

# Revised CoR Opinion on a New Industrial Strategy for Europe<sup>1</sup>

## Input from Friends of Smart Specialisation

May 7<sup>th</sup> 2020

The consultation has identified six key questions for stakeholders.

- 1. What should be the focus of the development of European industrial ecosystems, including in the light of the current COVID-19 situation?**
2. In your opinion, should the EC adapt competition rules and the State aid framework to new technological and global market development? If so, could you give us an example?
- 3. How could the position of Local and Regional Authorities (LRAs) be strengthened through the new Industrial Strategy? What could the role of members of the Committee of the Regions be in this?**
4. What is needed in your opinion to ensure fair competition globally and within the EU internal market?
5. What role should LRAs play in the Pact of Skills in order to ensure an inclusive digital transition of Industry?
- 6. Do you think the European Commission sets the right priorities? What should be emphasised more? What is missing?**

*Friends of Smart Specialisation*<sup>2</sup> wish to respond to the **three questions highlighted above (1,3 and 6)**. We have already published a critique of the New Industrial Strategy before the COVID19 crisis where we supported the new Industrial Strategy as an opportunity for Europe to lead the twin challenges of a digital and sustainable future. However, as these challenges are common to all Europeans, regardless where they live, it is important that local and regional communities get actively involved in the development of the strategy and its implementation. Now, this dimension of connectedness to local economies and their specific configurations (including their specific opportunities and strengths) is largely missing. **We concluded, therefore, that the new Industrial Strategy should fully involve the European regions and their EU-supported smart specialisation strategies.** This provides a top-down/bottom-up cross-linked approach that can engage a wide range of stakeholders and ensure the effective multi-level governance of badly needed joint investments contributing to the systemic transformations of new value chains towards the green and digital transitions.

These conclusions largely mirror the Committee of the Regions Opinion (ECON-VI/042 26-27 June 2019) – ‘A place-based approach to EU industrial policy’ which recommended:

- the need for a strategic vision for industry rooted in a place-based approach;
- a place-based approach that requires well-functioning cooperation networks and clusters;
- that inter-regional cooperation is crucial for developing synergies and reaching critical mass in co-investment for deployment of innovation in industrial value chains across Europe;

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<sup>1</sup> Communication COM(2020) 102 final

<sup>2</sup> An initiative from an independent group of experts and practitioners concerned for the future directions of smart specialisation. The group’s goal is to support the mainstreaming of Smart Specialisation as an instrument for strengthening the multi-level European innovation system. For more information, see <http://www.efiscentre.eu/portfolio-item/friends-of-smart-specialisation>

- a key role for regional and local authorities in actively establishing the necessary inter-regional and cross border collaborations;
- a strengthened EU support for regional eco-systems and clusters in the framework of Interregional Innovation Investments;
- a pan-European approach on skills is critical for competitiveness;
- pan-European and inter-regional collaboration to realise the potential of the circular and carbon neutral economy;
- strategic public procurement as a tool to boost innovation despite the complexity of the rules often encourages risk aversion by regional and local authorities.

There is now a need to revise the New Industrial Strategy in the wake of the severity of the COVID19 crisis. From a socioeconomic development perspective this crisis can be conceptualised in two stages:

- (i) a stage focused on pandemic resistance, and
- (ii) a stage focused on the reconstruction and renewal of our economy and society.

This means considering a two-stage industrial strategy. The first stage must concentrate on the survival of industry. The second stage should focus on the reconstruction and renewal phase for a ‘new normal’ economy – greener and digitally enhanced. This involves the stages of recovery, renewal, and refocusing. These stages need to build in the concept of **regional resilience**.

Regional resistance involves both **specialisation and productivity** as explanatory factors but there is also a strong consensus on the importance of **institutions and policies** with regards to external shocks. These institutions and policies must be linked by a stronger system of multi-level governance. At the EU level, top-down policies will be required to support key sectors needed in the post-COVID19 recovery. These include support for a sustainable and digital direction of travel. As outlined in the new Industrial Strategy, this would include support for IPCEIs,<sup>3</sup> and industrial ecosystems identified in the Communication<sup>4</sup> as ‘industrial forums’ and ‘industrial alliances’.

