

**EU INDUSTRIAL COMPETITIVENESS POLICY NEEDS TO BE STRENGTHENED**

**UNICE COMMENTS IN VIEW OF THE EUROPEAN COMMISSION'S  
10 JULY 2002 SEMINAR**

**Introduction**

Europe needs a strong manufacturing industry, as a powerful engine for wealth and job creation, improvement of living conditions and development of the service sector.

UNICE supports the idea of a horizontal industrial competitiveness policy and opposes a policy based on defensive sectoral measures which undermine the operation of the internal market. Community industrial policy should not so much comprise aid and specific assistance as adhere to the creation of conditions which favour investment and innovation, thereby increasing the capacity of companies to carry through structural adjustment.

The present note looks at six action areas where EU initiatives have to be taken or intensified for supporting the development and competitiveness of European manufacturing industry:

1. establish a legislative, regulatory and financial framework conducive to entrepreneurship
2. promote technological innovation
3. ensure access to a competent / skilled workforce
4. ensure access to the basic infrastructures of the economy at a competitive cost
5. underpinning the decisive contribution of companies to ecological progress and implement concerted approaches preserving competitiveness
6. getting further market access and fair conditions of international competition.

**1. Establish a legislative, regulatory and financial framework conducive to entrepreneurship**

***1.1. Improving the quality of legislation***

The action plan for better regulation and the new impact assessment method presented by the Commission on 5 June 2002 are a step in the right direction. For impact assessment, the next step must be to commit all the EU institutions to adopt common goals for regulatory quality and to use agreed and harmonised administrative procedures in impact assessment. An independent body or office should exercise central control over the quality of impact assessments.

The need to simplify legislation and improve its quality, and to develop other regulatory regimes is evident above all in the industrial sector.

### **1.2. Social legislation**

Companies need flexible labour markets in order to adapt to changing customer needs and remain competitive on world markets. European social legislation must not stand in the way of adaptation and of restructuring/redeployment of resources where these are necessary. Similarly, companies must be able to have easy access to additional labour at a competitive cost when faced with peaks of activity. Constraints on the use of flexible forms of work such as temporary agency work should be avoided.

A considerable corpus of legislation on health and safety at work has been established over the years, which applies particularly to manufacturing industry. The possibility of simplification and consolidation of legislation in this area should be explored in order to facilitate the operations of companies.

### **1.3. Competition policy**

UNICE calls for stronger enforcement, at European level, of competition policy. There should be a level playing field as regards enforcement. UNICE is opposed to a "renationalisation" of competition policy leading to discrepancies in the enforcement of EU competition policy.

Competition policy should promote legal certainty and not harm the performance of European companies at global level by preventing them from consolidating on a rational basis. Therefore, considerations of global competitiveness should to a greater extent be taken into account when assessing mergers and a dynamic analysis and long-term view of the markets should be adopted where markets are rapidly evolving and dominance is often temporary.

### **1.4. Economic framework conditions**

With a view to encouraging a high level of investment by industrial companies, there is need, in several European countries to reduce the ratio of corporate taxes and levies to GDP to the level in the USA.

Similarly, there is a need for reform of the regulatory and fiscal environment in several Member States with a view to encouraging creation of new businesses. These needs should be highlighted more strongly in the country reports produced every year by the Commission in the context of publication of the broad economic policy guidelines. These reports should have a higher political standing.

It is not only companies which are highly taxed in Europe, but also individuals. A heavy tax burden discourages entrepreneurship and sometimes makes working a less interesting option than not working, a fact that is reflected in Europe's economic growth rate and structural unemployment.

## **2. Promote technological innovation**

UNICE supports the Barcelona Summit decision to launch a concerted strategy designed to strengthen R&D efforts in all European countries (increasing the ratio of R&D spending to GDP in the EU from 1.7% to 3% by 2010). Efforts to reach this 3% figure should be made by governments, universities, research centres and industry. This objective should represent a political commitment to a simultaneous improvement of the framework conditions for innovation, the volume of actions to support R&D and innovation, and the quality of the support instruments deployed.

Only if the framework conditions for innovation are favourable will corporate spending on R&D be able to increase substantially. Greater efforts must be made with a view to:

- Encouraging entrepreneurship as well as young people's interest for natural sciences and engineering
- Adopting the Community patent
- Eliminating barriers to market development
- Improving financing and fiscal conditions for innovation
- Improving the efficiency of spending, especially in public research activities.

The rules for participation in Community research programmes should be simplified and made more attractive to ensure wide participation of companies, including SMEs.

