production of intermediate goods decreased by 10.6% and 14.9%, while the production of non-durable consumer goods by only 1.2% in March, but by 10.7% in April. Energy production was slightly less affected by the crisis (-3.4% in March and -5% in April). Between February and April, the industries which suffered the most were the production of motor vehicles (-79.1%), leather goods (-76.3%), wearing apparel (-53.2%), furniture (-49.2%) and textiles (-35.5%). The only sectors that recorded positive growth rates were in pharmaceutical products (3%) and tobacco products (5.3%). On the other hand, looking at individual countries, between February and April, marked reductions were registered, ranging from a total drop in production of 42.1% in Italy to an increase in Ireland (+6.8%). From February to April, the countries with the largest drops in industrial production were, together with Italy, Slovakia (-41.6%), Luxembourg (-41.1%), Hungary (-37.7%) and Romania (-36.7%). The decrease in the Euro area and the EU-27 was 27.0% and 26.4%, respectively. Industrial production declined in 23 Member States from February to April. In Finland, it remained unchanged, while an increase was recorded only in Ireland⁴.

A new industrial strategy for Europe and the open strategic autonomy

In the European Commission's Work Program 2020, policy objective number 14 concerns "A new industrial strategy for Europe". It is made up of 5 non-legislative initiatives:

- Industrial Strategy
- Single Market Barriers Report
- Single Market Enforcement Action Plan
- SME Strategy
- White Paper on an Instrument on Foreign Subsidies.

All these initiatives have already been adopted, respecting the schedule of the work plan. The Industrial Strategy aims to set a new industrial way for Europe, fostering the transition towards both climate

³ Eurostat, Impact of Covid-19 crisis on industrial production, June 2020

⁴ Data for Austria and Cyprus are not available for the month of April, but between March and February they reported a decrease of 8.2% and 7.6%, respectively.

neutrality and digital leadership in an ever-changing world. It admits that *global competition, protectionism, market distortions, trade tensions and challenges to the rules-based system are all on the rise* and pose new unknowns for European industry. Therefore, the EU must be able to strengthen its strategic interests abroad through economic outreach and diplomacy, and leverage the impact, size and integration of its single market to set global standards. Being able to establish high quality global standards that bear the hallmark of European values and principles will strengthen strategic autonomy and industrial competitiveness. This implies the availability of a wide range of tools. It also means, for example, securing a supply of clean and affordable energy and raw materials and enhancing its industrial capacity in critical digital infrastructure. Specifically, Europe's strategic autonomy concerns the reduction of dependence on other states and regions for the most needed resources - essential materials and technologies, food, infrastructure, security and other strategic areas. They also offer European industry the opportunity to develop their markets, products and services that increase competitiveness. The demand for raw materials is expected to double by 2050, making diversified supply essential to increase the security of supply in Europe. Critical raw materials are also crucial for markets such as electric mobility, batteries, renewable energy, pharmaceuticals, aerospace, defence and digital applications. At the same time, Europe's digital transformation, security and future technological sovereignty depend on strategic digital infrastructure. In this context, the EU will also support the development of key enabling technologies which are key to Europe's industrial future⁵.

The strengthening of European autonomy also involves the strengthening of the single market, being one of the EU's greatest achievements. Trade within the single market involves more than 447 million consumers and represents 56 million European jobs⁶, and the estimated economic benefits range from 8% to 9% of EU GDP⁷. It is estimated that further improvements in the single market for manufactured products could generate between € 183 and € 269 billion per year, while further integration of the services markets could result in earnings of € 297 billion per year⁸. These increases alone could increase economic benefits of up to around 12% of additional GDP. The Single Market Barriers Report⁹ envisages many actions in the direction of strengthening the European single market, which require close cooperation between the European institutions and the Member States. Among these, strategic autonomy relates more closely to those aimed at detecting non-compliance inside the single market and

⁵ These include robotics, microelectronics, high performance computing and cloud data infrastructure, blockchain, quantum technologies, photonics, industrial biotechnology, biomedicine, nanotechnology, pharmaceuticals, advanced materials and technologies.

