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### EUROPEAN ECONOMIC DEBATE

### CONFRONTATIONS EUROPE

### PANEL DISCUSSION: INNOVATION AT THE HEART OF INDUSTRIAL REDEPLOYMENT

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#### Industry and the European economy

Deindustrialisation is not a new phenomenon in Europe. The share of manufacturing in employment as well as in value-added in the EU has been decreasing for decades while services have expanded. This has led policy-makers to neglect the importance of creating the right conditions for industry to grow.

BUSINESSEUROPE has always underlined that a strong industrial base is key for economic growth and prosperity. Industry is a driver of technological progress - over 80% of private sector R&D expenditures across the EU is spent in manufacturing. Industry is an engine for trade - it provides three quarters of EU exports. And it supports development of a wide range of services such as transport, communications, financial services or real estate. Industry is thus the backbone of the whole economy.

The recent recession has contributed to the deindustrialisation trend. Industry has been hit strongly by the crisis. Between 2008 and 2011 more than 3 million manufacturing jobs have been lost across the EU and industrial production continues to decline – in July 2012 it was 2% lower than a year earlier. This has led to renewed attention to the competitiveness of European industry.

#### European industrial policy

In October 2010 the Commission presented a new industrial policy strategy “Integrated industrial policy for the globalisation era”. Earlier this month, a new industrial policy communication was published. It includes good proposals, such as actions to facilitate access to raw materials, and a renewed promise of “competitiveness proofing” i.e. an analysis of the impact on competitiveness of all policy proposals.



But industrial competitiveness is not yet present in many policy initiatives. In fact, the EU policy agenda is full of contradictions.

Some currently debated proposals would be harmful for industry. For example:

- The idea of “**backloading**” **allowances in the EU Emission Trading Scheme** would increase uncertainty for businesses and interfere with a more constructive discussion on how to achieve technology-driven solutions to fight climate change,
- The proposal on **enforcement of the posting of workers directive**, which introduces joint and several liability in subcontracting chains, would be particularly harmful for innovation as subcontracting is often involved in the early stages of innovation projects

At the same time, the adoption of initiatives that have a strong potential to increase competitiveness and spur innovation encounter great difficulties. For example:

- Discussions on the **EU patent** regime are still not finalised, obtaining a patent in the EU still costs about 10 times more than in the USA, and European producers could be better protected against counterfeiting if the ACTA treaty was ratified.
- The **single market in energy** is far from being a reality, holding back the development of an integrated European grid that will reduce energy costs and improve energy security
- The **EU budget** still does not prioritise spending on research and other growth-enhancing areas. Only 9% of resources from the current Financial Perspectives is spent on research and innovation, education, and trans-European infrastructure networks. And the compromise proposals on the EU budget for 2014-2020 contain worrying signals about the future of competitiveness-related expenditures

## Industry and employment

Europe’s prosperity is based on in high added-value products and services. It largely depends on our innovation capacity. To be successful, European companies must have **access to skilled employees**. Unemployment is high but there are 4 million unfilled vacancies across the EU. Education and training systems have to respond better to the needs of industry. Promoting dual learning systems, including apprenticeship schemes as it is done in Germany or Denmark, is part of the solution.

Special attention must be paid to the supply of science and engineering graduates which is already falling short of demand. In France for example, according to the recent national employment body’s survey, 62% of companies have difficulties in finding engineers. This is a serious threat to industrial competitiveness

European **labour costs** are high compared with global competitors, and manufacturing of labour-intensive products is tending to move away to emerging economies. Europe cannot reverse this trend but there is scope to alleviate some of this disadvantage. In



France or Belgium for example, for every 100 EUR of gross earnings companies need to pay about 50 EUR of extra non-wage costs such as social security contributions. Reducing non-wage costs and taxes on labour could encourage hiring.

Ensuring that **flexible forms of work** allow companies to adapt to changing consumer demand is also vital.

## Conclusion

Trade and innovation can be the key drivers of economic recovery in Europe in the years to come, if the right policies are put in place.

Strengthening Europe's industrial base is important to make it happen. Accepting some risks is also essential as innovation always entails some risks.

Supporting industrial development is not primarily a question of picking winners but rather of creating a climate of confidence for investors and mainstreaming industrial competitiveness into the wider policy agenda.

Last but not least, trying to prevent industrial restructuring from happening would be a strategic mistake. Policy efforts should be focused on facilitating adaptation to change, so that new jobs are created and people are prepared to take up new opportunities when they lose their jobs.

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