POSITION PAPER

BUSINESSEUROPE

11 February 2013

MANUFACTURING A PROSPEROUS EUROPE

KEY MESSAGES

1 Europe needs a strong and competitive industry to ensure sustainable growth as well as economic and employment recovery. The decline in Europe's manufacturing must be reversed.

2 European industry is facing major global challenges. To compete, Europe must improve labour productivity, support deployment of innovation and invest in talents.

3 Industry and its competitiveness must be back at the centre of EU`s policy making, supported by a growth enabling regulatory environment.

WHAT DOES BUSINESSEUROPE AIM FOR?

- *An ambitious and comprehensive industrial growth strategy to contribute successfully to the re-industrialisation of Europe.*
- *A strong focus on smart regulation, using fitness checks on existing legislation and competitiveness proofing of new legislative proposals to minimise costs and to prevent unnecessary red tape.*
- *A thorough assessment of transversal EU policies to make them aligned with industrial growth objectives.*

KEY FACTS AND FIGURES

Industry accounts for 16% of EU GDP and 80% of EU exports	80% of private sector R&D investment comes from manufacturing	45% of Europe's workforce is employed in industrial production facilities

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A BROAD AND COHERENT INDUSTRIAL POLICY STRATEGY

Job creation across the economy depends on the existence of a strong industrial base. As manufacturing is a fundamental asset for the European economy, revitalising it is therefore key to make the EU economy grow again. European industry and its competitiveness must be at the centre of EU's policymaking so a comprehensive and integrated approach is needed. Jobs in other sectors, notably services, also depend on the competitiveness of industry and will benefit from sustainable industrial growth.

Over the last decades we have experienced remarkable changes in global manufacturing: the declining share of manufacturing in the GDP of several EU countries and the shift of production towards fast growing emerging economies.

Lessons from the current crisis show that countries which have managed to keep their industry and related services competitive are recovering faster. The crisis has worsened the economic and social situation in many Member States and multiplied the impact of pre-existing competitive weaknesses affecting European companies on global markets. As a result, at the end of June 2012, EU industrial production was 10 per cent lower than its pre-crisis level and more than three million industrial jobs have been lost.

Industrial base vital for the European economy

The decline in Europe's manufacturing activity represents a major problem, not only for European industry itself, but for the prosperity of Europe as a whole. Industry accounts for around 16 per cent of European GDP and 80 per cent of Europe's exports. Eighty per cent of private sector R&D investment comes from manufacturing. Moreover, it accounts for 45 per cent of Europe's workforce as each job in the industrial sector is linked with at least two high quality jobs in the service sector. A strong industry is vital to ensure economic and employment recovery, reinforcing our global competitiveness through new technologies, products and services.

European industry challenged by global changes

International competition and the search for higher added value explain why many companies have reallocated their manufacturing in fast growing emerging markets. The key factors behind these relocation decisions are: labour costs, labour productivity, taxes and a growth enhancing regulatory environment as well as a high propensity towards the creation of innovative products and technologies.

AV. DE CORTENBERGH 168
BE-1000 BRUSSELS
BELGIUM
VAT BE 863 418 279

BUSINESSEUROPE a.i.s.b.l.

WWW.BUSINESSEUROPE.EU

TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL: MAIN@BUSINESSEUROPE.EU
EU Transparency register 3978240953-79

Those emerging economies still have an important advantage: abundant workforces and low labour costs. Even though, these labour costs now show signs of adjustments.

To compete, Europe must be able to improve labour productivity. However, during the decade prior to the crisis most European countries have experienced large increases in labour costs which have not been matched by sufficiently high productivity gains. Labour productivity in manufacturing has increased significantly in the US (by approximately 1.80% annually since the early 2000) at a lower rate in comparison with many developing countries, but higher than in continental Europe (approximately 0.66% annually in Euro Area 17). In addition, nearly one billion workers in the developing world are now taking part in the global labour pool.

Global competition for talents is increasing and stresses the need to ensure that Europe's education and training systems match with labour market needs. Evidence shows that labour productivity gains have been higher in countries with a favourable business environment, strong macroeconomic fundamentals and well-trained workforce.

Pressure on European industry is also increasing due to higher input costs for industrial production. EU energy prices have increased by 28% between 2003 and 2011. They are decisively higher than in China or the US, resulting in competitive disadvantage.

Europe urgently needs to reverse the decline of its industry. This is the only way to deliver sustainable growth, create new jobs and face global challenges. To achieve this, a comprehensive vision is needed to prioritise competitiveness, focusing on productivity, investment, costs and innovation.

A comprehensive vision for a strong European industry

With the adoption of the communication "A Stronger European Industry for Growth and Economic Recovery", published on 10 October 2012 by Vice-President Antonio Tajani, the Commission rightly recognizes the importance of a strong and competitive European industry to ensure growth and recover from the crisis. If implemented, it can be a crucial step forward.