⁶ Højbjerg Brauer Schultz, 25 years of the European single market, 2018

⁷ Communication "The single market in a changing world", COM (2018) 772

⁸ European Parliament, Europe's two trillioneuro dividend: Mapping the Cost of Non-Europe 2019-2024, 2019

⁹ European Commission, Long term action plan for better implementation and enforcement of single market rules, COM(2020) 94

the external borders. In order to reduce the fragmentation of IT systems used to share information on illegal and non-compliant industrial and consumer products, the European Commission intends to rationalise single market IT systems and set up a platform for online enforcement, establishing a single European information entry point for authorities regarding controls. The objectives of strengthening the fight against counterfeit and illegal products, involving enforcement in the agri-food chain and in the development of labelling and traceability systems are equally important. In this area, the Single Market Enforcement Action Plan presents concrete proposals to strengthen joint efforts in this area, in particular in the creation of a Single Market Enforcement Task Force. However, the Commission also plans to activate trade defence mechanisms. Here, the White Paper on an Instrument on Foreign Subsidies is essential to reinforce anti-subsidy mechanisms and tools and address distortive effects caused by foreign subsidies within the single market. The White Paper provides an overview of the areas of the internal market where foreign subsidies are likely to have distortive effects and identifies legal shortcomings in the existing EU toolbox - e.g. EU competition rules, EU trade policy, public procurement rules and EU funding rules. In addition, it analyses the interaction with other EU and international instruments¹⁰. In order to tackle foreign subsidies, the White Paper proposes a legal framework made up of several building blocks ("modules") for a new legal tool to fill the identified legal gaps. Among the modules proposed to tackle foreign subsidies, we find a general market scrutiny instrument to detect distortive effects of foreign subsidies, with redress measures if a market distortion is confirmed. Particular attention is placed on foreign subsidies facilitating the acquisition of EU companies. In this case, a compulsory notification mechanism for subsidised acquisitions triggered by a threshold is provided, followed by an in-depth investigation if a market distortion is suspected, and possibly by redress initiatives. In conclusion, foreign subsidies in EU public procurement procedures are also screened. Again, a compulsory notification mechanism of potential foreign subsidy for bidders is established. The redress measures provided involve exclusion from the procurement procedure and possibly from future calls. The White Paper will be followed up with a proposal for a legal instrument in 2021.

The pharmaceutical industry pillar of Europe's strategic autonomy

The pharmaceutical industry was not only the production sector showing the highest resistance during the months of the Covid-19 crisis but, as well, in recent years, it has already distinguished itself in its contribution to the European production system and for driving economic growth and trade. This

¹⁰ For example, EU trade defence instruments, EU framework for screening of Foreign Direct Investment, bilateral free trade agreements, WTO agreement on public procurement, etc.

industry employs 2.7 million people (almost 800,000 directly, the remaining indirectly)¹¹, creates a gross added value of € 206 billion (for a production value of € 260 billion in 2018, the last year final data is available) and is made up of both large companies and SMEs. In 2018, export value reached € 435 billion and the EU trade surplus stood at € 122 billion (the largest of all industrial sectors), strongly integrated into the pharmaceutical global value chains. 36% of EU exports are destined for the USA, 11.5% for Switzerland, 6.8% for China and 4.7% for Russia. Instead, the EU mainly imports from Switzerland (36.1%), the USA (35.7%), Singapore (5.2%) and Israel (4.2%). 14.2% of the direct employment in the pharmaceutical industry regards pharmaceutical R&D activities. The innovative pharmaceutical industry also registers the highest R&D intensity in the EU, with costs representing 15.4% of total net sales¹². There were more than € 36 billion euros of investments in the EU in 2018 (estimated at 37.5 billion in 2019), which make this industry one of the major drivers of innovation on the European continent. The pharmaceutical industry is the high-tech sector with the highest added value per person employed, significantly higher than the average value for the high-tech and manufacturing industries. Europe has a long history of vaccine production and benefits from a solid industrial infrastructure with 76% of the leading innovative global vaccine manufacturers in Europe.

Despite these numbers, the European pharmaceutical industry is experiencing a haemorrhage in investments and R&D activities towards the USA and China. 47% of the new global treatments in the 2014-2018 period were of American origin and, increasingly, new treatments are now being approved first in emerging markets such as China. 25% instead comes from Europe. The European share of global R&D investment is decreasing. Over the past twenty years, the region's R&D base has gradually shrunk, with new cutting-edge technological research units transferred outside Europe, mainly to the US and, more recently, to China. Between 2015 and 2019, pharmaceutical R&D expenditure grew at an average annual rate of 4% in Europe, against 11.3% in the USA. The migration of emerging markets also counts a lot in the migration of economic and R&D activities. Between 2014 and 2019, the Brazilian, Chinese and Indian markets grew by 11.2%, 6.9% and 11.1%, respectively, compared to an average growth of 5.4% for the top 5 EU markets and 6.1% for the US¹³. In the same period, 62.3% of the sales of new medicines launched were on the US market, compared to 18.4% on the European. It should also be considered that the pharmaceutical and biotechnology sector represents 18.7% of the total R&D spending of companies around the world.

¹¹ Source: European Federation of Pharmaceutical Industries and Associations (EFPIA). Data includes, in addition to the EU countries, Switzerland, the UK and Norway.

