20 January 2004

EU INDUSTRIAL POLICY

MEETING BETWEEN PRESIDENT PRODI, UNICE AND 7 EUROPEAN BRANCH ORGANISATIONS

20 JANUARY 2004

1. Introduction

In 2002 and 2003 UNICE submitted to the Commission the following contributions on industrial policy:

- **"EU Industrial competitiveness policy needs to be strengthened" – UNICE comments (04.07.2002) in view of the European Commission's 10 July 2002 seminar**
- **"Industrial dynamism in Europe needs strong backing" – UNICE opinion (26.02.2003) on the new EU industrial policy proposed by the Commission**

Since industrial policy and the problems linked to de-industrialisation are set to be the subject of new Commission initiatives in 2004, UNICE requested a meeting with President Prodi on 20 January 2004, accompanied by the following seven organisations:

- CEFIC (European Chemical Industry Council)
- CEMBUREAU (The European Cement Association)
- CEPI (Confederation of European Paper Industries)
- CIIA (Confederation of the Food and Drink Industries of the EU)
- EUROFER (European Confederation of Iron and Steel Industries)
- EUROMETAUX (The European Association of Metals)
- ORGALIME (Liaison group of the European Mechanical, Electrical, Electronic and Metalworking Industries)

This note sets out the issues that UNICE and these organisations consider to be particularly important in view of this discussion.

2. Trends in the investment strategies of European companies

Two different trends can be observed:

2.1 Trend of locating *additional* production capacity outside Europe, in countries with high growth potential and/or large advantages in terms of production costs, access to raw materials, etc. This trend is positive; it has developed because these relocation operations can lead to a strengthening of European companies due to the fact that they acquire/consolidate an international dimension and better access to global markets.

It is important not to discourage this trend but to flank it with pro-active measures which ensure maintenance of a strong industrial and technical base in Europe. Maintenance of such a base in

Europe is essential if the deployment of European companies around the world is to have the best chances of success.

These proactive measures must relate in particular to strengthening innovation in Europe and ensuring access to the basic infrastructures of the economy at a competitive cost.

2.2 There is also a trend towards *re*location of *existing* production capacities outside Europe due simply to legislative, regulatory and financial frameworks which are no longer conducive to entrepreneurship. This trend is, of course, a negative one, which must be remedied. It was initially confined to the area of low- and medium-tech products, but it is now visible in production *and R&D* in the area of high-tech products and services.

3. The need for a new Commission agenda

In the eyes of business, this deterioration of the framework conditions is due to the fact that the

Commission and the other European institutions have not earmarked the economic growth of Europe as the clear absolute number one political priority. A number of positive policy initiatives have been launched by the College of Commissioners, but they have often not been translated into facts on the ground by the lower echelons of the Commission. For instance, this is the case with the "better regulation" initiative.

The Commission can and should take initiatives and coming up with proposals for ensuring the mid- and long-term future of the European economy; that future is now at stake.

Business expects this Commission to pave the way for a very aggressive stance on Europe's competitiveness and to re-focus its entire agenda around economic growth for the next and following years.

Summarising, a strategy aiming at reviving the development of European industry, should be based on a combination of:

a) measures aiming at restoring or creating in Europe a legislative, regulatory and financial framework conducive to entrepreneurship and enhancing the attractiveness of Europe as a location for industry.

b) measures aiming at strengthening the basic material infrastructure, the education system and the research system on which European industry depends.

4. Key priorities for improving the EU regulatory and economic frameworks

4.1 Improving the process of EU legislation preparation

The positive intentions set out by the Commission in its "better regulation" communication were not given adequate operational follow-up by officials in the Commission and other institutions. The REACH proposal illustrates this problem clearly:

- It was adopted before a very large number of operational issues had been clarified. Commissioner Liikanen is currently organising "strategic partnerships" whose official mission is to "test how the various REACH mechanisms will work in practice". Practical fine-tuning of the REACH mechanisms should have taken place prior to adoption of the proposal, and not afterwards!

- **The impact assessment of REACH carried out by the Commission has many weaknesses, first and foremost because it related to regulatory provisions whose practical aspects had been insufficiently clarified, and second because the range of the impacts considered by the Commission was too narrow.**

- **The extent of these shortfalls explains the importance that the Competitiveness Council has attached to preparation of a comprehensive impact assessment covering both the macro-economic aspects and a more in-depth study of the sectoral aspects.**

In order to improve the situation, it is essential to:

a) put in place an independent and highly competent EU body to evaluate the impact of legislative proposals and to verify that a series of quality standards have been met during their preparation. Industry is willing to play its role in communicating the necessary evaluation elements to this body, which should also conduct a reassessment of several pieces of existing legislation each year.

b) ensure that rigorous extended impact assessment methodologies are applied throughout the EU decision-making chain, from the Commission to the Council, which is not currently the case.

c) show a much more active interest in self-regulation and co-regulation arrangements, which in some cases represent markedly more effective approaches than legislation.

Regarding REACH, UNICE and CEFIC have submitted to the Commission elements to flesh out impact assessment of the Commission's proposals, seen from both the macro-economic angle and the sectoral angle. UNICE is pleased to note that the Commission services are currently defining a draft complementary evaluation programme, in particular to gain a better insight into the impact of REACH on certain sectors and certain substances. UNICE also welcomes the fact that the Council fully supports the need for this complementary evaluation programme. This initiative should be regarded as a first step towards a better comprehension of the impact of REACH on all the sectors concerned.

