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INFORME

INDUSTRY IN SPAIN: PROPOSALS FOR ITS DEVELOPMENT

CONCLUSIONS AND PROPOSALS: A LONG-TERM INDUSTRIAL STRATEGY

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Consejo Económico y Social
Huertas, 73
28014 Madrid. Spain
T 91 429 00 18
F 91 429 42 57
publicaciones@ces.es
www.ces.es

In all of the developed countries, industry is a key sector within the economy as a whole. Its significant contribution to technological progress, both via the generation of product and process innovations, and by means of its higher consumption of the technological innovations generated by other sectors; its greater ability to generate quality jobs, more highly-qualified and better paid than average jobs; its tractor effect, via demand, on market services, and, in particular, the advanced ones, or the higher productivity of industrial companies and their positive impact on the balance of trade are the reasons which explain its significance.

However, Spanish manufacturing industry, like that of almost all neighbouring countries, has suffered a significant loss of weighting in economic activity as a whole. This is a situation that is largely explained by the tertiarization of the economies and the so-called servitization of industry, due to the integration of production in the global value chains, as well by the relocations or, more recently, the effects of the economic crisis.

In this context, with the aim of slowing the process of deindustrialisation and after having noted how the economies of European Union (EU) countries with more powerful and developed industrial sectors showed a higher capacity in terms of resisting the economic crisis, in recent years there has been a renewal in interest for industry, both on a European level and on a Spanish level. These initiatives attempt to define strategies, against a mid-term horizon, for the industrial sector to recover its central position in the model for economic growth and thus to be in the best possible position, within a framework of strong international competition, to meet the great challenges arising out of, firstly, the process of digitalisation of the economy and, secondly, the positive adaptation of systems of production and consumption coherent with the big objectives and commitments acquired in environmental terms. Notwithstanding, for the moment all has led only to little more than a series of declared positions and, in the best cases, a more focussed use of the public funds already available.

A country-wide pact for industry is required

Spain has to develop an "industrial culture" which explains, defends and promotes its industrial realities. The aim is to meet the challenges related to sustainability, digitalisation, the evolution of the global value chains, the changes in world demand and the *structural deficiencies of the EU business environment. Thus, a new industrial policy must be adopted in order to orient the recovery of the leading role of this part of the economy as a driver for growth and a creator of employment, focussed on its quality. This should be undertaken by means of a primary focus on improving competitiveness in terms of actions to support the sector and guidelines-based coordination of the new European industrial policy.*

For this reason, it will be important construct and assume a Spanish pact for industry with full commitment from of all the actors involved and Spanish society as a whole. This should continue in the direction initially adopted by the social partners in the Industry Statement of November 2016, with the momentum from the Agenda for strengthening the industrial sector and implementation of tripartite and permanent observatories or forums to analyse the strengths and weaknesses of each branch of the economy, driving forward measures to improve their competitiveness.

This pact should emerge from profound analysis and debate on the situation of the sector and its needs, and should bring together and coordinate all the measures and policies which have an impact on it.

A global and coherent industrial policy will thus be promoted, with direct participation from the government, the different public administrations and the social partners, and also with the support and the commitment of the political parties with seats in parliament. Furthermore it should include a communications policy focussed on improving the social perception of the sector.

Said industrial policy should combine horizontal actions in transversal fields, with vertical actions subject to the needs and possibilities of the different sectors, all of the foregoing with general and sectoral objectives that are clear, concrete, quantified, set against deadlines and assessable.

Both the development of new activities and the improvement and adaptation of the installed capacity will be much more efficient and much faster if they feature the participation and commitment of involved actors; such that an environment for tripartite dialogue must be achieved - with the aim of this being permanent – to enable design and evaluation of the measures applied, thus facilitating analysis and a consensus in the industrial sectors, both centrally and at regional (‘autonomous communities’) and local levels.

1. For a far-reaching industrial policy

Drive forward greater effectiveness, breadth and sectoral precision in European industrial policy

At a European level, the European Commission has in recent years highlighted the need to increase competitiveness, by means of measures which are both horizontal and vertical, and to bind industrial policy to economic and social challenges such as the digital revolution and climate change, setting itself as an objective increasing the weighting of the sector in the EU's GVA to 20 percent by 2020. The European Union's renewed 2017 strategy for industrial policy fits within this framework, designed to maximise the European Union's leadership based on smart, innovative and sustainable industry which generates growth, jobs and territorial cohesion.

The European Union's renewed Strategy for industrial policy should be bolstered by the inclusion of more concrete mid and long-term objectives, as well as by mechanisms for coordination to enable the combination of different instruments and funding sources. In this way it will also be possible to avoid the possibility of conflicts between the different objectives or a lower weighting for the territorial perspective in comparison with the horizontal perspective. The European Council should have an industry-specific formation bringing together all the sectoral roundtables and those which relate to competitiveness, telecommunications, trade and energy.

Likewise, the European Union should more effectively drive forward support for EU industry, focussing on the promotion of legal instruments which entail greater involvement from the member countries. The ultimate aim should be to recover European industrial potential, especially now, at a time of accelerated digital, environmental and social transformation.

Likewise, mechanisms should be sought to strengthen strategic sectors and communications networks, with it being mandatory in their rules that companies compete in equal conditions throughout the world. The European Union should adopt formulas to support the creation of strong European business groups able to turn around the current loss of strategic influence vis a vis the American and Chinese-origin technological leaders.

There should be an extension made to the time period - currently set at five years - in which, following the receipt of European aid, a company must guarantee the maintenance of employment and the conditions of employment. Relocated companies should also be required to comply with the mandatory working, social welfare and environmental conditions in the European Union. And, likewise, strengthen and extend the requirements and compensation periods for the multi-nationals from third countries that, after receiving European public funds, decide to undertake relocation.

Draw up and implement an industrial strategy for Spain

Following the production of a range of plans and strategic frameworks which failed to bear fruit, 2019 saw the publication of the General Guidelines for the New Spanish Industrial policy for 2030, based on which the main objective of this policy should be the improvement of productivity and competitiveness without prejudice to sustainability. In a similar vein, initiatives were adopted to implement the Spanish industrial policy in the mid and long term, which would lead to a state pact for industry, an industrial policy strategy for Spain in 2030, and a new Industry Act.

