Commissioner Nelli Feroci

Competitiveness Reports Press Briefing
11 September 2014

Speaking points

Good morning,

I am here today to present the findings of two reports that the European Commission releases annually on the state of EU's industrial competitiveness.

The Member States' Competitiveness Report is published in response to a Treaty call for the EU and its Member States to review and compare the industrial performance of the Member States and the EU as a whole.

It looks into various aspects of competitiveness, such as innovation, export performance, business environment, public administration, finance and investment.

The European Industry Competitiveness report instead, gives an assessment of the performance of EU industries. It focuses on drivers of growth at firm level such as their ability to be integrated in the global value chain or their capacity to re-adapt to market changes.

The results of both reports are used to feed the starting new European semester, providing input to the Commission's analyses and recommendations.

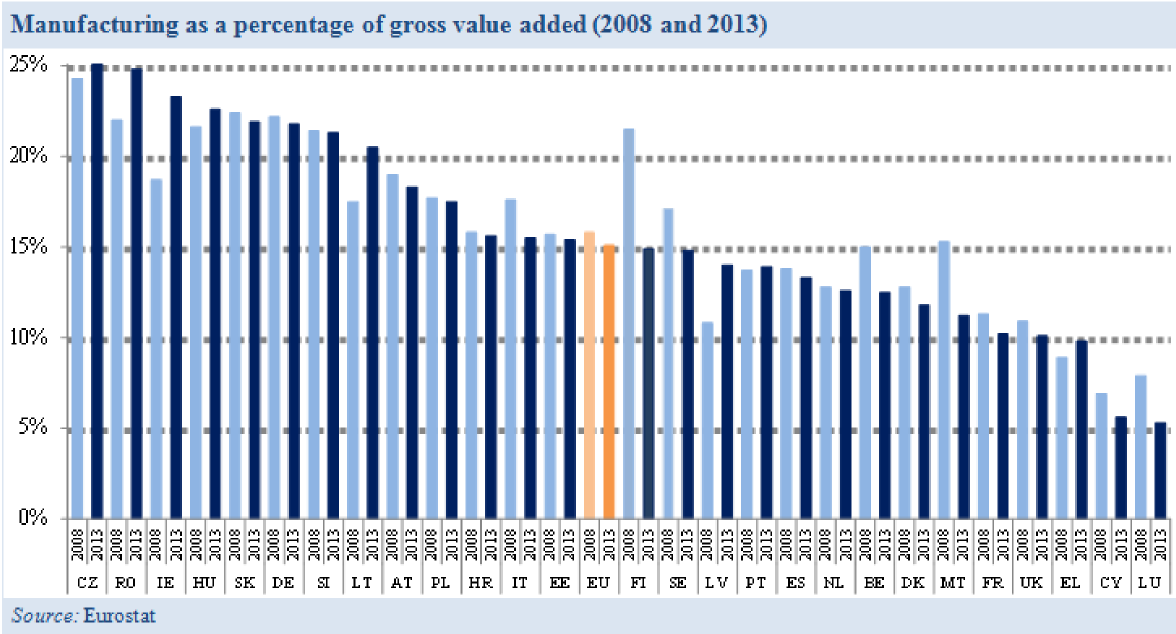
Europe is coming out of a crisis and is slowly showing signs of recovery. However, while we are making progress, we are still not reaching the level of growth that we had envisaged and which we need in order to create employment.

Nonetheless, given this fragile economic scenario, European firms have shown resilience and have striven to maintain their competitiveness since the crisis.

Moreover, exports to non-EU countries have recovered well. European firms have shown themselves to be innovative, are integrated in global value chains and have generally benefitted from a skilled labour force.

Of course, this masks individual performances by Member States, which as you know, varies considerably.

