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**COMPETITIVENESS COUNCIL LUNCH DEBATE
20 FEBRUARY 2017
13.00 TO 14.30
COUNCIL OF THE EU, EUROPA BUILDING**

**EUROPEAN INDUSTRIAL COMPETITIVENESS:
IS EUROPEAN INDUSTRIAL POLICY A MISSING LINK? IS EUROPE
OVERLOOKING THE INVESTMENT SHORTAGE THAT HAS DEVELOPED SINCE
THE FINANCIAL CRISIS IN 2008?**

**CHAIR:
MALTESE PRESIDENCY**

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Dear Chair Dr Cardona,
Dear Ministers and State Secretaries,
Ladies and Gentlemen,

- Thank you very much for inviting me to this important lunch debate. **It is nice to be back** in this formation and to discuss industrial policy, which is very close to BusinessEurope. **You are also very close to our members**, our national federations from all over Europe, representing companies of all sizes and all sectors.
- Industrial strategy can mean many different things and be discussed in many different ways. For today I would like to focus on two aspects:

Why we need an updated EU industrial policy?

What an updated EU industrial policy should look like?

WHY DO WE NEED AN UPDATED EU INDUSTRIAL POLICY?

- Looking at the headline numbers, **we are witnessing some positive developments**. During 2016 we saw the continuation of the EU economic recovery with growth expected to have been 1.9% compared to 2.2% in 2015 as well as the creation of more than 3 million jobs. But the situation remains far from ideal. Many industrial sectors face severe



challenges. **They are losing ground** on global market shares and investment leakage is already happening for a long time.

- Although Europe has still the highest share of foreign direct investment inflows in the world, the trend is negative. Between 2000 and 2005 the EU was the recipient of half of global foreign direct investment inflows, but this has fallen to an average of only 30% over the last six years. Also, the **North American cluster** consisting of the US, Canada and Mexico is currently receiving the **highest levels of manufacturing investment**.
- **We already face the results.** The number of European countries which are among the most competitive manufacturing economies in the world is declining. While we have five European countries in the global top 15 today, only two of them (UK and Germany) should be able to defend their top position within the next years.
- **Be aware that our main competitors take actions to promote industrial policy objectives.** Look at the US, China or India. I am not saying policies they put in place are right, in particular when it comes to trade protectionism or subsidies. But the truth is that they do what they can to attract companies and to develop industrial activities and projects. Their determination should be a wake-up call for Europe to rethink its strategy and do things better.
- **How do we assess the situation in Europe?** We do recognize that some efforts have been made. The European Commission is engaged into **mainstreaming industrial competitiveness**. Although we acknowledge that this approach is occasionally delivering, it is far from being enough.
- **To start with the positive side**, I can mention two examples. First, the circular economy package, where the old impact assessment was redone to make it more realistic and the cooperation within the European Commission successfully addressed the silo problem. Second, the energy union winter package, where the proposal rightly re-emphasized the functioning of the power market. We appreciate the back to market move in the direction of less subsidies for all energy sources.



- **To follow up with the negative side**, I want to mention three examples. Two relate to the on-going debates around innovation. Making Europe more innovative and transforming ideas into marketable products, is a “must” for Europe to become more competitive. And industries of all sizes have a strong role to play to bring innovative products and solutions to the market. I don’t know anyone who would disagree, also within the European Commission. Despite that, there is on-going work inside the European Commission that goes the opposite direction.
- Firstly, in the context of **shaping the successor of Horizon 2020** for the post-2020 period. Here we are facing the question: should large industries still be eligible to EU funding? Of course, they should, otherwise we risk seeing many of those large companies, which are more and more global companies out-sourcing their research and innovation activities abroad where more favourable conditions exist. **After ‘investment leakage’, ‘innovation leakage’ will be next.**
- The second example touches upon **competition**. It is clear that competition policy can strongly influence the innovation capacity of companies. In positive terms, but also potentially in negative ones depending on the choices that will be made, not least in the merger and acquisition field. Here, the approach suggested by the European Commission in the recent consultation risks being rather harmful. It ignores the fact that in many cases R&D is carried out by numerous SMEs and research institutes as well as larger companies. Once the R&D phase is over, **smaller players often rely on collaborations or acquisitions by larger companies** to manage the development and marketing phases.
- My third example relates to climate policy and in particular the EU **emissions trading system**. It is for us a concrete example where mainstreaming of industrial competitiveness failed right from the beginning. Back in 2015, the Commission’s proposal was missing around 1 billion free allowances to protect best in class installations at risk of carbon and investment leakage. The conditional 5% shift adopted by **the European Parliament last week rightly corrects the mistake**. We now expect your fellow Ministers from the Environment Council to move in the same direction.