There is a need for broad political consensus for these initiatives to become effective, their implementation having been obstructed by the situation of political blockade. All of them harnessed together in a true country-level strategy and with adequate governance instruments for their coordination between fields and levels of decision.

The new Industry Act should establish a regulatory framework which is clearer, stabler and easier to understand. It should retain the current capacity to address the intense technological transformation which our industry has undergone since the current act came into being in 1992, and also have the capacity to rise to the future challenges arising from the new digital context. It is also necessary to align the Spanish legal framework to the European and international context, thereby making it easier to take full advantage of the routes for industrial development and social progress.

It will be necessary to adequately structure the systems for incentives for industrial investment awarded by central government ('Administración General del Estado') so that they become more efficient; as well as making them more attractive, balancing the funds for direct aid, improving the market conditions in terms of the subsidised loans, and by offering concrete fiscal advantages. In these terms, the aim should be to achieve the highest level of incentives permitted by the EU legislative framework.

With a view to the future, industrial development should largely be based on the current sectors. There will, therefore, be a need for the development of new products and businesses in these sectors, with R+D+i being developed to this end, and work being done both within enterprises on an internal company level and also in cooperation with other companies and with technological centres and universities. By the same score, support should be given to the projects for collaboration between vendors and clients for the development of new solutions, to drive forward start-ups, for innovative public procurement based on the generation of prototypes and primary references on the market, and significant participation in international consortia.

Coordination and governance

The eminently horizontal nature of the industrial policy means it requires the formation of a collaborative mesh between the different public administrations and social agents so as to facilitate decision making and enable the policy to be applied in an effective manner. However, this requirement clashes with the reality of scant coordination, whether intra or inter, in the realms of the public, state, regional and local administrations: this has even led to contradictory actions, overlapping programmes or underuse of resources.

For this reason, in parallel to the resurgence of the industrial policy, growing interest in its governance has been observed, a factor which led to the design of a specific system within the Industrial Spain 2030 Strategic Framework. This did not, however, enter into force due to the change of government in 2018. The initiatives following this also harnessed the groundwork for the redesign of a system of governance which retains the sectoral agendas as a key element.

Industrial policy is a global concept which groups together multiple areas for action over which the ministry of industry does not have all competences, such that their effective development is hampered. Thus, energy policy, policy on infrastructures, certain areas of training, or the policies for innovation are areas for which management and initiative correspond to different departments in the structure of government. This situation generates obvious limitations for the efficacy of the proposals that eventually emanate from the ministry of industry, and prevents the development of measures that could improve the industrial competitiveness of our country.

The industrial policy should be located at the highest level in the structure of the government, taking on more importance within the public administration as a whole and ensuring the coordination of all of the policies which affect the sector. For this reason it is important to have a governmental structure which has full competences, or shared competences under its coordination, in regard to the design of energy policy, the development of services and infrastructures for transport of goods, and the design of the policy for innovation and the management of its programmes. Such a synopsis would also enable its participation in the different sub-committees of the fields linked to industrial development, as well as leading inter-ministerial committees to facilitate the coordination between the different departments.

In a similar vein, a coordination body with the autonomous communities *(the Spanish devolved regions) should be created so as to harmonise the measures and avoid border effects, because the existence of different territorial fields when taking political decisions, as opposed to being a problem should actually serve as an opportunity to enable benefiting fully from the synergies of the different actions in favour of the common objectives. In the last instance, a territorial balance should be guaranteed in the industrial policies and in the creation and development of the infrastructures for logistics, research and marketing of products which enables the growth of small industrial companies, thus avoiding their isolation and strengthening their capacity for reaction. Lastly, so as to benefit governance it will also be important to establish an Industrial Policy Council which, under the coordination of the Ministry of Industry and with representation from the social partners from the sector, will advise the government on the orientation and monitoring of industrial policy. Thus, this permanent consultation body, amongst other possible roles, will have the role of proposing actions of a general nature to be developed in the industrial policy field, identifying the main factors for short and long-term competitiveness, establishing indicators for evaluation and evolution of said factors, or aiding the Ministry of Industry in the formulation of Spain's position vis a vis the European policies of an industrial nature, particularly those set out on a half-yearly basis to the European Council's Competitiveness Council.*

2. Proposals for action affecting the factors key to the competitiveness of industry

2.1. On Industry 4.0 and digitalisation

The industrial sector sees itself as a key player in the digital transformation, which offers the opportunity to change the pattern of economic growth and ensure stable and sustainable advancement in the economic, social and environmental perspectives. However, the economic and social results of all of this digital transition, a process which is already a reality but which is undergoing continuous development and change, are not predetermined, but, rather, they depend on the strategy and the proactivity o the relevant actors.

On digital transition and its governance

At the current stage in the development of the so-called digital transition there is thus a degree of uncertainty regarding both its potential effects on productivity and on jobs (there are points of view of differing degrees of optimism in this regard) and, regarding the scope of phenomena like the digital gap (relating to both gender and age, and as observed in the educational and work trajectories, as well as to location, in view of the fact that rural areas are worse off for ICT infrastructures and access to networks) and the governance of the processes of digitalisation, insofar as these relate to the privacy of personal data and digital rights. All of this adds up to a broad set of challenges for which a holistic political response will be needed.

In this context, it is essential that the public authorities alongside the economic and social actors, develop strategies focussing on transiting in a way that is agile, efficient and fair to the digital economy, so as to achieve competitive advantages on the global market and facilitate social and territorial cohesion.

In addition to driving forward technological innovation and its positive effects, such strategies should take account of policies that reduce and offset its negative effects, as well as the trends pushing towards the concentration of market power and an increase in inequalities. The governance of these policies should also include the participation and involvement of the social partners.

