

16 June 2010

AN INTEGRATED INDUSTRIAL POLICY FOR EUROPE

BUSINESSEUROPE MAIN RECOMMENDATIONS

A. BACKGROUND

1. Economic and societal relevance of European industry

The macroeconomic importance of European industry can be assessed in different ways:

- by considering that manufacturing industry contributed some 17% of EU GDP in 2007 and accounted for some 23 million jobs.
- by looking at the wider cluster of manufacturing, power generation, construction, and associated business services, which contributed about 37% of EU GDP in 2007.

Industry considered in the wide sense, the specialised services on which industry depends and the services which depend on industry (transport, communications, financial services, real estate etc.) constitute together a very broad economic ensemble, accounting for close to half of EU GDP (around 47%) (source: DG Enterprise).

Industry is also developing powerful specific contributions to make growth more dynamic across the entire economy:

- Europe needs growth created by increased productivity. Industry is important in that respect because it makes the biggest contribution to productivity increase;
- manufacturing provides about three-quarters of EU exports;
- finally, industry is key for technological progress. Over 80 % of EU private sector R&D expenditures are spent in manufacturing.

This makes industry the backbone of the European economy. It plays the role of motor for growth, jobs and prosperity.

Industry is also a key solution provider for societal challenges in areas such as:

- Demographic change and ageing population
- Climate protection
- Sustainable use of energy and resources
- Access to energy at affordable prices
- Mobility
- Participation in the knowledge and digital society.



To provide these solutions, know-how from a wide range of industrial sectors is needed. European industry is a world leader in “green” technology, but it is and has to be much more than that.

If European companies are to continue to play their full role as an engine for growth and solution provider, preserving and enhancing their competitiveness is key.

2. The pace of change in the global industrial landscape underlines the urgency of an integrated EU industrial policy

In 2009, developing countries’ industrial output was above 52% of worldwide industrial output, having grown from 32% in 2000. In-depth studies show that the concomitant decline of Europe and the USA is due to a significant extent to a long-dated lack of attention to the framework conditions needed to maintain a strong and diversified industrial basis.

Europe cannot afford to keep this low level of strategic attention for its industrial base. It is now urgent to turn the tide and to develop a pro-active EU policy for backing industrial dynamism in Europe.

The challenge is to harness all EU policies with the goal of tapping industry’s potential. It is not about defining a policy with a separate existence. It is largely about including an industrial competitiveness dimension in all EU policies. Hence the name “integrated EU industrial policy”.

Many good concepts for industrial policy have been developed over recent months, such as the Competitiveness Council conclusions of May 2009 and February 2010. They now need to be implemented. The integrated EU industrial policy should include the following key components:

- active development of the fundamental horizontal EU policies (internal market, better regulation, free and fair trade, etc.) that can upgrade the framework conditions in which industry operates;
- integration of the industrial competitiveness dimension in all EU policies. This also encompasses how the EU spends its budget and how it promotes innovation and entrepreneurship;
- sectoral or cross-sectoral initiatives implementing horizontal policies according to sectors’ needs and designing tailor-made measures to integrate the competitiveness, energy, and environment policy dimensions;
- launch of EU flagship projects that demonstrate Europe’s role as an innovation leader.

All these activities should be developed in a way that leaves no room for “picking winners”.



The development of this integrated industrial policy should be guided by the following five key principles:

- Horizontal and integrated policy approaches
- Innovation-friendly and stable regulatory environment
- "Think small first"-principle
- Create a level playing field in the internal market
- Fair and open world markets, without protectionism.

B. RECOMMENDATIONS

Action recommendations are presented hereunder for six policy areas which are key for developing a dynamic European industrial policy.

INDUSTRIAL POLICY:

- **I**ntegrated EU policy approaches:
 - Industrial competitiveness policy
 - Climate and energy policies
 - Environmental and health policies
 - Social and consumer legislation
 - Better use of existing methodologies (impact assessment,...)
- **I**nnovation
- **I**nternal market
- **I**nfrastructure
- **I**nternationalisation
- **I**nitiatives at sectoral level.

1. Integrated EU policy approaches

a) General principles and methodologies

With a view to maintaining and strengthening the competitiveness of European industry and improving the conditions for investments in Europe, all EU institutions must ensure that their legislative initiatives do not entail unnecessary or disproportionate burdens. The Competitiveness Council rightly stressed in 2009 that failing to meet this requirement could lead to "production leakage".

Better use must be made of the existing impact assessment framework, looking not only at macroeconomic impacts at EU level, but also at sectoral and national impacts.