- I hope I gave enough examples to convince you that we have legitimate frustrations when it comes to the concept of mainstreaming industrial competitiveness. Besides being a nice concept we are sometimes missing the concrete actions.
- Against this backdrop, we think that a renewed **European industrial policy is a missing link** because the situation for industry remains a big issue.

WHAT AN UPDATED EU INDUSTRIAL POLICY SHOULD LOOK LIKE?

- We are not the only one calling for a renewed strategy. What I would like to do today is to share with you some first ideas on what it should touch upon. **We need:**
- **A policy that looks at competitiveness in all its dimensions.** Industrial competitiveness is of course about costs, but not only as we know. Cost-competitiveness is still of great importance because high costs for labour, energy, raw materials and regulation are creating disadvantages for European companies. I will not go into great details here, my colleague from the chemical industry already gave you a flavour of the dimension. In parallel, we need to tackle other factors of competitiveness such as our attitude towards innovation, ways to protect intellectual property as well as changing skills needs and an effective workforce. High costs do mainly hinder growth while better innovation triggers growth.
- **A policy that provides a general framework** and recognises the importance of global value chains rather than focusing on individual sectors. This general and horizontal framework is most effective because we have learned that top performing companies are not truly dependent on the region or the sector within they operate. They share the same winning characteristics which make them successful.
- **A policy that addresses short-term failures - to give breathing space to industry - and is forward-looking** at the same time. It must take into account the ongoing transformation of our industry and respond to societal trends such as sustainability, digitization, climate change and a circular economy. We also need to remember that climate change is a challenge for some sectors and creates benefits for



other sectors at the same time. This trade-off in regulation in the short-term must be considered.

- **A policy that goes beyond the 20% manufacturing target approach** to make sure it captures the industry-services interfaces. Although the industrial sector's share in the EU economy is stabilising and has stopped decreasing since 2012 we will not reach the 2020 target. We thus need a broader approach in the future. We need to make allowance for new business models and industry related services when thinking ahead. But we will only be successful with a strong manufacturing basis.
- **A policy that does not reward national protectionism** but is open to globalisation and free trade. Since 90% of global growth within the next ten to 15 years is expected to happen outside of Europe, we need to roll back protectionism. As one of the most advanced economies in the world we must be a positive example and address new issues such as trade rules for the digital age. We must not be naïve and where necessary must deal with things in a reciprocity way.
- **A policy that puts forward a coherent and ambitious action plan.** This plan should bring together measures in a variety of policy areas and review the advantages and disadvantages of the EU governance of industrial policy. This governance must be fit for the next decades and reflect all challenges and changes I touched on.

CONCLUSION: THE IMPORTANCE OF WORKING TOGETHER

- We strongly believe that **we need such a coordinated plan for Europe's industry**. Only by pushing European solutions we can secure our place in the world. This will require a process and to involve all stakeholders. This cannot be done by the European Commission alone. We need all the Member States – you – and the European Parliament as well. As European industry, we stand ready to contribute and to do our job. In that regard, **we are engaged with our counterpart from the trade unions** because industrial policy is about investments but also about jobs.



- We are aware that **different Member States have different views** on EU industry. The industrial structure varies from country to country, which is even an advantage for our union if we want to capture as many parts as possible of global value chains.
- However, these different views can result in different policy approaches which can subsequently hinder action. We think that divergence does not mean we should do nothing. **Divergence means we need to find a consensus and build bridges.** The growing informal friends of industry group has already done a very good ground work. We must now have a common voice of all Member States.
- That is why we call on you to be this strong and common voice as members of the Competitiveness Council **starting with the adoption of conclusions** at your May meeting.
- **To conclude, let me recap my three main messages of today:**
 - The concept of mainstreaming industrial competitiveness is good, but is not enough and partly delivering only;
 - Europe needs a renewed industrial strategy that looks at competitiveness in all its dimensions. One that addresses short-term failures, but is also forward-looking;
 - Although there are diverging views on industrial policy, the conclusion cannot be to do nothing. We must all work together and need a strong voice by Member States now.
- Thank you very much for your attention.

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