In these terms, it will be especially important to reinforce: the policy of defence of competition, to avoid the consolidation of oligopolist or quasi-monopolistic market structures; employment policy, in order to alleviate the potential negative consequences of the change on the quantity and the quality of employment in the economic sectors, as well as the transformations in its features; educational policy, to reinforce the aptitudes required in the new digital context; and taxation policy, so as to avoid the transfer of profits to territories with low taxation or without any taxation. It is also necessary to *regulate the existing legal vacuums, such as the fiscality of the platforms, the privacy, security and processing of data, and dealing with the ethical and social implications, of aspects including robotics and artificial intelligence. In this line it will also be necessary to foment a more favourable legal system for the quality of employment which, amongst other elements, guarantees the legal stewardship of people who work in these new forms of digital employment, regardless of their status in the job market.*

On digitalisation of the economy and the industrial sector

Industry 4.0 or the "fourth industrial revolution" is based on the implementation of digital technologies in the manufacturing companies, technologies which modify the processes, products and business models which have been the trademark of the industrial sector. Digitalisation must include all relevant fields not just the industrial processes. These should feature, in particular, those related to customer knowledge, the market and new busines models. Special attention should be paid to the implementation of companies and the development of new enterprises in regard to artificial intelligence and cybersecurity. In this context, only a third of Spanish industrial companies have achieved an advanced degree of digitalisation, whilst the remaining two-thirds are only at mid or low level, obtaining most of their revenues from traditional products and services.

For this reason, it will be key to drive forward the digitalisation of industrial companies as the lever for reorientation of the productive specialization of the sector, taking advantage of the digital technologies for the provision of high value-added services, in relation to the industrial products and Industry 4.0, incorporating R+D+i and energy transition policies, in terms of their potential as factors for competitiveness. This will also serve as a means of avoiding the creation of a digital gap between companies, especially in relation to SMEs, as well as the risks of exclusion in relation to the capacity for access to and use of these technologies and their funding.

In view of the strong pull effect that the digital transition of industry exerts on the digitalisation and the technification of the remaining productive activities, the specific initiative for connected Industry 4.0 was planned in order to promote the digital transition of industry.

Although its objectives are positive ones a priori, in order for them to be reached it will be vital to guarantee the connection and coordination of the Industry 4.0 strategy alongside the necessary integral digital strategy for the Spanish economy, especially when the direct competences on the two questions rest with different ministerial departments. Fluid and continuous communication is necessary so as to harness the opportunities offered by the possibility of undertaking joint actions.

Greater efforts to achieve the digitalisation of SMEs

Regarding SMEs in particular, more awareness-raising work should be undertaken, as well as work in training and promotion of digitalisation, so as to ensure they are aware of the dimensions of the process and the implications of the new technologies for the future of their businesses. Over and above the use of electronic billing or the development of e-commerce, it is necessary to ensure that the small companies also develop this corporate catalysing culture inherent to technological change, by participating in ecosystems which ensure inter-company cooperation strategies.

Taking account of the fact that the synergies and the cooperation in innovation processes, in this case in digital transformation processes, can in themselves become competitive advantages which originate competitiveness gains and improvements in business productivity, it will be advantageous to support SMEs in their process of digitalisation, by means of the development of mass digitalisation tools, the establishment of measures to drive forward technological renewal or of incentives to the adoption of digital solutions which facilitate commercial activity, mobile digital solutions or the application of big data. *Without forgetting the need to ensure access to sufficient and adequate funding for the implementation of these new technologies.*

2.2. On R+D+i

Technological progress is a key factor of long-term economic growth because the generation and the development of innovations enables a reduction of the costs of production and an increase in the quantity and quality of products. It thus has a positive effect on productivity, all of which leads to increases in both the competitiveness of the national production and the wage levels and jobs. In this framework, the strength of the R+D+i system is determinant. From basic applied research, developed at public and private centres, to business investment specifically linked to the introduction of process and product innovations.

It is necessary for there to be an increase, sustained over time, to investment in R+D+i and that the public policies in this field are made stable, both in the public sphere, guaranteeing continuity for the funding of the projects and the job stability of the researchers, and in relation to the system for incentives for industrial innovation, particularly those of a financial and fiscal nature, and regarding innovative public purchasing, increasing its efficacy as a lever for increasing long-term business investment in R+D+i in a context of greater certainty. With regard to the system of incentives, this should be improved and its regulatory framework made more flexible, eliminating unnecessary red tape and improving the procedures for access.

In particular, measures should be adopted to ensure better use is made by Spanish industry of the European funds earmarked for R+D+i projects. Greater synergies should *also be promoted between the public and private R+D systems, in particular between the universities and public research centres and the industrial companies. In this field, the technological sectoral platforms should be driven forward so that they, as a meeting point between the sectors where demand is located (companies) and the suppliers (public and private research bodies) of R+D+i services, enable orienting, planning and aligning the innovative research activity of the different entities in areas of special significance for the long-term, including digitalisation, the development of advanced materials, nanotechnology, the bioeconomy, energy efficiency and the circular and low-carbon economy.*

In addition, there should be promotion for the trailblazing companies, linked to large multi-national groups, to set up or reinforce their technological centres at their Spanish subsidiaries, for reasons which include their capacity to create skilled jobs.

In the same terms, it would be interesting to roll out a system of incentives for the implementation in Spain of centres of excellence of international reference, as well as for the attraction of companies' research centres, especially in highly relevant research fields or streams.

2.3. On human capital and labour relations

Human capital: anticipating the changes and adapting to more complex requirements for competences

The transformations linked to the digital technologies should be viewed as an opportunity for change, which entails meeting challenges that particularly affect human capital, from the point of view of the new requirements for qualifications and competences, as well as in relation to labour relations and the organization of work. These processes, which have a clear impact on the manufacturing industry, are evidence that it is urgent to make use of strategies for anticipation of changes which facilitate the adaptation of the companies and the workers.

The priorities should be to supply the qualifications and competences needed to guarantee the coverage of the professional profiles demanded and, in the long-term, driving forward competitiveness, facilitating the conditions to extend the industrial fabric and jobs, and reinforcing the employability of the workers in the industrial sectors. The digital transformation of industry represents the main driving factor of the changes in the industrial contents jobs, creating a need for qualifications and competences which are different and of greater complexity. To this end, the training of the human capital must focus on facilitating the transition to Industry 4.0, seeking to converge with the trajectories of the most advanced industrial countries in this field.