Without a healthy SME sector, Europe will not come out of the crisis. What helps SMEs most is a set of a few simple rules instead of complex and burdensome legislation with complicated exemptions. Therefore the principle "think small first" is crucial when EU legislation is being designed.



Insufficiently integrated policies lead to constant regulatory change with a view to correction and improvement. This goes against the long-term regulatory visibility that industry badly needs to plan investments. The EU should set frameworks/rules/legal provisions for industry to follow with a horizon of 5 to 10 years, with no or only marginal modifications.

b) Climate, energy and industrial competitiveness: an example of key policies to integrate

Although the Copenhagen Climate Summit in December 2009 was a disappointment, the Accord provides a platform on which to work. In this context, there is an opportunity for the EU to reassert its leadership by taking forward practical co-operation on technological and other matters in order to increase confidence in carbon investments.

EU industry is committed to developing a low-carbon economy but, coming out of the economic downturn and in the absence of a legally binding international climate agreement, a unilateral shift to a 30% emissions reduction target would compromise industrial competitiveness and is for the time being untenable. The EU must therefore have in place a comprehensive vision and must avoid focusing solely on targets. The EU should look at the following policy options in a joined-up way:

- ⇒ Promoting energy efficiency
- ⇒ Integrating the European energy market
 - To achieve this objective, the EU needs to keep on investing in the creation of energy networks, promoting the liberalisation process and standardising market rules. Initiatives in favour of smart grids should be launched.
- ⇒ Protecting European competitiveness
 - A well-functioning ETS European protecting European competitiveness is vital. The ETS must set a clear direction for companies and support long-term confidence in the value of low-carbon investments.
- ⇒ Supporting investment
 - The EU should launch an ambitious action plan for low-carbon technologies based on a joined-up approach from different Commission Directorates General to ensure the EU creates the right conditions for investment in low-carbon manufacturing and green innovation.
 - All energy options should be kept open, including nuclear.



2. Innovation

It is vital to develop or complete initiatives in the following five areas:

- ⇒ Increase investments in R&D and innovation by:
 - Establishing an integrated EU venture capital market
 - Deploying much more than the current 6% of the EU budget resources on research and development, and innovation
- ⇒ Enhance the efficiency of EU support schemes by:
 - Implementing EU public-private research partnerships on the basis of lean legal arrangements that allow for efficient programme management;
 - Radically reducing red tape in the EU Framework Programme by revising the Financial Regulation applicable to the EU budget, to allow for a more risk-tolerant and trust-based approach in European research funding;
 - Better targeting of theme selection and promotion instruments on strengthening innovation capacities in the European Economic Area.
 - Fully exploiting the synergies that can be developed between national and European programmes.
- ⇒ Reform of the EU patent system
 - Strengthen protection of intellectual property, inter alia through the introduction of a unitary, legally certain and cost-effective EU patent.
- ⇒ Nurture skills for tomorrow
 - It is vital to upgrade education and training systems, encourage closer links between universities and business, and implement effective lifelong learning measures in order to adapt skills to changing needs.
- ⇒ Stimulate demand and markets for innovation
 - Full use must be made of demand-side policies, in particular through smart public procurement policies and the effective implementation of the EU “Lead Market Initiative”.
 - Europe should promote the development of formal standards at the international level and ensure it can efficiently contribute to it. In areas where Europe has a specific interest which is not shared by the international community, or in areas which have a specific regional characteristic, Europe should develop appropriate standards.



3. Internal Market

The Single Market gives Europe its global strength. However, almost 20 years after its inception, the Single Market is still far from complete and still affected by obstacles to free movement of people, goods, capital and services. For goods alone, barriers every year affect goods exports amounting to approximately 550 billion euro – or more than one quarter of exports to other EU countries. If all barriers to goods, services, capital and public procurement were removed, this would trigger a potential welfare gain around 200–300 billion euro a year.

The responsibility for a stronger Single Market lies with the European institutions but also national parliaments and authorities. Unfortunately, especially in times of economic downturn, protectionist reflexes severely test the European freedoms leading to a split and weakened Single Market damaging European competitiveness. To counteract this trend, the EU's governance of the single market needs a fundamental change and better enforcement of existing rules at both EU and national level is key.

Other important issues need to be tackled:

- achieving a more effective and transparent application of state aid rules
- making the award of public contracts more transparent, open and simple
- dealing with consumer rules in such a way as not to create a fragmented regulatory framework generating lack of confidence in the Single Market.

4. Infrastructure supporting industry

Intelligent infrastructure in the area of transport, energy and information and communications technology is a precondition for a competitive European industry.