As other examples of issues where workability and impact assessments have been clearly unsatisfactory, one can mention the rules for GMOs and emissions trading in the area of climate change.

4.2 Improving the internal market

The development of the internal market is one of the major achievements of the EU. A strong and well performing internal market underpins the competitiveness of industry on world markets. Today it is being continuously eroded by legislation (for example in the area of the environment) which is not harmonised. For many policy areas, one must question the purpose of developing regulation at a EU level which does not aim primarily at harmonisation.

4.3 Impact of exchange rate turbulences on European Industry

As shown in the table below the Euro has appreciated by almost 50% within two years.

	Early 2002	Early 2003	Early 2004
Euro/USD	0.86	1.04	1.28

While the confidence expressed in the euro is welcome, it is clear that such large exchange rate movements are unsound and reflect less an improvement of Europe fundamentals than market overreaction to imbalances in the USA. The dollar's depreciation both because of its speed and its magnitude is harming European companies' competitiveness and could jeopardize the recovery. Morevover, since the current rate is already unsustainable, recent developments will

likely lead to further currency instability that will harm other economic areas with unpredictable consequences for a fragile world recovery.

Exchange rate movements have different impact on the different sectors depending on numerous factors such as for instance whether they are more importers or exporters or whether their billing currency is the euro or the dollar. In any case excessive volatility is harmful to all sectors and it can alter investment decisions. In our autumn economic survey, when the exchange rate was in a range of 1.15 to 1.20, business economists were concerned that it could move higher and called for a close monitoring. Since then, the Euro moved into a range of 1.20 to 1.25 increasing our concerns. Now, with the Euro fluctuating in a range of 1.25 to 1.30 something has to be done.

Exchange rate are established by free markets but monetary authorities as well as policy makers can play a significant role to limit market overreaction.

For that matter they can issue clear and strong messages to the markets, use monetary policy instruments and/or even direct interventions. Nevertheless, these can only succeed if there is a genuine cooperation between the concerned authorities.

Therefore, business calls for EU to raise this question with its partners in the appropriate for a like the G7 and reach an agreement to address this issue. It is critical that the European level (i.e. the Commission and the ECB) also supports the efforts already taken at the national levels.

In the longer term, an active promotion of the euro as an international billing currency could contribute to alleviate – partly – the impact of exchange rate volatility.

5. Competitiveness handicaps resulting from policies followed by EU trading partners

The unfavourable framework in which European companies have to operate is also due to legislation or policies developed by our trading partners. Two strong concerns emerge in particular in this context:

5.1 Kyoto Protocol

The USA refusal to ratify the Kyoto protocol, and to the diminishing probability that Russia will ratify it could create the following awkward situation for European business:

i) the Kyoto protocol will not enter into force ;
ii) the EU will nevertheless stick to the obligations of the Kyoto protocol and the emission reduction targets for the EU Member States ;
iii) European companies will severely suffer from a distortion of competition.

UNICE always asked for an internationally coordinated approach and a level playing field between industrialized countries; sticking to the Kyoto protocol even if it will not enter into force and will not be implemented by Europe´s main competitors would strike a severe blow to the competitiveness of European businesses without contributing in any way to an effective approach to solve the climate change problem on a global level.

UNICE sees it an important and positive development that a debate has opened on this issue, following the concerns openly raised by high level EU-politicians, in particular in the context of the December 2003 Energy Council.

UNICE will examine the following questions in the coming weeks, with a view to developing a position:

a) legal possibility and political opportuneness to open discussions on the EU commitment to the Kyoto protocol;

b) how to secure a pragmatic (rather than purist) approach in the development and implementation of EU instruments, safeguarding a level playing field ?

c) how to obtain better burden-sharing between industry on the one side and private consumers on the other for achievement of the Kyoto objectives ?

d) which initiatives could be considered with a view to designing a new international cooperation regime, capable of re-engaging the USA ?

5.2 Access to raw materials

Some countries develop policies and measures which place restrictions on European firms in the area of access to raw materials. These policies result in a very damaging trade and competition distortion to the detriment of European based companies. These policies are often not consistent with the basic WTO principles. The Union must therefore act at WTO level to tackle this problem. Beyond this, it is important that the European authorities consider with the sectors concerned European internal policy actions to preserve the competitiveness of the European industry.

6. Innovation and technology

Business calls for EU initiatives aiming at:

a) attracting the best talents in Europe

b) modernising EU state aid rules to RD

c) bridging the gap between research and innovation

d) improving financing and fiscal conditions for innovation.

7. <u>Ensure access to the basic infrastructures of the economy at a competitive cost</u>

Business calls for the reinforcement of policies aiming at securing :

a) energy supply
b) efficient transport
c) efficient telecom services

at competitive prices.

Reductions in electricity wholesale prices due to liberalisation policies should not be offset by additional taxes and charges linked, for example, to excessive support for renewables or to excessive public service obligations.

UNICE welcomes the progress made in 2003 in the development of trans-European networks, but stresses that the actions taken in the context of the "Growth initiative" can not be a substitute for

the needed structural reforms in network industries and services.

8. Conclusion

UNICE and the industrial sectors are prepared to continue dialogue on the issue of industrial policy and hope that a follow-up meeting can be organised with President Prodi during the course of 2004.

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