The evolution of the qualifications and competences mean that it will be necessary to perform ongoing studies for surveying and detecting which will preferably have a sectoral focus, with due detailed analysis, on the needs of the different branches of activity.

For the training system, the implementation of industry 4.0 offers an opportunity for transformation and updating, meaning that it will be desirable for there to be a policy for collaboration between the educational authorities and the social partners to enable moving forward in key areas.

The instruments should include advancing towards a training strategy in digital competences that, by means of an update to the regulated academic the education, orients towards greater employability and contributes to avoiding inequalities in the field of digitalisation becoming chronic, including the gender-based digital gap.

The educational level in Spain has improved over recent decades but a number of problems and weaknesses have persisted which hamper the quality of the training system and its capacity to provide the required qualifications and competences in a productive environment which is undergoing profound changes. By way of example, Spain has higher percentages for inadequate qualifications and capacities, for under-qualification, and, even more so, for over-qualification of those in work when compared to the European average.

This requires addressing the key training indicators with the aim of detecting the weaknesses and designing the policies required in the different fields of the training system, as well as for the instruments of the qualifications system.

But having available a suitably qualified workforce in industry requires aligning the training policies focussed on the sector with other levers of the industrial policy and essentially with those relating to the digital transformation, R+D+i and ecological transition. In this sphere, in addition, the education and the training system for employment must decisively include as one of its targets the fomenting of the creativity and the development of capacities and skills inherent to the innovative activities, in particular amongst women, in view of their under-representation in the R+D+i system, in ICT jobs and in the highest added value industrial jobs.

The need for professionals —workers and company managers— who are adequately and sufficiently skilled means that the focus has to be on the studies that take place in tertiary education (university and higher level vocational training), secondary education (mid-level vocational training), and training for employment which is adequately managed and able to facilitate updating of knowledge and the adaptation to changes.

In the field of higher education, the latest available statistics (2016) show that the proportion of graduates in sciences, technology, engineering and mathematics (STEM) in Spain was very similar to the European Union average, but was still far-removed from the countries with the best scores in this field, both inside the European Union and further afield, in addition to there being noted a segregation due to gender in certain of the branches, regardless of the other effects, adds up to a brake on attempts to increase the supply of professional who have studied technological degrees.

For this reason, it will be advantageous to promote from early ages these scientific-technological subjects —with a particular focus on increasing female participation—, which are key to the development of the information society and for ensuring an industrial sector which is able to lead a productive model with greater added value.

Within the educational system, when focussing on the field of professional training, a relatively low proportion is noted of students who opt for certain of the vocational manufacturing courses, and this is especially noteworthy in a number of the most important in economic and jobs terms, for instance the food industry or the chemical industry. Low female participation, which has hardly altered over recent academic years, is also observed in the groups of vocational subjects most closely linked to manufacturing. It could be the case that all of the foregoing is contributing to the difficulties highlighted for coverage of certain skilled professional profiles. Measures should be considered in order to improve this situation.

Amongst these, the quantity and appropriateness of training cycles should be improved in relation to the needs of the productive fabric and increase the opportunities for undertaking practical training at the companies.

The Strategic Vocational Training Plan for the educational system over the coming years offers an opportunity to drive forward a whole range of measures, so that a number of its pillars acquiring special importance for manufacturing. These include the proactive detection of training needs - making the design of the supply of vocational training (VT) more agile, the improvement of updating VT and ongoing teacher training, and the training and careers guidance.

It will be particularly necessary to give greater emphasis to dual vocational training by guaranteeing a series of premisses which should include the harmonization and consolidation of the system, matching the supply of training to the demand for competences, increasing the number of staff trained in new technologies, and reinforcing technical and technological training. In the field of vocational training for employment, the training programmed by the companies attains strategic value in terms of the sector's technological and digital transition, but in spite of this, over the last few years a reduction has been noted in certain of the system's essential indicators, in the sectors as a whole, and in industry in particular. *This should lead to there being ongoing monitoring and improvement with a view to avoiding possible deterioration of its main parameters.*

In this sense, it will be necessary to continue improving the access of small and micro companies to planned training, especially in the industrial sector, easing red tape and providing them with the required technical assistance.

All of the above should be done with the aim of facilitating better bases for productivity and the growth of companies, and to ensure workers can exercise their right in practical terms to acquire the competences to enable them to adapt themselves to the technological transformation.

Attention should also be drawn to the slowdown observed in recent years in the supply of training, which has the knock on effect of a causing greater training deficit for the manufacturing industry too.

In addition, initiatives which consist of programmes for training in vocational competences related to the technological changes and digital transformation should form a stable pillar of training for employment, and should receive the required continuity and depth in accordance with the results brought to light by their mandatory evaluation.

Drive forward the social dialogue in industry, backed up by structured labour relations

In our neighbouring countries there has been highlighting of the importance of the participation of the social partners in the design and the application of industrial policies, and this has had a positive effect for the sense of ownership and the robustness of the instruments of industrial policy applied. In this sense, the social dialogue in industry has demonstrated its capacity to improve workplace relations with a focus on adaptation to productive changes and changes in employment.

For this reason, as has already been stated, the social dialogue should be an integral part of a Spanish pact for industry, as has been jointly requested by the most representative trades union organizations and the employers' associations in the industrial sectors, with the focus of a broad consensus which goes further than the short-term period represented by one governmental term of office.

In addition, the social dialogue, especially the dialogue with a sector-wide scope, requires labour relations which are well structured and robust. The framework for labour relations should form part of the instruments for addressing the challenges faced by the manufacturing sector that will enable growth and sustainability of the companies, in addition to the maintenance and the generation of higher quality jobs, as part of a wide-ranging process of digital and ecological transition.

One central instrument is that which is embodied by collective bargaining, taking into account both the collectives accords and the company agreements. In these terms, well-structured collective bargaining, with modern contents, and an exchange of information that facilitates its effectiveness, be a key instrument to address with better resources the effects of technological change. It will also be key in addressing the issues most involved in such challenges, such as competitiveness, innovation, training, working hours and the work-life balance, digital rights, the driving forward of measures for equality, or updating of professional classification.