(Slide 1)

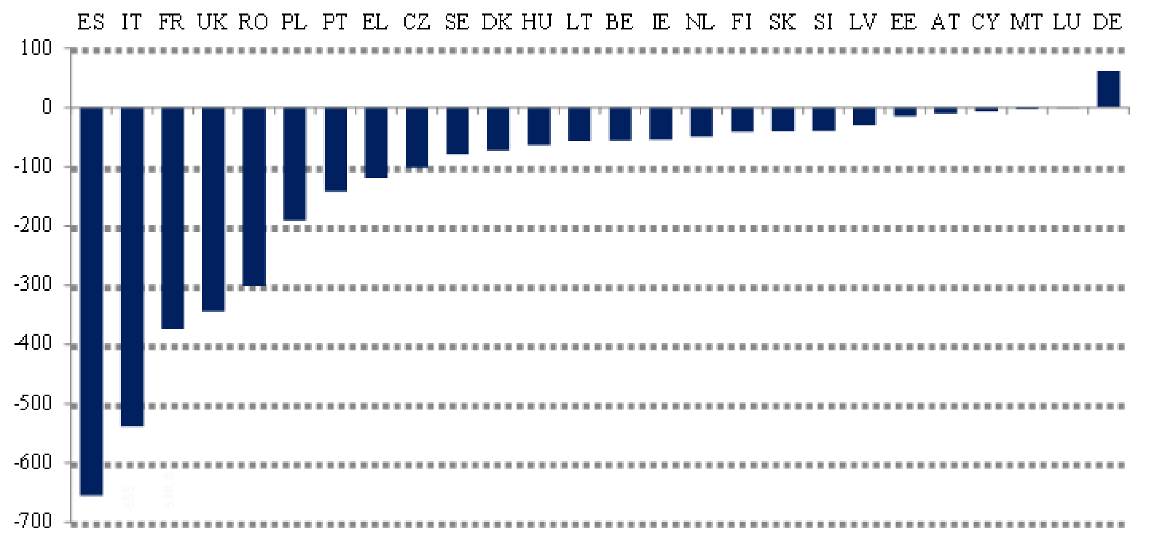


As you can see from slide 1, manufacturing's share of the EU gross value added diminished from 15.8% in 2008 to 15.1% in 2013, as against the target of 20% in 2020.

At the same time, as shown in slide 2, 3.5 million jobs have been lost in manufacturing. Over the five years from 2007 to 2012, only Germany has managed to increase employment in manufacturing.

(Slide 2)

Net job creation in manufacturing in the Member States (2007-12; in thousands)



Note: Data for Bulgaria and Croatia not available.