The proposal to reverse the decline of industry in Europe by setting a growth target from its current level of around 16 per cent of GDP to 20 per cent by 2020 represents a strong political signal. This can be achieved through market-oriented policies. The communication also has the merit of clearly recognising that all EU policies having a direct or indirect impact on competitiveness must be properly and closely coordinated to match the needs of the European industry.

The success of the EU industrial policy will depend to a large extent on ensuring that energy, climate, environment, trade, competition, research and innovation, education, enterprise policy and access to finance for industrial SMEs are developed and implemented to re-industrialise Europe.

The same approach was underlined in the conclusions of the Competitiveness Council on 10 December 2012. The Commission is explicitly invited, together with Member

States and regions, to apply a broad and coherent industrial policy strategy for competitiveness, sustainable growth and jobs and to better seek synergies and coherence between all relevant EU policies. Moreover, the Council calls on the EU institutions to avoid creating unnecessary burdens on industry in new EU regulation in various policy areas. This is a key principle which must inspire any EU action from now on.

The regulatory environment needs to be clear and consistent so as to provide EU businesses with the legal certainty to market their goods and services everywhere in the EU as they do in their domestic markets. Fitness checks on existing legislation and competitiveness proofing of new legislative proposals have a prominent role to play to ensure the consistency of rules and to prevent unnecessary red tape and compliance costs. At present, the regulatory burden in Europe is too high, especially for SMEs, resulting in negative impacts on industrial competitiveness and on access to finance for European companies.

Also in the field of trade the EU must pursue a strong policy aimed at opening new market opportunities and fighting protectionism.

Innovation and technology development are important factors to increase productivity in manufacturing companies and generate the added-value required to create growth. In this regard Europe is lagging behind. To reverse this trend, a renewed focus on research and innovation is absolutely crucial. “Leading competence units” and core industrial clusters play a central role in this respect, generating innovation spill-overs between large enterprises and SMEs. Productivity gains also depend on a skilled labour force at all levels matching the needs of the industry. Finally, EU research needs to be translated into industrial advantage covering the entire value-chain and must focus on bridging the gap between research results, experimental development, manufacturing and commercialisation in Europe.

Framework conditions must allow EU companies to exploit the investment and business opportunities that the Single Market offers by creating a better regulatory environment for EU companies and by using all the relevant instruments, including standardisation, harmonisation as well as mutual recognition, while limiting gold plating and market fragmentation by Member States.

This is not always the case today. In spite of all good intentions about the creation of smart regulation with less administrative burdens, especially for SMEs, the reality is that new and revised product legislation often introduces new burdens and new procedures. Furthermore, different national interpretations and special national rules still fragment the Single Market at the expense of competitiveness and growth.

Policy recommendations

In the light of the current economic challenges, what is needed at EU and national level is to apply a broad and coherent industrial policy strategy for competitiveness, growth and jobs. In order to achieve this, actions both at the national level and EU level are required.

At the national level, intelligent budget consolidation, structural reforms, investments in research, development and innovation and a regulatory environment conducive to business are all key elements of a new coherent approach to industrial policy.

Key recommendations:

- Pursue sound macro-economic fundamentals - the "fiscal compact" must be implemented;
- Carry out necessary structural reforms in areas such as labour markets (e.g. through introducing flexicurity principles and flexible working time models, reforming education systems) and taxation;
- Implement country-specific recommendations of the European Commission swiftly;
- Remove unnecessary administrative burdens on companies;
- Shift from unproductive to productive public investments ;
- Ensure reliable legal systems, taxes which underpin competitiveness and a lower level of bureaucracy;
- Create a conducive regulatory business environment, including reductions of administrative burdens;
- Invest in human capital, research and development to boost innovation and productivity.

At the European level, relevance, cost-efficiency, proportionality, subsidiarity and efficiency for business should be the guiding principles of any new EU regulation and policies.

Key recommendations:

- Early integration of the industrial competitiveness dimension in all EU policies. Policies having a direct or indirect impact on competitiveness must be properly and closely coordinated and match the needs of the companies, paying special attention to the requirements of manufacturing industry;
- Fitness checks on existing legislation and competitiveness proofing of new legislative proposals must remove unnecessary burdens and strengthen the competitiveness of industry along the whole value chain;
- Effective and consistent implementation of legislation should be pursued instead of creating new legislation;
- Better market surveillance will ensure that products that are made available on the market comply with relevant EU legislative requirements;
- Improving access to finance for European companies will support growth;
- Better translation of EU research into industrial advantage covering the entire value-chain will increase productivity.

By following these recommendations, the road will be paved to regenerate a strong and competitive manufacturing sector to drive Europe's economic development. Companies stand ready to do their part in getting growth and jobs back to Europe by investing and focusing on productivity, research, development and innovation. However, without the right political framework, the decline of Europe's manufacturing sector will continue, putting at risk the prosperity of the whole of Europe.