### **3. Industry's contribution to employment and its need for competences/skills**

A dynamic industrial base generates jobs for extremely diversified categories of workers, ranging from those with elementary skills to those with highly sophisticated qualifications. This must be an important motivation for keeping the chances for industrial development intact.

This industrial development is increasingly conditional on access to highly qualified technical and scientific personnel. European industry is currently suffering from a very wide shortage of such skills, and not merely ICT skills. The Commission 2002 competitiveness report underestimates this problem when it states that in general EU underperformance in productivity growth is not rooted in inadequate supply of human capital.

Rectification of this worrying problem involves:

- improved quality of basic technical and scientific training;
- lifelong learning strategies, tailored to the needs of companies and implemented with the full participation of the social partners;
- promotion of the mobility of human resources in Europe;
- where necessary, easier entry into the EU for third country nationals with the right qualifications to overcome bottlenecks on labour markets. The high skills potential of future accession countries must be kept in mind in this context.

UNICE, ETUC and CEEP adopted in March 2002 a framework for actions on the lifelong development of competencies and qualifications. In this framework, European social partners propose a new approach on lifelong learning focussing on competence development rather than on formal training and commit themselves to encourage both companies and workers to invest time and efforts to develop competences which are actually needed on labour markets.

However, social partners efforts will not be enough. The capacity of public education and training systems to provide people with a basic foundation needed to develop their competences throughout their working lives must be improved.

#### **4. Ensure access to the basic infrastructures of the economy at a competitive cost**

##### ***4.1 Secure energy supply at competitive prices***

UNICE considers that the goal of Community action in the area of energy supply should be to create an environment which allows for and ensures secure, diverse and sustainable supplies of energy at competitive prices by:

- developing a legislative/fiscal regime that allows maximum economic supply from indigenous resources;
- removing barriers or disincentives to investment in new or enhanced supplies;
- recognising the long-term and, often, high-risk nature of the investments required in order to achieve sustainable supplies;
- ensuring the good functioning of the markets for all energy providers, which will stimulate a widening of supply at competitive prices;
- securing a stable and effective legal framework combined with fiscal stability, allowing companies to deploy operations efficiently;
- promoting development of interconnection structures;
- assisting potential energy supply countries to create the political, economic, business and legal climate where energy investment by private companies can flourish;
- refraining from direct intervention in balancing supply and demand as well as from commercial arrangements (e.g. long-term contracts) and price-setting.

EU energy initiatives must be guided by the concept of sustainable development, which involves the quest for a balance between economic, social and environmental progress with a view to maximising overall progress in the long term. Some connected issues are examined in point 6 below. Nuclear energy is an indispensable option for tackling the climate change problem.

Much closer attention must be paid to improving the qualitative aspects of gas and electricity liberalisation. Speeding up of unbundling is particularly important to ensure that existing and future directives deliver their economic benefits. Furthermore, companies are concerned that the benefits of liberalisation could be negated by new constraints in the form of tax penalties, new constraints on network operators (disproportionate public service obligations) or linked to exaggerated support for renewables.

UNICE calls on the Commission to step back from its initiatives leading to higher energy taxation on companies. Today, from a global perspective, the EU is the front-runner with energy taxes accounting for 2.5% of GDP while they only account for 0.5% of GDP in the USA and 0.9% in Japan. The Commission's original proposal concerning a Community framework for taxation of energy products and its different variants are all characterised by a poor contribution to harmonisation of energy taxation, insufficiently reliable protection of European industry's international competitiveness and environmental objectives which are insufficiently clear and targeted.

##### ***4.2 Efficient transport at competitive prices***

European business and industry is restructuring logistical processes in order to be more globally competitive. Total transport costs to users must be reduced and the service level to the customer must simultaneously be improved (logistics costs represent 12% of GDP in Europe and only 10% GDP in USA). This calls for continuing liberalisation initiatives for rail, port services and air transport.

UNICE also calls for selective financial intervention by the EU to accelerate the construction of major trans-European traffic routes (e.g. interconnection of infrastructures) and to eliminate bottlenecks.

Charges aiming at recovering infrastructure costs and at improving the environment should meet the criteria defined in point 6 below. As a general rule, the income generated by charging should be spent on the infrastructure of the mode where it was raised and on reducing the negative impact linked to the use of that mode, e.g. by providing fiscal incentives to make use of cleaner fuels and vehicles. Exceptions to this rule should only be allowed for a limited number of situations.