Energy

The EU needs to keep on investing in the creation of energy networks, but according to a more strategic, coherent and better resourced approach than in the past. With a view to moving towards the energy networks of the 21st century, initiatives should be launched towards smart grids and smart metering.

Information and communication technologies (ICT)

ICT, especially broadband technology, is a key factor for growth and innovation. The timely roll-out of broadband infrastructure in Europe needs a vibrant digital services sector, fostered by the existence of a true digital single market. A digital single market is also vital for producers of ICT technologies. The strategic agenda must encourage and incentivise private investment in the deployment of new ICT infrastructures, and competition and choice of supply of innovative ICT services. This calls for boosting confidence in the online environment and driving up demand for these infrastructures and services.



Public funding for new networks and services will have a role to play but should be limited to those areas where there is no realistic commercial case for private investment and should not distort the market. In addition to continuing to stimulate R&D and innovation from the supply side, public authorities can play an active role on the demand side by encouraging user uptake, through eGovernment, eHealth, eEducation-related services and public procurement, but also through promoting skills and raising awareness.

Transport

Industry in Europe needs a future-oriented and well-functioning transportation infrastructure. This includes the uptake of transportation-related technologies that foster speed, security, flexibility and tracking of transported goods.

A policy framework needs to foster the deployment of key technology solutions in Europe, for instance by a joint EU project to create European intelligent transportation systems.

The planned the review of the guidelines for the Trans-European Networks development should put a special emphasis on developing an efficient, complete and interoperable transport system in Europe.

Raw materials

Secure and affordable access to raw materials is a key infrastructural pre-condition for industrial development. EU initiatives are needed for:

- Removing existing distortions and establishing new rules and agreements on access to raw materials
- Improving conditions for sustainable raw material extraction in Europe
- Promoting resource efficiency and the use of secondary raw materials
- Strengthening authorities and institutions responsible for raw materials management in resource-holding developing countries.

5. Internationalisation of European Companies

Internationalisation is key for European industry. European industry draws huge benefits from the global economy. Open markets are a precondition for growth and jobs in the EU. However, the EU needs an updated strategy to support the internationalisation of business. A consistent approach would require addressing a range of policy areas where EU actions would bring clear added value to national policies.

Firstly, it is clear that for the new EU integrated industrial policy to be successful, internal and external strategies of the EU should be consistent. In particular, the future EU trade policy needs to be embedded in the framework of the “Europe 2020” Strategy, aimed at increasing growth notably by actively promoting and defending the interests of the EU industry globally. This involves the need for robust and enforceable



rules which support open and fair markets as well as knowledge creation, and deter counterfeiting.

Secondly, the completion of an ambitious and balanced WTO Doha Round agreement is the major priority of EU industry. At the same time, bilateral free-trade agreements are playing an increasing part in EU trade policy. These negotiations must lead to comprehensive and reciprocal market opening on tariffs, non-tariff barriers and services liberalisation as well as public procurement, intellectual property rights, competition and trade facilitation fields. The EU should also ensure full enforcement of these agreements.

Thirdly the EU needs to improve strategic dialogues with major partners such as the US and China to deliver results for companies.

Finally, the EU needs to revise and strengthen its initiatives to support internationalisation of European SMEs, allowing them to fully exploit business opportunities abroad. Less than 15% of EU SMEs export to, or import from, countries outside the EU. If we consider other modes of internationalisation such as FDI (Foreign Direct Investment), technological cooperation, subcontracting activities, the percentage is even lower. Therefore, there is a huge potential for EU businesses – notably SMEs – to engage in international activities, particularly vis-à-vis large emerging economies. Without reinventing the wheel, but building on synergies among existing public and private business support organisations, this requires a range of new EU initiatives and actions.

6. Initiatives at sectoral level

During 2005-2009, a number of Industry-Commission sectoral analyses have been conducted (CARS 21, High Level Group “Chemicals”, Electra High Level Group, etc.) leading to valuable sector-specific recommendations.

European policy-makers should engage actively in the follow-up of sectoral initiatives and recommendations in the next 3-5 years. Where needed, new sector-specific analyses should be started.

C. POTENTIAL AREAS FOR FLAGSHIP PROJECTS FOR EUROPE (“EU SUPER PROJECTS”)

Europe needs to build its future on its strengths. Industry solutions are constantly developed to improve the global competitiveness of Europe and to contribute to Europe's attractiveness as a place to live and work. Europe needs to invest in this future by starting some flagship projects that can become “symbols” for Europe's strength and attractiveness.

Examples of areas where flagship projects could be launched include infrastructure technologies, energy supply, the knowledge and digital society, health and mobility, and horizontal technologies that are needed for EU industries to realise their potential.

* * *