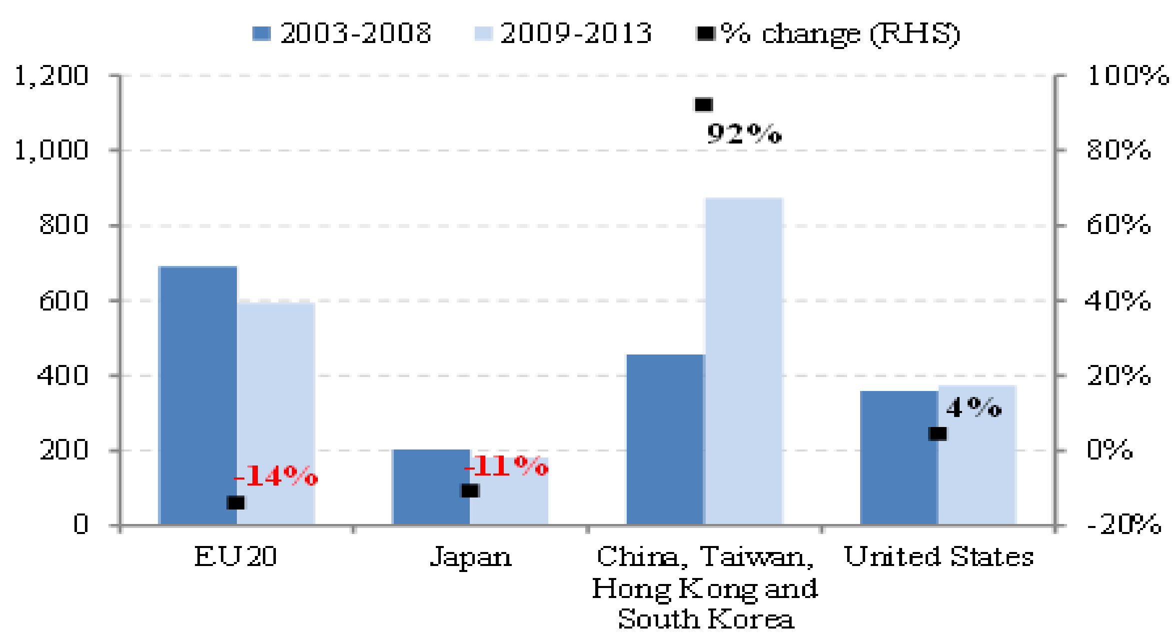
Source: Eurostat

Today's reports help us to better understand this situation and what needs to be done both at EU and Member State levels in order to improve the competitiveness of EU industry.

The main findings could be summarised in **6 messages**:

1) Firstly, more investment is needed in all sectors of the economy

(Slide 3 - Average total manufacturing investment (Bn 2005 EUR) by region)



Europe is the only region of the world where investment across most industrial sectors has declined so substantively. This is a worrying trend. To boost our weak economic recovery we need investments which are able from one side to strengthen our competitiveness and on the other side to support internal demand.

2) Secondly, growth needs investment, and investment needs capital.

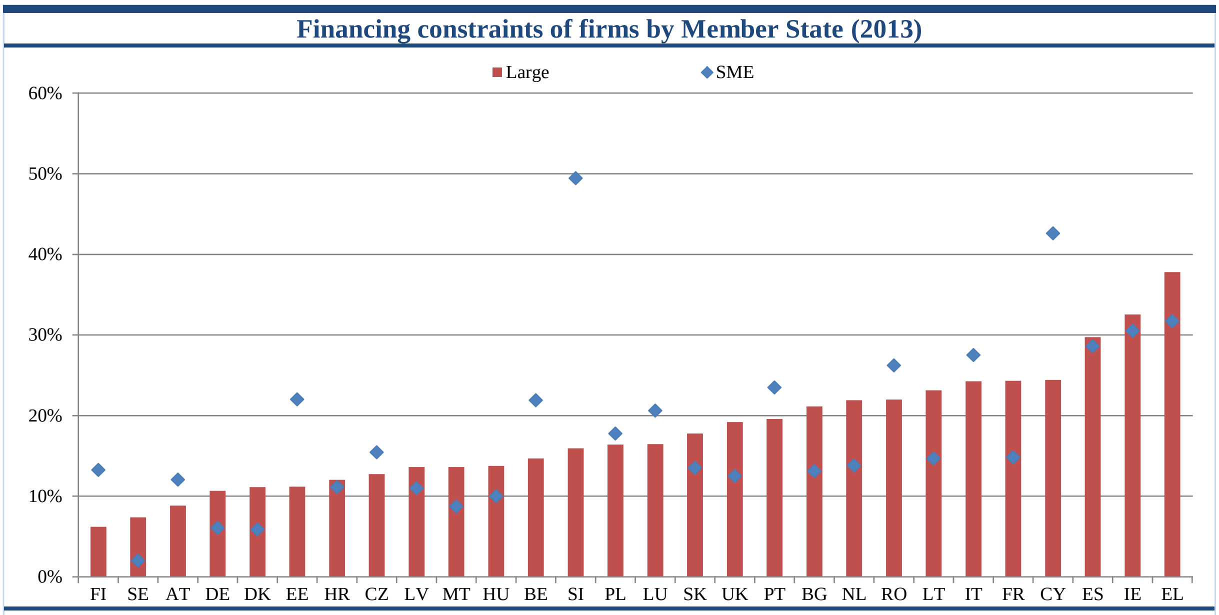
We have estimated that to achieve even the low growth of current forecasts, overall additional funding of EUR 225 billion is needed between 2014 and 2016. How do we obtain this funding for investment?

One of the major elements is to ensure that access to finance is not hampered.

Unfortunately, access to finance remains an issue in a number of Member States. The level of financing constraints is higher in the Member States that were hit harder by the financial crisis, for example in Ireland, Greece and Spain.

Slide 4 provides you with the percentage of large companies and SMEs which encountered difficulties in requesting a loan.

