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Introduction

It is an honor for me to be here today. The London School of Economics is a world-famous institute of economics, philosophy and political science. But above all, it is a model of tolerant, open and free intellectual thought.

So why the topic 'An Industrial compact for Europe'? I wanted to share with you my experience in industrializing Europe, our work in progress and my vision for the future of European Industry. My audiences also usually want from a politician like me: a speech with political content, ideas for their own future and they want to hear a vision or, in simple words, how a European politician sees things when confronted with the current challenges.

I will try today to provide input under those perspectives. I have travelled a lot these last few months, inside and outside the EU. The world is changing very quickly and I want to share with you a couple of thoughts.

My vision

When I arrived at the Commission a couple of years ago, industry was in the corner. Even our engineers wanted to work only in the financial sector and not in manufacturing. It seemed: "*the best industrial policy was no industrial policy at all*".

Let me say from the beginning that I have nothing against finance. Quite the opposite: I have been working hard for a marriage between finance and real economy. But if there is one lesson we can learn from this crisis it is that countries with good industry have suffered less, whereas countries with poor industry have had difficult times. Against that background, I have been trying since the beginning of my mandate to implement a dream: to reindustrialise Europe. What kind of reindustrialization do I have in mind? One that is innovative, green, technologically advanced and modern. One that supports 23 million SMEs which are the heart of our economy. In the UK alone, SMEs account for 99,9% of all private sector businesses and 14,4 million jobs. To put it simply, I am supporting manufacturing of the third industrial revolution.

I will of course make several references to the UK today. I have been to this country many times during my mandate. I have said in private very often to British politicians and I have no problem in saying it now in public: the UK is a protagonist of this third industrial revolution. There is a lot of convergence between what I am leading in Brussels and what is being done in London.

My mandate expires in less than one year. I want industry to be at the centre of the economy when I leave. I am convinced that, for a future with more growth and jobs, industry can never be again put in a corner.

Overview of the European Industry

I would like to start by providing you with the state of play of European industry. The European industrial decline began at the end of the nineties. The 2008 crisis led to a significant acceleration of this process. We have lost 4 million jobs and manufacturing production has fallen from 20% of GDP to 15%. At the same time, we have lost half of global investments, equaling 350 billion Euros in the last five years.

The desertification of production leads to economic and political decline. One industry closing means, above all, the loss of a heritage of knowledge and of technical expertise. Lost skills which are difficult to develop.

However, the overall situation is not that bad. For example, the European pharmaceutical and agro-food sectors have globally been making money despite the crisis. Concerning the automotive sector, some German manufacturers are having very good results whereas others are doing less well. The fact is, however, that the European automotive market is slowly recovering and recent figures, notably here in the UK, are encouraging. It is true that two important sectors, construction and metal, still have turnover figures below 2008 but, there again, the latest figures are improving.

I have mentioned five important manufacturing sectors: pharmaceutical, agro-food, automotive, construction and metal. Defence and security are also important European industries. But there are also smaller sectors which are doing very well: space, key enabling technologies, high-end industries and tourism.

I want to especially draw the attention of the students to those sectors because the growth prospects are strong and the job opportunities are many.

In Space, the EU has invested over 20 billion Euros on its three satellite navigation projects: Galileo, the EGNOS signal augmentation project, and the Earth observation project Copernicus. These projects are expected to bring benefits totaling 120 billion Euros over the next 20 years.

They will also have an enormous positive impact on new services and applications. They will lead to increased competitiveness in key sectors including transportation, electrical grids, security, civil protection, border control, agriculture, maritime and fishery industries, and financial services. And let me add a political remark: in all my business trips abroad, I detect a growing political interest from third countries in our space policy. In conclusion, not only does space offer huge business opportunities for Europe, but it also brings greater political influence.