¹² Source: The 2019 EU Industrial R&D Investment Scoreboard, European Commission, JRC/DG RTD

¹³ Source: IQVIA MIDAS

Access to medical and pharmaceutical products is equally crucial for Europe's security and autonomy in today's world, as has been recently highlighted by the Covid-19 epidemic. The “Recovery Plan for Europe”, presented in May 2020, is expected to play a key role in leading the EU back on the path of growth. The EU requires a tailor-made industrial strategy focusing on both the recovery phase and the reconstruction and transformation that will follow. EU institutions have stressed the importance of improving resilience and strategic autonomy across key technologies and value chains. The aim is to reduce dependency and strengthen security of supply in several sectors, while safeguarding the EU’s commitment to open and fair trade. One of the industries that will be most affected by these changes is the pharmaceutical sector. Bottlenecks in the supply chain for medicines have increased over time, becoming an emerging problem. In June 2020, the European Commission published a roadmap for a new strategy for the EU pharmaceutical industry¹⁴. The new pharmaceutical strategy addresses the current issues of access, availability and affordability of medicines. Furthermore, it will promote sustainable innovation, making sure that the EU remains a world leader, while also strengthening the response of the system to public health threats, building on the lessons learnt from the Covid-19 pandemic. Being linked to the new Industrial Strategy, the initiative aims to spur global competitiveness of the EU pharmaceutical manufacturing value chain, securing Europe’s strategic autonomy in this area as was recently witnessed in the serious exposure of the EU health and pharmaceutical sector to new and emerging health crises. This can also be seen in the EU’s growing dependency on imports of medicines and active pharmaceutical ingredients due to manufacturing outside the EU, perhaps resulting in shortages if not adequately counterbalanced by European supply chain diversification. What is at stake is Europe’s strategic autonomy, both under normal circumstances and during a crisis. At the same time, disparities in the access to medicines, as innovative therapies (e.g. cancer drugs) are not always affordable for every patient or national health system. This is due to different pricing and reimbursement policies across the EU (e.g. concerning the levels of out-of-pocket payments), as well as fiscal sustainability constraints faced by many national health systems. Small markets are particularly vulnerable to availability and affordability problems. Moreover, innovation efforts do not always address the needs of public health systems, such as novel antimicrobials or therapies for dementia. Reasons may include science limitations, lack of interest from the industry to invest, or lack of a common understanding of the concept of unmet medical needs between stakeholders and policy makers. There are also issues with the EU pharmaceutical innovation ecosystem, such as the fact that the value generated by European scientific discoveries often ends up elsewhere, as well as unintended barriers to innovation due to the regulatory framework not keeping pace with changes (e.g. advances in gene and personalised therapies, smart health applications, AI). The new pharmaceutical strategy will face these problems building on an evidence-based assessment and review of the existing regulatory framework,

¹⁴ European Commission, Pharmaceutical Strategy - Timely patient access to affordable medicines, June 2020

with the intention of establishing a future-proof and crisis-resistant system. To do so, it will address the entire life cycle of medicines, from research and development to authorisation and patient access, while also taking into account scientific and technological advantages, environmental sustainability and market failures. The strategy will employ both legislative and non-legislative actions. The former could include the review of the legislation on medicines for rare diseases and the legislation on fees for the European Medicines Agency, as well as the review of the basic pharmaceutical legislation and other legislative acts. Non-legislative actions, on the other hand, will include EU investment programmes such as Horizon Europe, InvestEU and Digital Europe Programme. The new strategy is scheduled for adoption by the fourth quarter of 2020. In the meantime, the European Commission has launched two consultations (on the roadmap and the strategy).

Key Questions

- 1. Do you consider the measures taken to promote the exit from the crisis and the recovery of the European economy sufficient? What initiatives could be taken to meet the needs of the industrial sectors?*
- 2. Should the new European industrial strategy be reviewed in the light of the lessons of the pandemic? If so, how?*
- 3. On what guidelines should action be taken to strengthen the European Union's open strategic autonomy? On which sectors, technologies, supply chains should we focus?*
- 4. What initiatives could be taken to reinforce the potential of the pharmaceutical industry?*
- 5. What role can the pharmaceutical industry play in supporting the EU's open strategic autonomy? What measures does the new pharmaceutical strategy for Europe need to take in this direction?*

Main Highlights

The VideoTalk “A New Industrial Strategy for Europe. Steering the Recovery by Ensuring EU’s Strategic Autonomy?” was held on 16 July and had as guest speaker Gwenole Cozigou, Director ‘Industrial Policy & Economic Analysis’ of European Commission’s DG GROW.