(Slide 4)



Source: ECB SAFE data.

Clearly, financing conditions vary amongst Member States, and this is evidenced by significant interest rate differentials amongst EU countries.

When we look at access to finance at a firm level, we notice that small and young firms find it more difficult to obtain bank credit compared to other firms, even if their financial performance is the same.

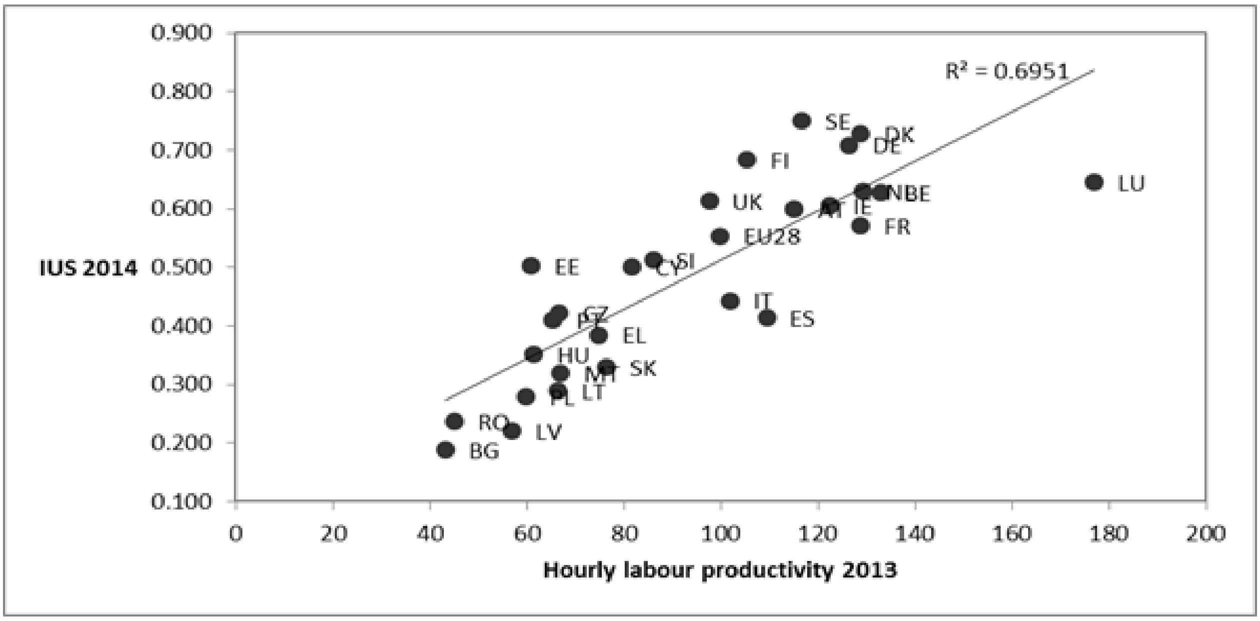
We must ensure that our firms are not unduly disadvantaged when seeking credit and that it is not an impediment to European investment and growth.

The Commission is working on ways to improve access to finance through measures financed directly by the EU budget or in joint actions with the European Investment Bank, or by improving the functioning of financial market with initiatives like the Banking Union.

In this regard, it is encouraging that many Member States have adopted measures to strengthen loan guarantees systems and to facilitate the transfer and access of financial information.

3) The third message is that we should underline the importance of innovation for growth.

(Slide 5 - Innovation Performance and Productivity)



As you can see from slide 4, innovation and productivity are directly correlated. The most innovative EU countries, which recorded high score in the Innovation Union Scoreboard (see vertical axis), are also those with the highest labour productivity per hour.