**However, this top down strategy is ‘location blind’.** While many regions will be involved in these industrial ecosystems and alliances, many will not. There is thus a need for a place-based approach for all regions to benefit from and contribute to economic recovery. This means at the regional level policies must involve an ‘all hands on deck’ approach as proposed by Orkestra in a recent paper examining the Basque Country with reference to the COVID19 crisis.<sup>5</sup>

*In the future, there will be a strong need for renewed and strengthened collaboration between companies, governments, universities, other actors in the territory, and citizens. Intermediary organisations, such as cluster organisations or local development agencies, will have an even more critical role in this new scenario, both in connecting companies for the construction of new value chains or the refocusing of activities, and in generating intelligence on the needs of the business. Indeed, the strategic intelligence and connections that these intermediaries offer will be critical for*

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<sup>3</sup> Important Projects of Common European Interest

<sup>4</sup> A New Industrial Strategy for Europe COM (2020)102 final

<sup>5</sup> Friends of Smart Specialisation wish to thank Mikel Navarro and James Wilson from Orkestra and Vladimir Cvijanovic from EFIS who have openly shared papers and ideas of which many have been taken up in this paper.

*effective collaborative processes between governments, universities, businesses and other actors in the territory.*<sup>6</sup>

It is here that **smart specialisation provides a tested methodology** since its introduction into EU Cohesion Policy in 2014. This is not to say that smart specialisation is a cure all. As smart specialisation policies are pursued at regional level they will need to deal with identified weaknesses such as implementation gaps often due to a lack of institutional capacity, the tendency to neglect the interregional dimension and the difficulties of developing effective quadruple helix collaboration at the regional level. Many of these weaknesses stem from the fact that smart specialisation, while being confined to Cohesion Policy, has struggled to increase its ‘bandwidth’ across other policy areas. Recent interest in linking smart specialisation with regional skills strategies<sup>7</sup> however is one sign of a wider engagement.

We consider that the post-COVID19 context demands a rejuvenation of smart specialisation as a priority-setting governance approach that is already well connected to regional innovation and transformation policies. At the European dimension, smart specialisation can contribute to a cross-border alignment of investment priorities. This will enable the development of new value chains that build on ‘smart complementarities’ with other regions (with their strategies and their clusters) to leverage mutual investments. The post-COVID19 challenges thus can benefit from smart specialisation and smart specialisation can benefit from a need for revised interest and priorities as Europe and regions concentrate on economic recovery and a new industrial direction.

**Q1: What should be the focus of the development of European industrial ecosystems, including in the light of the current COVID-19 situation?**

- The starting point of this input to the future Committee of the Regions’ opinion is the ambition of the Communication “We now need a new industrial way for Europe, fit for the ambitions of today and the realities of tomorrow...This will be supported by a new focus on industrial ecosystems, taking into account all players within a value chain. This is our new approach and reflects the need for new ways of thinking and working to lead the twin transitions.”<sup>8</sup>
- Therefore, the current COVID-19 crisis is a test and also an accelerator for implementing this ambition, reinforcing the need for ‘strategic autonomy’, already introduced, in deepening the transformation strategies for assuring the ‘resilience’ of our societies and economies in the longer term against future shocks and structural uncertainty in a rapidly changing world.
- The capacity to respond to industrial transformation needs and the exploration of new value propositions must be found in adaptive and connected industrial ecosystems. These can gather the critical mass needed to support collaboration between key actors and exploit knowledge spillovers that are one of the most important sources of innovation. But innovation literature on industrial clusters stresses the importance of proximity and the exploitation of place-based advantages.

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<sup>6</sup> See Orkestra Paper on ‘Socioeconomic Impacts of Covid-19: Reflections from the Basque Country’  
<https://www.orkestra.deusto.es/images/investigacion/publicaciones/informes/informes-especiales-covid-19/200014-Socioeconomic-impacts-COVID19-auntomouns-community-Basque-Country-ENG.pdf>

<sup>7</sup> [https://eacea.ec.europa.eu/sites/eacea-site/files/factsheetcentersvocationalexcellence\\_a4\\_web.pdf](https://eacea.ec.europa.eu/sites/eacea-site/files/factsheetcentersvocationalexcellence_a4_web.pdf)

<sup>8</sup> A New Industrial Strategy for Europe COM (2020)102 final

Therefore, the concept of European industrial ecosystems lacks an important dimension to be really European: the regional dimension.