Another sector is Key enabling technologies, nanotechnology, micro and nanoelectronics including semiconductors, advanced materials, biotechnology and photonics, are all growing spectacularly in the EU. Mastering these technologies means managing the shift to a low-carbon knowledge-based economy. I want to put these technologies on your radar because they have huge potential. We are determined to support KETs (both politically and financially) to keep a European leadership in this crucial field.

High-end industry is another sector where Europe is a global leader with a world market share of 70%. Being part of the creative economy, European high-end products are exported world-wide and act as ambassadors for European manufacturing, heritage and culture. This industry's contribution to the European economy should not be underestimated. It represents 3% of EU GDP, a turnover of more than 400 billion euros and almost 1 million direct jobs. And the interesting thing is that European high-end industries have proven remarkably resilient to the crisis. The sector has shown consistent growth and stable job creation despite the crisis.

Tourism is another industrial sector which is growing. Europe is, and will be for a long time to come, the world's number one tourism destination. It is indeed a wonderful continent to be visited. We have history, art, gastronomy, mountains, nice beaches and good communications. The number of potential visitors from Russia, China, India, South East Asia, Latin America and Africa is immense. But we have to modernize our visa policy. Visas should no longer be only a security concern, but we must also take into account the economic dimension of our visa policy. I know the UK is not in the Schengen area but I also know that a modernization of visa policy in the EU can have a positive spillover effect here. We have to use more modern technology in order to facilitate issuing of visas. You will soon be hearing interesting news from Brussels on this.

Europe's Re-industrialization Strategy

In 2012, the Commission launched a Strategy for the Re-Industrialization of Europe, aimed at increasing the share of manufacturing in the European economy from 15% to 20% of GDP by 2020.

This action is based on four pillars: more investments in innovation; training closely linked to companies; better access to finance; and the markets.

In times of limited resources, we have identified certain high-potential priority areas of technology, where benefits will have a large spill-over effect on other sectors. These sectors include the bio-economy, key enabling technologies, low-carbon vehicles, smart grids, raw materials, sustainable construction and technologies for advanced manufacturing.

There will be money to co-finance this reindustrialization. First , the budget of Horizon 2020, our program of research development and innovation, has been increased from 54 to 70 billion euros, and one of the pillars of Horizon 2020 will be enhancing a Competitive Industry in Europe. Secondly, Member States can use part of the money they receive from the EU Structural Funds to support their "Smart Specialization". And Industry can be an important part of this regional specialization. We also have COSME, a program dedicated to SMEs with more than 2.2 billion Euros and, in addition more resources for venture capital. There is a saying in English: "*You have to put your money where your mouth is*". And I can assure you: when we talk about the need to re-industrialize Europe, we are serious about it.

The new Europe which must emerge from the crisis.

Fortunately, the European Union has created the largest free and open market in the world. We have a common commercial policy, a monetary union and instruments to manage unparalleled challenges like increasing global competition, growing scarcity of resources, precarious energy security and accelerating climate change. These are challenges no single country, not even Germany or the United Kingdom, can overcome alone. But stopping to consider complacently the achievements of the past and defending the status quo would be an error. The rapidly-changing world, the global financial and Euro crises, the spreading populism, together with the rise of new aggressive emerging economies, force us to adapt and to elaborate a new vision for the future.

As Einstein said, "*all crises bring progress*." And Europe, with a third of its youth unemployed, cannot afford to miss this opportunity.

Of course, no one is proposing the construction of a sort of bureaucratic monster far from its Member States and its people. The debate about subsidiarity must be our compass and help guide the debate.

All that can be done near the ground, close to the citizens, at national or local level, must not be a Brussels competence. The Commission may, at most, assist the Member States to exchange best practices and to collaborate. But certainly it cannot impose top-down solutions.

I refer, first of all, to the architecture of the monetary union, which has proven itself fragile and incomplete. The need for adequate instruments to correct the growing competitive divergences, as well as the structural imbalances which put the Euro at risk, have now become evident.