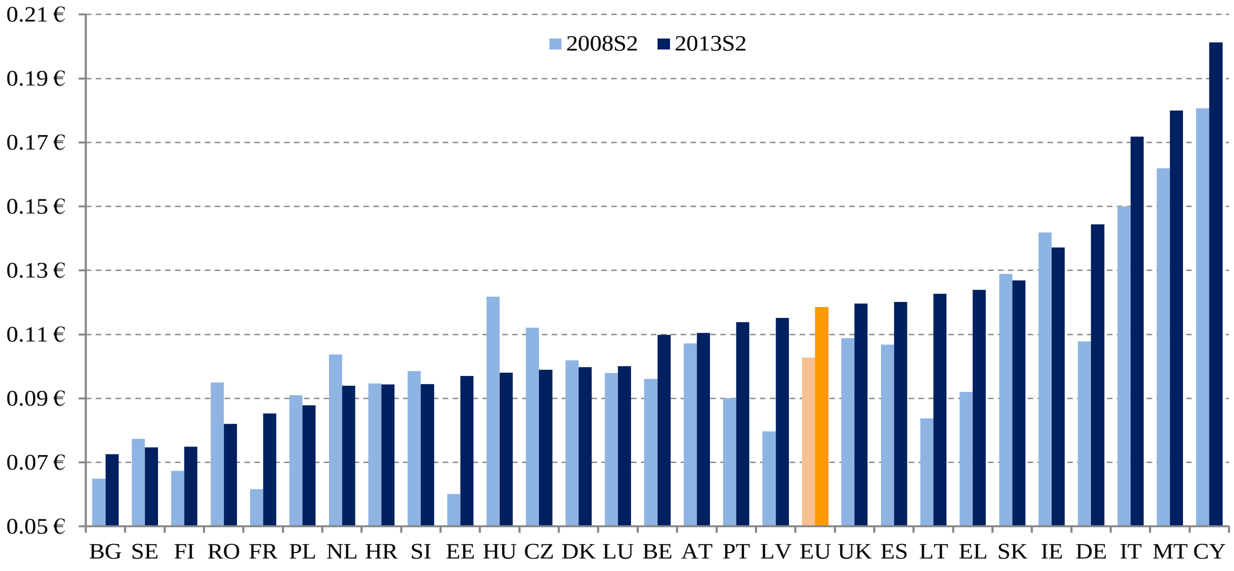
Innovation has a positive effect on employment. A one percent increase in sales of innovative products produces a similar increase in new employment.

I also want to stress that more efficient innovation and commercialisation of research results is needed in most Member States. This can be facilitated by undertaking policies to remove barriers to innovation, in particular for SMEs.

4) The fourth message is that Europe has a competitive disadvantage given high energy prices.

Despite the fact that over the last two decades European industries have significantly improved their energy efficiency more than the majority of our competitors, these improvements have not been enough to fully offset energy price increases as you can see from slide 6.

(Slide 6 - Electricity prices in the EU)



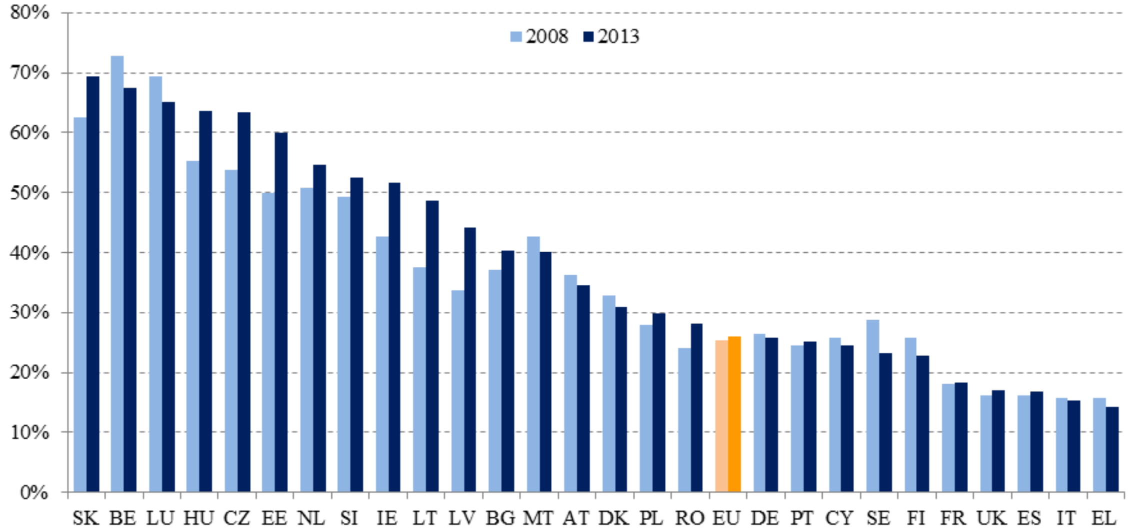
The majority of Member States have suffered higher energy prices in 2013 as compared to 2008. Prices have recently increased more than in other economies, mainly due to rising taxes, levies and network costs. To overcome this problem, we need more performing and competitive energy markets, more investment in smart grid and energy efficiency, and a greater diversity of supply.

