

The Industrial Strategy refresh: A new opportunity to reboot the EU's industrial innovation performance

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The EU's forthcoming Industrial Strategy update aims to position Europe's industry at the core of the Union's efforts to improve international competitiveness. To achieve this, the Union must upgrade its policy and investment framework in a way that supports industrial innovation collaboration across the EU.

Recently, a fragmented EU framework has emerged, characterised by two rather separate support 'tiers' to boost industrial innovation. Unless corrective action is taken, there is a risk of a disconnect between key, industry-driven initiatives (such as Industrial Alliances and Important Projects of Common European Interest – IPCEIs) and actions which support place-based industrial innovation, driven primarily by EU regions (such as Cluster Collaborations and Smart Specialisation Partnerships).

A strengthened, industrial innovation pipeline for the EU is required to maximise the impact of these collaboration efforts and to generate a connected, Europe-wide industrial ecosystem, which can fully harness industrial innovation potential. Amid growing concerns about an uneven recovery from the pandemic, the EU cannot afford to perpetuate the current innovation divide or deepen the distance between industrial 'winners and losers'.

The new Industrial Strategy should:

1. spearhead efforts to close the gap between the EU's 'Tier 1' and 'Tier 2' industrial innovation support landscape;
2. improve analysis of the barriers which prevent many EU regional industrial innovation systems from flourishing; and
3. promote an 'Innovation Everywhere' agenda with a particular focus on EU territories where industrial innovation continues to fall behind.

BACKGROUND: IMPROVING EU INDUSTRIAL INNOVATION PERFORMANCE

A support framework for EU industrial innovation collaboration

Successive EU Competitiveness Council meetings¹ have stressed the need for improved innovation performance across the EU27. These calls have been strengthened in the wake of the pandemic, with EU collaboration seen as a critical driver to boost global competitiveness. EU industrial innovation cooperation is also emphasised in the new growth strategy – the Green Deal – and its twin (digital and energy) transitions.

The EU's post-2020 policy framework has seen the rise and upgrading of new programmes, investments and initiatives across European Commission services to improve industrial innovation performance. Many of these have been designed to harness industrial innovation collaboration. Built on solid foundations set by the existing Industrial Strategy, EU industry has been encouraged to adopt a stronger value chain orientation in the context of industrial ecosystems. By connecting industrial actors, products, services and business models, new scaled-up opportunities can be created, underpinned by a stronger innovation dynamic and generating new value for EU businesses while boosting their competitiveness. These value chains and ecosystems are intended to build on identified strengths in areas such as micro-electronics, batteries and high-performance computing. An impressive array of industrial collaborations and partnerships has already emerged, the most significant of which are outlined below:

- In recent years, DG GROW has played a strong, leading role in supporting and coordinating two significant initiatives – **Important Projects of Common European Interest (IPCEIs) and Industrial Alliances**. The removal of state aid barriers has boosted demand for IPCEIs. Their success is expected to be sustained and extended, with DG GROW continuing to play a significant role in championing the needs of EU industry. Guided by the Union's strategic value chains, (including Smart Health and Internet of Things), these initiatives incentivise industrial collaboration to increase technology capacity and innovation investment. By default, rather than design, this has generated a landscape that is largely dominated by big, successful companies - the EU's industrial champions.
- To overcome the challenges of scale and capacity at regional levels, significant efforts have been made to boost interregional innovation collaboration through initiatives such as **cluster collaborations and interregional Smart Specialisation Partnerships**. Driven predominantly by DG REGIO and supported by wider Commission inter-service efforts, strong demand for these Partnerships across EU regions is creating new opportunities for collaborative industrial innovation. While new efforts in the EU's post-2020 policy framework have been made to deliver further support for interregional industrial innovation, this pathway is far from smooth. There are a number of investment gaps and market failures², including challenges in connecting industrial actors across the EU, and incentivising industry-led, upscaled investment.

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Emerging gaps in the EU's industrial innovation pipeline

The industrial innovation landscape described above reflects a significant investment upgrade, aiming to improve EU competitiveness through enhanced industrial cooperation. However, its early evolution has led to parallel industrial innovation pathways with no clear 'compass' to align and connect these efforts. This holds back the delivery of a genuine EU industrial ecosystem effort, due to limited connection points to 'feed' a pipeline approach, between and across the industrial innovation landscape. Furthermore, despite opening up new opportunities for EU businesses with the existing resources and capacity to explore innovation collaboration potential, this environment is difficult to access for those EU businesses based in the least innovative places. This risks perpetuating the EU's innovation divide.³

STATE OF PLAY – INDUSTRIAL INNOVATION FOR ALL EU BUSINESSES?