Certainly, the Member States must play their part, with ambitious reform programs to improve their competitiveness. Furthermore, without real economic governance, a federal budget, mutual fund instruments such as Eurobonds, project bonds and a central bank founded on the model of the US Federal Reserve, the risks for the Eurozone remain high. I have said before and I repeat it here now: in my personal opinion, the euro is too strong and this should be corrected because it could harm the recovery and reduce our possibilities to export even more. I am also supportive of the banking union because the real economy needs a stable and solid financial sector to recover.

A Business-friendly Europe

Europe is slowly but gradually coming round from the illusion of being able to outsource its manufacturing industry. To lose this industry means abandoning the source of 80% of European innovation, three quarters of European exports and one private sector job out of two. It also means putting in danger all related services.

None of this happened because of fate. Serious errors were made, and we must be honest in recognizing this.

Finance, initially the engine of the real economy, has become an end in, and of itself, losing touch with industry. We have created an excess of rules and bureaucracy and obstacles often without purpose which are a burden on European entrepreneurs.

In Europe, the costs of energy are the highest in the world, with indications that further increases are in store. We have competition rules linked to a Europe-centric conception of the market, when in reality markets have become global. Our research is not tied closely enough to the market. Our education system often does not meet labor demand. Our commitment to free trade is sometimes insincere.

Ultimately, the prime engine for growth, the internal market, even 20 years after its creation, still has plenty of room for improvement before it functions properly.

If we really want to help our SMEs, we must implement better the "think small first" principle. The introduction of the SME supporting factor in Basel III is a step in the right direction, but more must be done. We have to make more progress on standardization. The more global the standards, the more our SMEs can use the internal market and export using common rules.

The removal of such obstacles would make Europe a more attractive place to invest.

If the root cause of the crisis lies in the growing competitive discrepancies between the Eurozone economies, we must correct our policy of pursuing austerity to the exclusion of everything else. This policy by itself cannot resolve the problem of Europe’s lack of industrial competitiveness. On the contrary, it risks aggravating the situation, suppressing internal demand and fuelling the spiral into recession.

For a return to growth, we must cut wasteful expenditures. We need structural reforms, investments targeting infrastructure, as well as training and innovation.

Better access to international markets is also key to re-launching our industries. From now until 2020, 75% of all growth will come from emerging economies. The Commission therefore promotes a better access to global markets, with a special emphasis on SMEs.

Our strategy is based on several areas of action.

First, the elimination of tariffs and technical barriers to trade, achieved in part through more assertive commercial policies, as well as more free-trade agreements, beginning with the EU-US TTIP (Transatlantic Trade and Investment Partnership) agreement, which is fundamental to kick start our economy. Our business diplomacy to get access to raw materials is also increasingly important.

Let me say a few words on the EU-US negotiations. As you know, with the agreement in place, the EU's economy could be boosted by 120 billion euros, our Gross Domestic Product could grow 0.5% and each household would gain 545 euros a year (around 445 £ Pounds).

The negotiations have already started and I have to say two things: firstly, the main problem is not so much customs duties but rather the mutual recognition of standards and certification. We are doing our utmost to overcome obstacles in order to make progress. Secondly, I am in permanent contact with European industry and I detect a great consensus in making progress quickly with the US. I sincerely hope that next year we are able to announce good news.

Second, increased assistance to European enterprises delivered by EU representations and the European Enterprise Network.

And **third**, our Missions for Growth, designed to facilitate investment and business opportunities. Since 2011, I have led Missions for Growth, accompanied by European enterprises and business associations to Brazil, Argentina, Uruguay, Colombia, Mexico, the United States, Morocco, Tunisia, Egypt, Russia, China, Israel, Vietnam, Myanmar and Thailand.