2.4. On the regulatory and fiscal framework

The regulatory and fiscal framework which affects Spanish industrial companies should contribute to ensuring efficient functioning, in the framework of the unity of the market, as a key tool of industrial policy, and should be designed to facilitate the investments and the developments which will improve the structural competitiveness of firms in areas such as innovation, the circular economy, the energy transition, digitalisation, internationalisation and the training and recruitment of talent.

Unnecessary administrative taxes should be eliminated and judicial insecurity should be reduced. This is a process that should be subject to ongoing review so as to ensure it is adapted to the changes in the environment via rigorous assessments of the impact of the different legislative projects relating to industrial competitiveness.

In these terms, the Industry Act 21/1992, dated 16 July 1992, has become obsolete in many aspects and now fails to meet the current needs of Spanish industry which, since this parliamentary legislation was passed, has undergone profound transformations due to the internationalisation of the business markets and chains of value and which now faces enormous structural challenges because of the ecological and digital transition. *For this reason, as we have already mentioned, work should be done on a new Industry Act, which will give the sector an integrated and simple regulatory framework, adapted to the European Union's legal framework, and which responds to the reality of a sector undergoing transformation. In addition, it is important to reinforce the coordination between the different levels of government with regulatory and fiscal competences which have an impact on industrial activity. This should be done with a view to ensuring greater harmonization which will, in turn, bring about the elimination of obstacles to inter-territorial trade, drive forward the creation of companies and jobs, as well as the growth of company size which is key to industrial development industrial, and avoid industrial relocations based on regulatory and fiscal advantages. Specifically, in the arena of environmental fiscality, it will be necessary to have an integrated framework which is simple and coherent, and which efficiently responds to the aim of planning, protection, improvement and recovery of the environment.*

It is also the case that the exercising of taxation autonomy by the autonomous communities has given rise to a heterogenous map of environmental taxes which mean that costs differ for the affected companies depending on the territory where they are operating.

The Council for Fiscal and Financial Policy should therefore reinforce its role as a body for coordination on environmental taxation issues, and attempt to ensure consensus on the application of minimum level common guidelines and levels throughout the whole of Spain.

2.5. On the size of companies

There is a broad consensus that the size of the companies is a factor that determines the ease of access to funding, the capacity to export, the capacity for innovation and, in sum, the access to basic determinants for the improvement of productivity and the possibility of competing internationally. It is for this reason that it makes sense to develop specific streams for the small and medium sized companies in the industrial policy of country like Spain, which is broadly dominated by the preponderance of micro-companies. To this end it will be necessary to take account of the factors which impact on the dynamics of small companies: access to funding, regulation, the size of the national market and foreign demand for Spanish products, the availability of human capital, and the possibilities and incentives for innovation. Likewise, there are elements related to the professionalization of management and the family nature or otherwise of the participants. Certain of these can act as limitations or obstacles for the creation of companies and to stop successful companies reaching a size adequate for their requirements which will enable them to achieve good competitive results, Whilst others, on the other hand, may have a positive effect to this end.

The actions streams for advancing SMEs in the industrial should be the following:

Updating of the institutional framework

Reform the legal framework so that it is not an obstacle to the size of industrial companies. Its structure and the stratifications contained in it should be better adapted to the reality observed in micro-enterprises and SMEs, so as to avoid the appearance of the so-called step effect, analysing which regulatory thresholds could be acting as disincentives to the growth of the industrial companies. Facilitating the processes of creation, growth and liquidation of companies so as to propitiate a better and more flexible allocation of business resources in the light of economic and market contexts which are increasingly characterized by being quick changing.

Identifying selective measures for reform (above all in the field and in mercantile practice) with the aim of improving the business climate in Spain which, whilst it is not limiting, would benefit from improvements for providing incentives to entrepreneurship and even for supporting and facilitating the process for the companies who decide to reverse a previous relocation processes, in the same way that our neighbouring countries are doing.

Programmes to drive forward growth in business size and collaboration and cooperation between companies

Disseminate and foment the creation of ecosystems for collaboration and mechanisms for assessment and support so that the industrial SMEs can undertake processes of in-

tegration of ICTs, business automation etc. in equal conditions in respect of larger sized companies. These structures will enable the generation of bigger business groups and the harnessing of synergies.

Prioritize public aids to the medium-sized firms, and, in particular, the "scale-ups" with a turnover of between 20 and 500 million euros, because they are crucial to strengthening the industrial fabric of the country, providing resistance during periods of crisis, and exerting a pull effect on smaller companies who are then able to increase their own activity and size. In this respect, Spain must align with the Communication of the European Commission COM (2016) 733 final.

Continue and reinforce the policies of internationalisation for industrial SMEs.

Develop management training and the incorporation of highly qualified expert managers and/or external advisors using consultants from companies or public entities designed for this purpose, with the aim of providing a service to the SMEs, especially those of a family nature. This should be done so as to enable them to stand a better chance of meeting the challenges of digitalisation and internationalisation for industrial manufacturing and production, as well as the processes of handovers in the management of companies, especially the leap to third generation.

2.6. On the funding of industrial companies

Access to funding is decisive for the companies of the industrial sector, especially with a view to moving forward in meeting the challenges which arise due to digitalisation and the energy transition. However, a need is observed to improve the fundability of these companies, especially the SMEs, whilst there should also be greater diversification of the existing sources of funding. *The improvement of the fundability of companies will largely depend on increasing the medium size of the companies, facilitating concentration to this end, eliminating unnecessary red tape and simplifying the required forms, so as to reduce the fiscal and administrative costs linked to these processes. Likewise, the channelling of funding by means of the creation of industrial clusters/hubs would contribute to improving company sizing, as well as the internationalisation and the access of industrial companies to technological resources and R+D+i. In the same vein, greater promotion of good governance and financial transparency of SMEs will contribute to improving their fundability. There should also be provision of instruments focussed on facilitating their access to credit, preferably by means of public coverages or guarantees to funding from banks to SMEs industrial projects, and also to prioritize the resources available to promote the innovative companies with a higher potential for growth.*

In addition, it will be vital that the existing national and EU instruments in support of investment and innovation be implemented in a more effective manner, and that specific support streams be set up for industrial SMEs, in accordance with their specificities in regard to structure and organic needs.