The 'Tier 1' industrial innovation landscape – opportunities and challenges

The EU's existing 'Tier 1' industrial collaboration landscape tends to attract the 'best in class', industrial champions. There is a strong correlation between the member states and regions that are most active in the IPCEIs and Industrial Alliances and those that are either large and wealthy, or that tend to have 'innovation leader'⁴ status. There is a high concentration of effort and investments from Germany, France, Sweden, Finland and Denmark in the IPCEI community, easily identified by the strong presence of these countries in each IPCEI membership list. This contrasts sharply with the EU's modest innovator group – including Poland, Bulgaria and Romania – which barely features in the IPCEI community.

"Geographies of innovation"⁵ are places with a strong capacity for innovation, whose businesses are usually very well-supported. It is, therefore, not surprising to find that many of the EU's most innovative countries and regions are attracted by high-level and ambitious EU opportunities for industrial collaboration. Businesses from these territories are likely to experience few barriers or capacity challenges in mobilising resources for innovation cooperation.

It could be argued that the EU's industrial innovation front-runners should take the lead when it comes to championing and directing the EU's next wave of industrial competitiveness. Certainly, under the current approach to IPCEIs and Industrial Alliances, these businesses stand to benefit the most from this type of collaboration. Furthermore, this might well prove to be the most efficient and effective way to improve EU industrial competitiveness, since this group is well-positioned to marshal the long-term investment and commitment the EU needs.

However, the 'barriers to entry' into this industrial innovation landscape are high, placing it beyond the reach of many EU places and their businesses. This

raises questions about the Union's role and efforts to address the innovation divide, and to maximise support to those places dealing with the biggest negative impacts from the pandemic. Generating EU added value from the very significant investments underpinning IPCEIs and Industrial Alliances requires a wider diffusion of industrial innovation know-how to promote greater uptake across the EU27. This would help to ensure that industrial innovation performance can be improved across the whole territory of the EU. Achieving this will require a new, targeted diffusion effort to build capacity across the places and businesses most in need, and to connect them to new industrial innovation opportunities.

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A failure to address this could result in a widening of the EU's innovation performance gap, further entrenching the divide between the Union's industrial winners and losers. Furthermore, continued inaction in this area raises questions about the Union's commitment to upholding the single market and level playing field ethos. Due to a more advantageous starting point, some EU territories (and the businesses they support) stand to benefit much more than others from the Union's industrial innovation support system.

Excluding EU industrial actors (and the places they represent) with more limited innovation capacity could create additional negative impacts on the so-called places left behind, affecting both their economic recovery from the COVID-19 crisis and their ability to manage the energy and digital transitions. In turn, this could further widen the distance between the EU's least innovative and frontier territories, with negative social, economic and territorial impacts. Political implications could also be serious. For example, in the least advantaged areas, negative sentiment towards the EU could increase quickly.

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An overview of the EU's 'Tier 2' industrial innovation environment

The EU is putting more and more emphasis on support for place-based industrial innovation. Initiatives to support this include EU Cluster Collaborations and Smart Specialisation Partnerships. These tend to focus on EU regions as the 'unit' for industrial innovation engagement, with the aim of harnessing the efforts of local innovation systems (including the full spectrum of regional innovation actors and funding/investment channels). This 'place-based' orientation is intended to attract the interests of EU territories seeking to improve or upscale their industrial innovation performance and to position SMEs at the core of these efforts. While this is a relatively new landscape, the long and growing list of regions signing up to these Partnerships⁶ illustrates their popularity as a means to activate and support interregional industrial innovation.

Furthermore, the European Commission envisages additional investments across the place-based industrial innovation landscape. A new Executive Agency – European Innovation Council and Small and Medium-Sized Enterprises Executive Agency (EISMEA) has been set up, bringing together expertise and investments across five Commission services to provide innovation support to SMEs.