#### **4.3 Efficient telecoms services at competitive prices**

Business relies on modern and fast communications to operate effectively and to be competitive globally. Broadband, in providing cheap, fast Internet access for European business and citizens alike, is a key factor for Europe's competitiveness.

Governments have a major role to play in stimulating the development of broadband through developing eGovernment broadband services applications, ensuring that regulation stimulates investment in broadband infrastructure, services and applications.

Widespread availability of broadband depends on full and effective liberalisation of telecoms. It is essential that the telecoms package is implemented by 24 July 2003.

#### **5. Supporting companies' contribution to ecological progress while preserving competitiveness**

The Commission 2002 competitiveness report rightly underlines that EU manufacturing industry has very largely achieved decoupling of its growth from pressures on resources and the environment. European industry will only be able to further develop its contribution to ecological progress (and to economic/social progress) if it has enough means and margins of manoeuvre at its disposal.

In this context, it is essential that EU environmental policy instruments meet in a more satisfactory way the requirements of:

- effectiveness in achieving environmental targets;
- economic efficiency, based on cost-benefit analysis;
- coherence between instruments.

UNICE urges for the impact of environmental initiatives on the economy and employment to be measured more precisely than hitherto using the new sustainability impact assessment fiche which the Commission is to deploy. This fiche must have a particular focus on the competitiveness of European industry, which should not be weakened. The Commission must also take account of the cumulative economic and social impact of numerous existing and planned EU/national measures.

Current public debate focuses heavily on so-called “market instruments”<sup>1</sup> for sustainable development acting to:

- send economic signals to market operators: tax incentives, taxes and charges, and tradable emission permit schemes (“economic instruments”).
- mobilise the innovation and managerial capacities of market operators (agreements between public authorities and industry, industry self-commitments, industry generated norms and standards).

With respect to these market instruments, UNICE makes the following recommendations for future EU policies:

- The serious weaknesses that have characterised the design and implementation of environmental taxes by member states prompt extreme care and rigour in considering their further use at EU level.
- Priority needs to be given to the options of self-regulation and agreements, because of their potential for efficient and early impact, and a capacity to motivate. UNICE has underlined the importance of functional subsidiarity in its work for the Convention.
- Emissions trading can help in making most cost-effective emissions reductions, but must be implemented so that it is coherent with existing EU and national strategies.

## **6. Increased market access and fair conditions of international competition**

The competitiveness and growth of many European companies are directly linked to international trade and investment. As a consequence, the implications of any new European initiative on the ability of European companies to compete internationally should be fully and systematically assessed. An integrated multidisciplinary approach within the Commission is required to limit and prevent inconsistencies between EU policies which place European companies at a disadvantage vis-à-vis their third country competitors. A trade policy assessment should also be carried out to assess the WTO compatibility of these initiatives and thus reduce potential trade and investment conflicts.

If the European Union is to expand its presence on world markets it should carry on a proactive Union’s trade policy. In this context and the post 11 September environment, the following priorities should be pursued actively:

### **At multilateral level**

- negotiations underway in the framework of the Doha Development Agenda to achieve further market access liberalisation within an improved framework of multilateral rules;
- recourse to the WTO Dispute settlement mechanism when the rules are not respected and the conciliatory procedures have been exhausted without producing satisfactory results;
- participation in the “security” initiatives taken at international level to avoid an unnecessary burden and responsibility being put on business. Particular attention should be paid to promoting a level playing-field regarding export controls on sensitive goods (Wassenaar Arrangement);

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1) Note : the inclusion of ecological taxes in the family of “market instruments” represents a significant simplification of language, since influencing production and consumption with taxes often involves concepts far removed from the philosophy of market economy.

- OECD export-credit insurance discussions to limit distortions of competition due to different national policies and practices.

#### **At bilateral/regional levels**

- Focus essentially on negotiations which would positively contribute and facilitate the multilateral process, bring significant economic added value for the EU (WTO+) and make it possible to tackle specific bilateral difficulties/issues efficiently.
- Engage in constructive dialogues and early warning mechanisms to prevent disputes from arising and stem protectionist initiatives.
- Address new security initiatives such as the US “Safe Commerce” initiative to control exports to the US by channelling them through US-selected export point harbours.

#### **At EU level**

- Strive to develop a united voice between the Commission and Member States on trade and investment policy matters. The European Parliament should also be associated.
- Ensure efficiency of all Community trade-policy instruments, in line with WTO rules and effective application when the circumstances so justify and the conditions to do so are met to defend European legitimate interests;.
- Strengthen the partnership with European business to reinforce Community actions vis-à-vis third country partners and in international fora.

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