- The focus in the development of European industrial eco-systems must be on the multi-level governance of industrial policy, given that competences are distributed and that strategies are fragmented. It will be impossible to mobilise the investments needed without the multi-level governance needed for aligning investment directions. The role of the European Commission to “undertake a thorough screening and analysis of industrial needs and identify ecosystems needing a tailor-made approach” and engage experts in high-level forums is not necessarily different from past high-level approaches. ‘Alliances’, therefore, need to extend beyond the usual suspects and privilege new combinations for new solutions to challenges, with breakthrough technology providers and demanding customers. That is why the eco-system construction must be system-wide, Europe-wide, and region-wide.
- Regions need to be structurally involved in promoting European industrial ecosystems. The identification of ecosystems for targeted approaches at European level should be connected with the strategic coupling of the living industrial ecosystems in the regions that are relevant in the emerging value chains, in commonly agreed priority areas (such as hydrogen, low-carbon industries, Industrial Clouds and Platforms, and raw materials). This can be done through the alignment of smart specialisation strategies on specific needs/opportunities that are identified with a well-structured entrepreneurial discovery process. ‘Alliances’ for large scale projects must be complemented with smart specialisation partnerships to ensure that the envisaged ‘positive spillover effects’ can materialise.
- The European Commission and all concerned must build on the vast experience collected with smart specialisation in the past ten years, to improve the multi-level governance of industrial change with this co-investment approach, by better integrating the new top-down European directionality in the recovery phase (avoiding picking winners) with the bottom-up discovery dynamics in place-based innovation ecosystems (committing resources for common goals).

**Q3: How could the position of Local and Regional Authorities (LRAs) be strengthened through the new Industrial Strategy? What could the role of members of the Committee of the Regions be in this?**

- The first point is that the LRAs have not been round the table on this issue. The Communication on the New Industrial Strategy indicated a limited role for LRAs and a place-based approach. The Committee of the Regions should actively promote the need for a strong regional focus in any future recovery plan. The CoR statement on COVID-19: ‘We call on all EU institutions and Member States for an ambitious recovery plan for a sustainable, resilient and socially-just Europe, which leaves no places and no people behind’<sup>9</sup> should, in future, also include specific reference to regions as building blocks of the recovery process.
- This reference to regions and place-based innovation should also be strengthened regarding direct reference to the Communication on the New Industrial Strategy which only refers to regions in terms of “Place-based innovation and experimentation should be encouraged. This would allow regions to develop and test new solutions with SMEs and consumers, drawing on their local

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<sup>9</sup> <https://cor.europa.eu/en/news/Pages/COVID-19-We-call-for-an-ambitious-recovery-plan.aspx>

characteristics, strengths and specialisms".<sup>10</sup> Nonetheless, it should go beyond a simple reference to regions and point to a better and more functional connection between local clusters and production systems with the major European sectoral initiatives and networks.

- If LRAs are to play a stronger role then this must be linked to an improvement in local and regional capacities in industrial strategy and specifically smart specialisation. Smart specialisation exists and has a massive set of theoretical, methodological, and practical studies readily available.<sup>11</sup> It also enables interregional collaboration through value chains identified under the existing smart specialisation platforms.
- Each region has a different socio-economic, governmental, and geographical context. So rightly no one size fits all. This means that each LRA needs to build capacity at the regional level to develop revised smart specialisation strategies that will reflect:
  - Top down EU strategies - Green Deal, Digitalisation
  - Post COVID19 – new normal – recovery strategies
  - Territorial implications – increased awareness of territorial inequality
  - Skills strategies at the regional level
  - Access to innovation infrastructures across borders (extending the digital innovation hub approach)
- In order to develop these strategies, LRAs need to be in the forefront of building quadruple helix formations and develop effective entrepreneurial discovery processes (EDP) bringing together a wide range of stakeholders in order to develop industrial recovery strategies that reflect regional competitive advantages. Methodologies need to be refined and the commitment to co-invest strengthened
- The role of smart specialisations as future oriented choices of activities is increasingly important in big systemic challenges that need the mobilisation of all resources. Resources need to be aligned as effectively as possible building on place-based entrepreneurial opportunities triggered by a shared European vision. The strategic prioritisation of investment decisions is at the core of the governance behind the mechanism of smart specialisation. The entrepreneurial discovery process (EDP) enables a smart role for public policy in the co-creation process of strategic clusters of the future. Political commitment at all levels is also key for strategic investment policy.
- LRAs need also to think about how their regions' economic structure could better connect to Global Production Networks (GPN) through the strengthening of European value-chains, in times of re-organisation of global supply-chains. Such choices could be better informed by enhanced interregional collaboration and networking.