This groundswell of support for industrial innovation offers a clear signal of the EU's commitment. But it remains to be seen if the role and remit of this Agency will extend beyond the 'Tier 2' industrial innovation landscape, and connect it to the 'Tier 1' industrial environment. This is needed to generate a stronger EU pipeline of industrial innovation support and collaboration. A continued disconnect across this landscape risks concentrating the strongest industrial innovation performance in the 'Tier 1' environment, while the 'Tier 2' landscape has to settle for more incremental innovation improvements. This would significantly undermine the EU's industrial ecosystem logic and limit the reach of successful industrial innovation performance to those who are already innovation front-runners.

Furthermore, beyond the active, industrial innovation communities engaged in the 'two-tier' landscape described above, there is a much larger group of EU regions who have yet to access these opportunities. Within this group, the EU's least innovative territories can be found, including many regions from Romania and Bulgaria, and almost ten regions from Poland.⁷ They tend to be characterised by locked-in, traditional economic structures and more limited options when it comes to sectoral endowments. These places usually have very significant research and innovation-related reform needs (e.g. inadequate local support for businesses, poor internationalisation performance, and onerous bureaucracy). If the EU is serious about addressing its innovation divide, the new Industrial Strategy should lead the effort to coordinate the EU's industrial innovation reform agenda through the European Semester.

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PROSPECTS – WILL THE NEW INDUSTRIAL STRATEGY CHAMPION INDUSTRIAL INNOVATION REFORM?

While much progress has been made recently in developing the EU's support framework for collaborative industrial innovation, it is unclear if this is sufficiently attuned to the needs of industry across the EU27, particularly in the least innovative territories. Places that are vulnerable and have less capacity to bounce back from the severe economic consequences of the pandemic will require significant, concerted support to turn around their fortunes. Improving their access to industrial innovation support should be at the core of the Industrial Strategy update, with targeted investment for capacity building and pathways to support innovation diffusion and uptake. The EU's current industrial innovation support framework will require a significant redesign to address these challenges.

Responding to, and taking accountability for, the above challenges cannot be neatly channelled into a single Commission service. Both inter-service responses and upgraded multi-level governance mechanisms are required. Through the new Executive Agency – EISMEA – an opportunity exists to create a new momentum for inter-service cooperation. Equally, the EU's Industrial Strategy update must avoid the flaws of previous versions by creating a new multi-level accountability and reform framework that is linked to the European Semester. These actions would signal a new commitment to invest in EU industrial innovation, optimising collaboration and removing barriers to innovation diffusion.

This Policy Brief has outlined important pressure points in the EU's industrial innovation collaboration landscape. These will need to be addressed if the Union is to unleash its industrial innovation capacity across the EU27 and improve its global competitiveness. The updated Industrial Strategy (and the corresponding role of the new Executive Agency) could play a significant role by:

1. **spearheading efforts to close the gap between the EU's Tier 1 and Tier 2 industrial innovation platforms.** Connecting these platforms would create new in-roads towards the development of a genuine EU industrial ecosystem. This will require stronger diffusion channels for the uptake of industrial innovation learning and technology deployment, especially to those businesses and territories most in need;
2. **improving analysis to identify the general and specific barriers which prevent many EU regional industrial innovation systems from flourishing.** This requires much stronger multi-level collaboration (across EU, national and regional / local levels) with improved access to, and analysis of, data and intelligence about the performance of regional innovation systems;
3. **promoting an 'Innovation Everywhere' agenda with a particular focus on EU territories where industrial innovation continues to fall behind.** There are clear links between this and a wider EU innovation reform agenda, in the context of the European Semester and the Recovery and Resilience Facility. The Strategy update should champion this effort.

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¹ For example, [European Council Conclusions \(February 2021\), Competitiveness Council meeting.](#)

² DG Regio's 2020 commissioned report on a Pilot Action for Smart Specialisation Partnerships – awaiting publication.

³ See for example, European Commission (2019), "[The research and innovation divide in the EU and its economic consequences](#)", R&I paper series 2020/03.

⁴ [European Innovation Scoreboard, 2020](#); and [Regional Innovation Scoreboard, 2019](#).

⁵ Crescenzi et al. (2021), "[The Geography of Innovation: Local Hotspots and Global Innovation Networks](#)", *World Intellectual Property Organization (WIPO)*, Economic Research Working Paper No 57.

⁶ See [map and list of EU regions](#).

⁷ There is a strong correlation between these territories and the EU's least advantaged or 'lagging' regions. See Pilati, Marta and Hunter, Alison (2020), "[Research for REGI Committee - EU lagging regions: state of play and future challenges](#)", *European Parliament Think Tank*.