In respect of the need to increase the diversification of the funding channels, it is considered necessary to improve access to the organized capital markets, and to drive forward the market for asset-backed securities. Furthermore, the companies knowledge about available alternative funding sources should be improved, by means of actions both from the businesses themselves, and from the Administration.

2.7. On energy

Energy forms one of the main concepts of the costing structure of industrial companies. It is key to decision making on investment and determines the competitiveness of the companies on the international markets, such that the predictability, stability and competitiveness of their price is essential in terms of ensuring that industrial activity is sustainable.

In specific terms, the prices for electricity are absolutely basic since they account for 60 percent of the total energy consumption of industry. To a lesser degree, the same is true for those for natural gas, which accounts for around 30 percent of this total. Likewise, it will be vital to ensure improvement in energy efficiency in industry so as to reinforce its competitive capacity and, at the same time, reduce Spanish energy dependency and comply more fully with the environmental requirements and objectives linked to the consumption of energy.

Improve the price-setting mechanisms for electricity

For the last 15 years, the end prices for electricity that are paid by Spanish industrial consumers have followed a trajectory in excess of the European Union average. In the case of small industrial consumers the price differences are greater, very much higher than the corresponding prices for their cohorts from other EU countries.

This circumstance, which has had a negative impact on industrial competitiveness, can be overcome in a number of ways, which include: the stability and balance of the mix for generation; an overhaul of the system of cannons and tolls and regulation (such as the design of the support mechanisms for the renewables or by absorption of the accumulated tariff deficit); the improvement of fiscality; the entry of new participants to increase the competition on the markets; the development of bilateral contacts and the forward markets; and an improvement to the interconnections.

The following proposals are formulated in this regard:

Spain should continue to maintain a balanced electricity mix incorporating all the sources of electricity generation. Amongst these, the country should prioritise generation from sources that do not emit CO2 or other greenhouse gases or pollutants and which, simultaneously, contribute to safeguarding the security of the supply and avoid increases to and the volatility of the wholesale price of electricity. It is necessary to adequately assess the impact, in terms of security of supply, wholesale price, and emissions, of all *initiatives which are aimed at changing the participation of any of the different technologies of the system.*

There should be a change to the legal system which removes the cost of the policies unconcerned with supply to other funding sources, for instance the national government budget ('Presupuestos Generales del Estado'). Until now, the commitments for achievement of the deficit objective had acted as obstacles to this possibility. In these terms, there should be specific consideration of financing outside the electricity bill the total of the extra costs arising from the productive activity of the extra-peninsular system since it is a policy of territorial cohesion. Similarly, in a scaled manner, there should be transferal of the costs linked to aids for the renewable energies and the annual rates of the so-called tariff deficit, for which, moreover - and as the CNMC has pointed out - the surpluses generated in recent financial years should be employed for amortization of the accumulated earlier deficit.

It is key that there is in-depth analysis of overall taxation linked with generation and the electricity supply, prior to its reform, with a three-fold aim: harmonizing the environmental fiscality in this field, avoiding dual taxation and reducing its distorting effect on the decisions of the players.

It is necessary for there to be a review and reformulation of certain of the established systems or mechanisms, for example the interruptability and the payments by capacity, so as to achieve a more adequate functioning of the markets.

It is essential to drive forward the improvement of the interconnections of the Spanish grid, which has one of the lowest exchange capacities of the European Union and which is still far-removed from the European target of achieving a minimum of 15 percent of the capacity for production installed in all member states set against a 2030 horizon.

Lastly, it will be necessary to regulate the closed networks adequately and effectively for distribution of electrical energy, as occurs in the large industrial countries of the European Union.

Special attention for the electro-intensive industries

The electro-intensive industries are essential to the good functioning of the electric system, inasmuch as they usually consume electricity in a modular way, that is to say, that they minimize their consumption at peak times and they increase it at valley times, thereby reducing the demand for electricity and facilitating the integration of renewable energies. In addition, some big consumers of electricity participate in the mechanism of interruptability, which is essential to the functioning of the system as a whole.

Long-term contracts should be made for the large consumers of electricity, with a view to improving the competitiveness of the business fabric and preventing the cost of electricity from causing relocation of the production or of investments. Likewise, in view of their importance as a mechanism to adjust the demand in the framework of the ener-

gy transition, consideration should be given to the peculiarities of the electro-intensive companies in the necessary review of the mechanism for interruptability.

Advances already made should be viewed positively, principally in terms of the recognition of the concept of the electro-intensive consumer, as enshrined in the Royal Decree-act 20/2018, dated 7 December, 2018.

However, approval remains pending of the Statute for Electro-intensive consumers, legislated for in the aforementioned Royal Decree-act, the regulatory development of which is set to include a packet of measures comprising mechanisms to mitigate the effects of the energy costs of these consumers on their competitiveness, always in compliance with EU law, as well as the obligations and commitments that said consumers should assume in the field of energy efficiency, substitution of energy sources which are emitters and pollutants, investment in R+D+i and the creation and maintenance of jobs, amongst others.

In specific terms, the Statute should include the most relevant mechanisms that are authorized by the European Commission so as to improve competitiveness, such as the offsetting of the indirect costs of CO2, the compensation for the cost of the subsidies awarded to the renewable energies as charged to the electricity system, and the promotion of instruments to facilitate the establishment of bilateral agreements for supply and self-consumption.

Improve the mechanisms for the price-setting of natural gas

With regard to natural gas, and with the aim of reducing the negative impact arising from facing a cost that is significantly higher than that of the main European competitors, it is necessary to improve the mechanisms for price-setting.

In relation to the tolls, it will be necessary to maintain the revision processes of the different frameworks for retribution in relation to the transportation and the distribution of gas, adopting regulations that guarantee a fair predictable retribution, which is also adjusted to the mechanisms for payment used in the main European countries.

As far as the wholesale price is concerned, it will be appropriate to establish a range of measures to facilitate a price reduction and which enable the Iberian market to converge with the markets of reference in Europe. Specifically, to add new products, including longer term ones, to increase liquidity and thereby ensure there is more reliable and stabler price signalling, and to establish rules for functioning that facilitate the participation of sellers from third countries.