**Q6: Do you think the European Commission sets the right priorities? What should be emphasised more? What is missing?**

- **Strengthened leadership role on climate neutrality:** the European Commission has taken a leadership approach for making Europe the first climate neutral continent and aims to target

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<sup>10</sup> A New Industrial Strategy for Europe COM (2020)102 final, page 10

<sup>11</sup> See for example, Interreg Europe with 16 current projects on smart specialisation. <https://www.interregeurope.eu/discover-projects/>

investments in the coming recovery strategy on greening, digitalisation and resilience. This leadership role should be enhanced especially in times of a lack of global leadership on climate and Coronavirus.

- **Resilience:** the post-COVID19 world must focus more on resilience. A revised new Industrial Strategy must address this issue. Resilience can be defined as “the ability of a regional economy to withstand, absorb or overcome an internal or external economic shock”.<sup>12</sup> There should be more attention to building the future resilience of regions against internal or external shocks. From an economic point of view this could involve strengthening the internal market, examining supply chains, and putting in place actions and policies that tend to enhance resilience.<sup>13</sup>
- **Strengthening the role of regions and cities:** the new Industrial Strategy must include a stronger reference to regions and cities as key building blocks of the post-COVID19 recovery. In order to institutionalise the involvement of citizens and companies across the EU, the role of the regions and cities must be strengthened. In particular for a re-industrialisation strategy (with new societal, economic and work opportunities), the role of LRAs must be recognised in the industrial strategy, in supporting sustainable smart specialization strategies that contribute to the regional and European priorities, and promoting partnerships that scale-up their efforts in European value chains.
- **Co-investment:** any new Industrial Strategy must make a clear call for co-investment which requires a confidence in the strategy at all levels especially national and regional levels. The industrial strategy that supports this new growth strategy should emphasise the mechanisms for committing the public and private actors to co-invest. The multi-level governance of the recovery strategy requires a more orchestrated approach to align investments on priority areas. Present proposals to set-up Alliances for large projects are not enough. What is missing is an ambition to call upon the broader population to participate in rebuilding a European industry to make our economy more competitive, sustainable, and resilient. The Climate Pact is a first bridge.
- **Regional ecosystems:** the new Industrial Strategy ignores the fact that all regions are different and will benefit from and contribute to the industrial strategy differently. A place-based approach builds on the potential of business and innovation ecosystems to drive industrial modernisation and develop territorial strategies for innovation at the LRA level. Thus more attention and support is needed to build effective regional innovation ecosystems which develop effective smart specialisation strategies based on well-performing EDPs which specifically target research institutions and universities (especially those supporting regional industries and skills), SMEs and cluster organisations, and civil society. To develop this quadruple helix, place-based leadership must be provided by the LRAs.
- **Strategy implementation and Governance:** one of the key elements missing is that the new Industrial Strategy focuses on the ‘what’ but ignores the ‘how’. There is a lack of information on how this new strategy will be governed and implemented. The Communication details new strategies but

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<sup>12</sup> ECR2 - Economic Crisis: Resilience of Regions <https://www.espon.eu/programme/projects/espon-2013/applied-research/ecr2-economic-crisis-resilience-regions>

<sup>13</sup> The ECR2 study, following the 2008 financial crash, suggests a range of features that are broadly associated with more resilient economies. These include higher-order service sector functions and higher levels of innovation performance, ownership structures, export orientation and market focus. The presence of international companies, with access to financial resources and greater expertise, positively assists resilience. Stronger levels of skills and experience, including managerial, and highly qualified populations tend to be associated with more resilient places. Also, a major urban centre promotes the resilience of the surrounding economy. Resilience appears to be enhanced where public authorities work together with neighbouring authorities; where different levels of government work together towards shared objectives, and where there is a collaborative approach to working with economic and social partners.

who will be responsible for implementing these strategies and at what level? Any industrial strategy needs to be implemented by multi-level governance where each level is given clear responsibilities and resources for implementation.

- **Monitoring and evaluation:** as stated above a priority must be on implementation, coupled to this the new Industrial Strategy needs a clear monitoring and evaluation system as recommended in smart specialisation strategies. Monitoring and evaluation should be carried out at three levels: EU, Member States and regions and reported back annually. At the EU level this can be done in the European semester and linked to National Reform Plans at Member State level. Regions should monitor and evaluate their smart specialisation strategies annually not only as an audit function but also as a learning tool supporting a more diagnostic monitoring checking on progress and facilitating problem solving. Member States should be encouraged to incorporate tangible elements of their smart specialisation strategies' progress when reporting to the Commission in the context of the European Semester.

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