5) My fifth message is that it is imperative for European firms to have better access to markets and to be fully integrated in global value chains

It is encouraging to see that European firms have maintained their competitiveness internationally also during these difficult times. The single market is an important source of growth, especially for SMEs. However, we should work to further integrate the internal market for goods and services.

Access to markets and integration in global value chains are the basis of European firms' competitiveness. As showed by slide 7, between 2008 and 2013 trade integration slightly increased across the EU. The figure pictures the percentage on national GDP of the combined value of exports and imports. The higher the value, the more open is its economy.

(Slide 7 - Change trade integration in the Single Internal Market 2008-2013.)



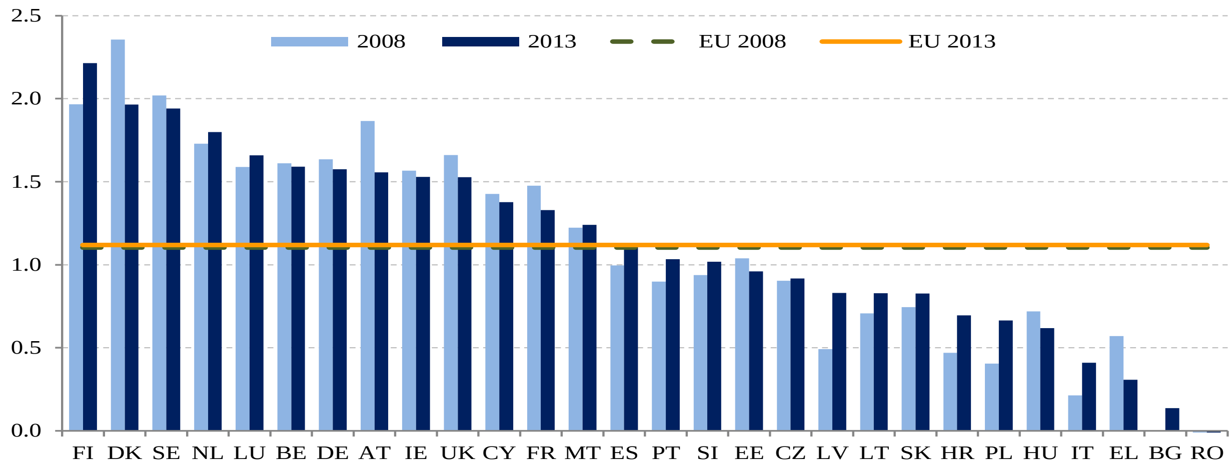
However, it is also true that SMEs have a harder time to trade. Smaller and younger firms are less likely to enter foreign markets. Only 7,9 % of micro enterprises – those employing less than 10 people – are exporting to other European countries, and only 4.4% to outside the EU.

There are a number of reasons why they are disadvantaged, but one of the most important is administrative burdens.

6) This leads me to my sixth and final message, which is that it is imperative that Member States improve the quality of the public administration

The reports show that the efficiency of public administration has an important impact on firm growth and competitiveness. The more efficient the public administrations, the higher the number of fast-growing firms.

(Slide 8- Government effectiveness - World Bank Governance Indicators)



Unfortunately, it is still the case that many Member States need to reduce costs and uncertainties for businesses when dealing with public administration.