Bringing together EU institution representatives, research and business organisations, trade and consumer associations and other relevant stakeholders, the VideoTalk provided an opportunity to discuss the set of the Commission's industrial policy initiatives presented last March. These were aimed at supporting industry to lead on the twin green and digital transitions and be competitive at a time of geopolitical uncertainty, and the new model of "open strategic autonomy" outlined in the Recovery Plan. The latter looks to reducing dependency and strengthening security of supply - notably for raw materials or pharmaceutical ingredients - while safeguarding the EU's commitment to open and fair trade.

The VideoTalk was opened with a speech by I-Com President Stefano da Empoli. The main speaker, Gwenole Cozigou, then took the floor. There followed an open debate moderated by Mattia Ceracchi, I-Com Head of EU Affairs.

Below are the main takeaways of the discussion.

The "old" priorities are here to stay

The new industrial strategy, presented on 11 March, laid the foundation for a new EU industrial policy to prepare European industry for the transition to climate neutrality by 2050 and to support it towards digital transformation, with the ultimate objective to enhance its competitiveness at global level. The main priorities of the industrial policy package are here to remain after the Covid-19 crisis, with the seven main areas identified to boost the industrial transformation. Participants agreed on the need to prioritise the strengthening of the Single Market as the building block of the entire system and to provide a solid environment for the whole industrial sector. The promotion of a global playing field, the second area of to be tackled, is of major importance to ensure EU's competitiveness on a global stage. The objectives of climate neutrality and circular economy are two main pillars of the strategy, as they represent an absolute need for the future and an opportunity for the creation of a fully sustainable economy. Participants shared the conviction to sustain this comprehensive framework also through a renewed focus on innovation, upskilling and reskilling and access to finance.

Openness without naïveté

The Covid-19 outbreak has revealed the complexity and the interconnection among different value chains, providing an important lesson especially regarding the need for the EU to reduce dependency from outside and strengthen the security of supply. The approach should not be considered in terms of protectionism, but to improve resiliency to other future shocks. Here, the starting point is based on diversifying sources of supply, developing sustainable production capacities in Europe and increasing market flexibility. Participants agreed on the fact that Europe is currently experiencing a momentum,

i.e. the possibility to create a brand-new economic model, to rebuild its base in view of digital and green transitions, and increase the resilience of the whole industrial system. Openness has undoubtedly proved to be a source of prosperity, but this crisis demonstrated that over-dependency from outside is also a source of weakness.

Participants agreed that investments will play a key role in creating a more resilient industrial sector. The Strategic Investment Facility, a new window of InvestEU proposed by the Commission under the Recovery Instrument, had the purpose of fostering and mobilising public and private investments in order to build stronger and more resilient value-chains. It has underlined that targeted investments will be easier to allocate thanks to the newly introduced model of industrial ecosystems, making up about 90% of EU business value. This rationalisation is helpful to identify the single characteristics of similar value-chains, and to develop more concrete and specific actions.

Sectoral initiatives and future perspectives

Several industrial policy actions in different sectors are currently underway. A major focus is on the new pharmaceutical strategy, as an instrument to build and better coordinate additional pharmaceutical manufacturing and production capacities in Europe, and to provide an answer to several strategic questions, e.g. how to bring back production and reduce shortages, how to guarantee the benefits for all Member States, how to use trade policy effectively to ensure a global level playing field. This might require a so-called interventionism on the market, in order to regain control over globally dispersed value-chains and to reinforce the Single Market. Another sectoral action concerns the new European initiative on raw materials, which foresees a specific action plan to be launched in the autumn. Where trade policy is concerned, a foreign direct investment screening mechanism to avoid takeovers of strategic assets, as occurred during the Covid-19 crisis, is also under discussion, as well as the White Paper on foreign subsidies recently presented by the Commission.

A key issue that will be pivotal to preparing the twin green and digital transitions regards data. Participants highlighted the importance of the announced introduction of a common manufacturing data space. The aim is to provide the right framework to facilitate the data exchange within the Single Market, establishing clear rules to ensure that industry can benefit from it in a safe environment. A close collaboration between DG GROW and DG CNECT is ongoing, to boost the overall digitalisation of the industrial sector, in order to create an appropriate framework to secure data circulation along all value-chains.

Another important pillar of the industrial transition to green and digital dimension is the need to sustain European workers to adapt to those radical changes. Here, the European Skills Agenda, presented by the European Commission on 1 July, highlights the importance of skills to achieve sustainable

competitiveness, social fairness and resilience for all. The strategy sets ambitious and quantitative objectives for upskilling (improving existing skills) and reskilling (training in new skills) to be achieved within the next 5 years, placing a particular emphasis on the need to invest in skills as a key priority to foster the EU's recovery and prepare European workers and citizens for the green transition and the digital transformation.