Increasing the energy efficiency of industry

It will be appropriate to reinforce the already existing instruments which focus on energy efficiency, such as the National Fund for Energy Efficiency, or NFEE (‘Fondo

Nacional de Energy efficiency (FNEE)'), and consider whether to implement further actions adapted to the specific characteristics of industry.

The 18/2014 act, dated 15 de October, 2014, which legislates for the creation of the national system of obligations regarding energy efficiency, includes the possibility that the Government may establish a mechanism for accreditation of the achievement of energy savings, by means of the presentation of certificates which are termed certificates of energy saving. In spite of this, in view of the lack of regulatory progress, the only way to achieve compliance with the annual energy saving target continues to be the financial contribution to the NFEE.

In these terms, it is felt that there should be a change to the regulation of said Fund, to enable the companies who contribute to it and their business organizations to be able to certify their own actions in the field of efficiency.

In addition, it will be essential to drive forward high efficiency cogeneration to raise the competitiveness of an important section of industry, contributing significantly to the energy efficiency and to action for the climate.

Support measures should be implemented to ensure there is highly efficient cogeneration linked to production, in particular, in regard to facilities which use renewable fuels or natural gas, optimizing their design so as to ensure self-consumption and a certain degree of flexibility in their operation in relation to the electricity system.

2.8. On the transport and logistics industry

The competitiveness of open economies increasingly depends upon the availability of a transport network and of logistics hubs to efficiently distribute the flows of goods, something that is particularly the case in the industrial sector, in view of the length and complexity of its chains of value. The logistics and freight sector has significant weighting within the Spanish economy, with an acceptable development in perspective compared to the main infrastructures and positive indicators with a growth trend vis a vis the performance of logistics in the last decade. Spain is in 17th position on a world scale, according to the latest data available.

Ongoing improvement must continue in regard to the physical infrastructures and the conditions of transport with the aim of reducing the logistics costs in industry. In this sense, it will be necessary to analyse the load capacities and measurements of freight transport vehicles. It will be necessary to increase the infrastructures of the modal interchanges and the connections between them. To be exact, the intern-modal logistics terminals ('Terminales Intermodales Logísticas (TILOs)') have to be fitted with more *efficient facilities and services for the management of industrial freight, and inter-modal infrastructures also need to be developed at the main industrial ports, so as to ensure an improvement to the efficiency of the port services.*

A bigger footprint and capacity of absorption of the maritime-rail hubs would strengthen the position of Spain as a logistics hub on a world level, and to this end it will likewise be essential to complete the Mediterranean and Atlantic corridors and the integration of these in the Trans-European Transport Network (TEN-T). Likewise, there should be promotion of the use of the new technologies for the purposes of increasing the efficiency and degree of optimization of the logistics processes.

It is vital to drive forward the development of the trans-European rail corridors at UIC width, but without this affecting already existing traffic. Likewise, it will be positive to invest in ICT applications so as to foment the competitiveness of industry, with special attention being paid to autonomous driving and logistics adaptations and infrastructures required for its development.

2.9. On environmental sustainability

Climate change and energy transition

Energy transition has to occur in three aspects: the social, ensuring the maintenance and creation of jobs and, if applicable, the necessary protection, involving the social actors and the administration so that the industrial fabric is not destroyed and to prevent the occurrence of situations of territorial abandonment; the economic, establishing scales of adaptation and adequate timescales so that the change will not be accompanied by a loss of competitiveness on the part of the companies or the economy; and the environmental, taking into account the objectives signed up to in the European and international spheres. All of this should be done by means of the development of new products, processes and technologies in each productive area (something which will make it essential to increase investment in this field), and avoiding a process of disruption, such as there will be enough time to adapt the current structures without making them collapse. The instruments planned for this fair transition in Spain remain pending development, and of particular relevance is the required climate change and energy transition parliamentary act. In any event, the strategic framework planned for decarbonisation should involve the following:

Ensure the supply and the access to consumption (industrial and domestic) of energy at a reasonable and affordable cost, developing environmental sustainability, improving the competitiveness of the economy and promoting growth in economic, industrial and employment terms.

Draft a climate change and energy transition act which has as its priority the reduction of GHG emissions, in the context of a planned transition to enable the adaptation of industry and the reduction of energy costs in Spain. The legislation should: minimise the cost of the energy transition, in terms of competitiveness, employment and territorial cohesion, and continue to ensure the achievement of environmental objectives; not establish sectoral limits that differ from those signed up to by the regulated sectors; be of an incentivizing nature; prioritise actions relating to the energy efficiency of buildings and infrastructures; exhaustively analyse the energy mix and the contribution of the technologies to reducing the prices on the markets for gas and electricity; support the research and technologies oriented to reducing emissions, creating a framework for stable funding and regulation; enable a neutral technological environment and an adaptative process; and guarantee the coherence with the resto of the policies (European, national and regional). All of this should happen whilst ensuring a balance amongst the activities regulated by EU Emission Trading Directive and those which are not.

The development of the renewable energies should be accompanied by a quota for participation of the Spanish manufacturing companies in the new generation plants, with the inclusion of an incentive, in the zones under reconversion, not just for the implementation of the generation of renewables, but also for centres for production of the components of the new power stations (photovoltaic panels, aerogenerators etc.). would involve the maintenance and the stability of jobs in industrially depressed zones.

In addition, in order to minimise the impacts of the energy transition the legislation will likewise be able to drive forward the adoption of alternative industrial and social plans within the companies, which would have budgetary provisions and include the possible reconversion of generation plants to renewable or environmental technologies, at the plant itself or environment; or the conversion to plants performing a different activity; resettlement that guarantees direct employment at different premises of the firm and those of its sub-contractors, in addition to the establishment of policies for social responsibility.

Drive forward programmes for renewal of the car fleet, featuring selective discouragement of the driving of old vehicles (Euro 1 and earlier) which pollute more (by means of differentiation in traffic taxes, tariffs for urban parking, restricting traffic etc.), and establishing incentives for the purchase of efficient and non-pollutant vehicles (Euro 6, hybrids, electrics and those of other technologies), as well as the renewal or technical adaptation of the fleets of heavy vehicles (lorries and buses), at all times guaranteeing the principle of technological neutrality.