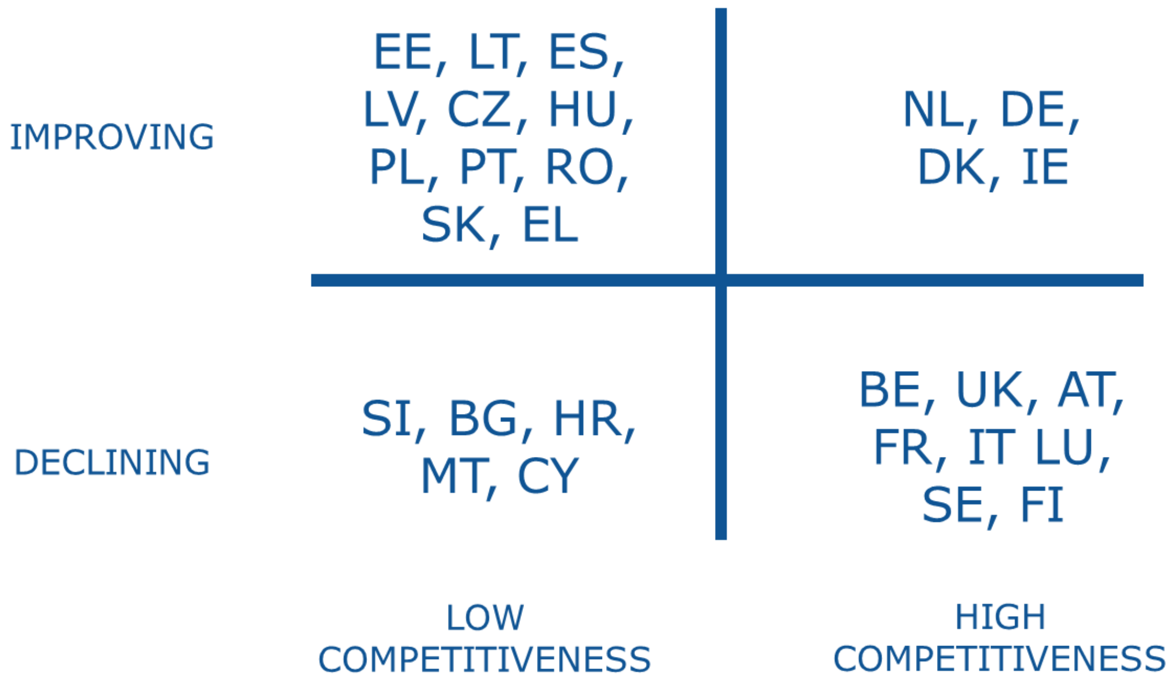
Inefficient public administrations, ineffective judicial systems and legal uncertainty still remain major obstacles to competitiveness in a number of Member States.

Most Member States also need to better take into account the effects of rules and legislation on competitiveness in all policy areas. This is particularly important given that the Council has agreed that Member States must take into account industrial policy in their policy formulation.

Conclusions

These are the general trends in Europe's competitiveness. Of course, Member States have different points of departure, and different strengths and weaknesses. According to our analysis, Member States **are placed in four different groups,** as you can see in slide 9.

Member States' grouping is not intended to be a ranking. We merely try to group Member States which are in a similar competitiveness position.



(1) The first group refer to Member States with high and improving competitiveness: **Denmark, Germany, Ireland, and the Netherlands.**

(2) The second is composed by Member States with high but stagnating or declining competitiveness: **Austria, Belgium, France, Italy, Luxembourg, Finland, Sweden, and the UK**.

(3) The Member States with modest but improving competitiveness are in the third group: **Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia and Spain.**

(4) The <u>fourth group</u> includes Member States with modest and stagnating or declining competitiveness: **Bulgaria, Croatia, Cyprus, Malta and Slovenia**.

I appreciate that during the last years efforts have been made by Member States to improve their competitiveness.

However, a lot still needs to be done. Despite differences in performance and policies of Member States, there are many common problems.

This includes lack of investment, access to finance, the price of energy, tackling inefficient public administration, and the need for structural change.

I invite all Member States to focus their policies in tackling these shortcomings to put our companies and SMEs in a stronger position to compete in the global market place.