Production of a holistic programme —or upgrading of the existing ones—, oriented to part funding (via subsidised loans or direct subsidies) the activities for rehabilitation or, in particular, for improvement of the energy efficiency of homes, buildings and infrastructures.

In addition, it is proposed that the design of environmental taxes be focussed on the internalizing of the negative external impact generated, such as they will be at once an incentive for behavioural change and for more efficient use of the resources, and a stimulus for innovation and structural changes, as the European Environment Agency advises.

The circular economy

Taking into account the decarbonization commitment of industrial production, there should be sustainable management of the use of resources, by means of the application of the principles and objectives of the economy circular.

There is a need to prioritize the use of renewable resources, the design of closed production processes and the extension of the useful lifespan of goods; drive forward the integration of these challenges in the business models as an opportunity to innovate, increase the efficiency of production and correct the presence of negative externalities, from a standpoint of focussing on the maintenance of economic growth and the creation of employment, requiring the implementation of coordinated policies; and accelerate fiscal harmonization and the framework for community aids in order to avoid a budgetary difference between the member states of the European Union, so that they are in the same conditions when it comes to covering the costs generated in achieving these objectives, and thus avoid the creation of a competitive disadvantage between European industrial facilities.

In addition, it is proposed to develop the Spanish circular economy strategy, which will safeguard the supply of raw materials for the industrial processes at a competitive price, ensuring equity in the subsidies geared towards use of a range of alternatives; drive forward renewable resources, promoting the consumption of bio-materials; develop the use of sub-products, eliminating the regulatory barriers which prevent the reinvestment of resources in the chain of production (both commercial and administrative); strengthen the energy recovery of waste products; and promote the development of sectoral technological platforms as enabling agents for the circular economy.

2.10. On internationalisation and trade policy

The level of internationalisation of the Spanish economy has improved in recent years, taking into account the different factors which characterize it, and it has been observed that the companies which expand abroad are now more efficient and productive, in addition to presenting higher rates of survival and generating higher quality jobs. But there remains a series of structural weaknesses that it will be necessary to correct by means of economic policy actions to improve the access of the companies to foreign markets and facilitate them remaining there and surviving. These weaknesses are largely linked to the excessive concentration of the exporting base in a reduced number of companies, with an average size that is also small; the high geographic concentration of exports in the countries of the European Union; the reduced volume of exports with a technological content that is medium-high or high, and the existence of a negative net international investment position.

Increasing the exporting base

In this context, it will be necessary to increase the exporting base of the Spanish manufacturing, increasing the size of companies by means of measures to support the processes for growth and concentration, in addition to improving the access of SMEs to funding, as well as the information that these companies have on internalization and the knowledge that the different trade bodies have of the companies and their needs, to adapt the programmes and services for the promotion of exports and investments to the real needs of said companies.

Likewise, there must be strengthening and modernizing of the public instruments for supporting exports and internationalisation, so that they become more agile, adapt better to the needs and profile of the companies and are more far-reaching in their field of application.

Diversifying markets and increasing the footprint in global value chains

It is necessary to support greater geographic diversification of exports so as to harness the opportunities offered by the markets which are more dynamic and in a process of expansion, differentiating the products according to their destinations. In addition, the inclusion of the companies in the global value chains (GVCs) should constitute one of the priority objectives of industrial policy, for which public aids are needed to focus on the segments and phases of the chain of value in which greater added value accrues, that is to say, in the initial phase of innovation, research and architecture of the product and its development, and also in the final phase of distribution, marketing and branding. Thus, there should be reinforcement of the production of manufacturers in higher-quality segments, which are more differentiated and less dependent, with greater support for technological innovation, brand differentiation and digitalisation, as well as for the development of human capital, facilitating the recruitment of talent.

Attracting direct investment to Spain

There should be enabling of the attraction of industrial investment projects, with the preference being for the sectors with a high technological content and priority should be given to those which permit the development of international R+D+i activities in our country, as well as driving forward specific measures to promote Spain as a global platform for industrial businesses and investments. To this end it will be necessary reinforce the institutional framework and improve the regulatory framework in which the companies carry out their business. All of this should be done with sufficient control mechanisms, in line with EU legislation, to preserve the strategic Spanish interests.

Defend the interests of Spanish industry in the sphere of EU trade policy

Lastly, in the sphere of EU trade policy, there is a need for the trade treaties signed by the European Union with third countries to include clauses which safeguard certain identified social, labour and environmental standards, in coherence with the European pilar for social rights and the commitments adopted by the European Union in regard to sustainable development.

The country positions in respect of the trade and customs policy are essential for the future de the Spanish industry in relation to issues including China, Brexit, the rise of protectionism in the United States, or the application of the new European Union Customs Code (UCC). In these terms, it will be necessary facilitate, in the European Union, the destruction of barriers to trade, whether these are customs ones or otherwise, whilst protecting the interests of the companies established in Spain.

Likewise, supervision of the market must be reinforced, increasing the review of the procedures for inspection and sanction —both in the market itself and at customs— with the aim of ensuring that all the products which are sold in Spain comply with legal regulations in force, thereby ensuring the protection of the consumers and the companies.

For this motive, there is a need for collaboration between the central administration, the autonomous communities and the representative business organizations.

FINAL CONSIDERATION

The ECS considers that the strengthening of industry constitutes a strategic need and a necessary condition for combining economic and jobs growth with environmental sustainability, social cohesion and territorial structuring. For this reason, this Council impresses upon the government and other authorities or institutions with competences in the economic or social spheres, to build and maintain a veritable national pact for industry, for the implementation of wide-ranging, coherent, participatory and well governed industrial policy. A policy capable of propitiating at the same time, by means of horizontal measures and also the relevant sectorial ones which are appropriate following deep and detailed analysis, the configuration of a sector which generates quality jobs, drives forward innovation and which is focussed on satisfying the growing demand for sustainable products and circular consumption. The present report, its conclusions and its proposals, are the ECS's contribution to the achievement of these objectives.

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