In this context, let me for a moment underline a point which, I hope is of particular interest to the students in the audience. If I were to give you a tip on where the opportunities for young professionals lie, I would say it is in the internationalization of our companies. I have travelled a lot outside of Europe, leading business trips and I have seen with my own eyes the huge potential of Europe abroad. Several third countries are growing fast and they have an appetite for the European quality of our products. But Europe is not only good in manufacturing with quality. I had a very interesting discussion three weeks ago in Myanmar with Burmese Nobel Prize winner Aung Saan

Suu Kyi. She rightly told me that business is needed but, above all, ethical and responsible business is needed more than ever and Europe is a world leader in that field of corporate social responsibility.

An improved context for business

Discouraging or creating obstacles to entrepreneurship means boycotting jobs and growth. Therefore, a cultural revolution is necessary, where public administrations view the entrepreneur as a positive actor bringing benefits to society.

Europe must reduce the time needed to obtain a licence, to open a company, to receive credit, to establish a contract or conclude a bankruptcy.

Based on the model of the Directive for Late Payments obliging public administrations to pay companies within 30 days, I intend to propose binding measures to enact certain principles already present in the Small Business Act. I refer, for example, to principles such as the setting-up of a company within three days at a cost of less than one hundred euros, authorizing licenses within 30 days, and reducing time needed to recuperate credits through judicial channels.

We are still not sufficiently exploiting the great potential of Information Technologies**.** Only half of EU Member States have e-Government services designed for companies. Recent estimates indicate that the widespread use of these technologies would cut 20% of costs**.** Because of this, digital services are at the top of the agenda for growth in Europe 2020.

Reducing the burden on companies means, first of all, legislating less and better. The EU must be an example. To accomplish this, we have implemented an obligatory competitiveness test for each new legislative proposal.

This analysis must be made with the cumulative effect in mind. We cannot continue to restrict sectors, already struggling with ever-increasing global competition, with never-ending prescriptions. Taken together, these lead to unsustainable costs and the risk of relocation outside Europe.

I have already initiated testing this cumulative effect on the sectors of steel and aluminum. The results were presented on November 6th. The launch of further tests, for the chemicals and ceramic industries, is imminent.

Since the entry into force of the Small Business Act in 2008, the Commission has been working on reducing administrative burdens. We have already achieved our objective of a 25% reduction, leading to an estimated 30.8 [thirty point eight] billion Euros in savings. However, we want to go even further, achieving savings of 41 billion euros per year.

A Pact for Industry

Europe must change, enacting reforms and policies for commerce, the internal market, research, energy, the environment and infrastructure. All these policies must be coherent with European reindustrialization.

Alongside the Fiscal Pact, there must be an Industrial Pact to restore balanced growth and coordinate actions. It must include microeconomic measures making Europe more attractive for investment and manufacturing.

The next Summit dedicated to industry in February 2014, must consolidate this trend reversal and define this Pact as a premise for a return to growth.

We will tackle the issue of access to finance. We cannot escape a debate on the high cost of energy in Europe. We have to think about cutting red tape at European but also national level. Industrial policy has to be mainstreamed in all EU policies. And finally, we want to put on the table of the Heads of State and Government our aim: 20% of GDP coming from the manufacturing sector by 2020.

Conclusion

The crisis has highlighted the fragility of unbalanced economies, which risk losing touch with their productive base. The UK is pursuing an industrial revolution which I can only praise. Before coming here, I attended a very important European conference on fashion and high-end industries. I was also here discussing European space policy a couple of years ago in Buckingham Palace with Minister David Willets and other members of the space family, in the presence of His Royal Highness the Duke of York.

Let me conclude. My mother was a professor of Latin and Ancient Greek. Therefore, I grew up with permanent references to Greek and Roman authors. One of my favorites has always been Demosthenes, the Greek Statesman. He said that: "*Small opportunities are often the beginning of great enterprises*". I leave that thought with you. I have shared my dream with you today and I also want to back your dreams. I hope there are many young people in the audience who want to and will become entrepreneurs. For the new industrial revolution, Europe needs entrepreneurs.

I am optimistic. In Europe we have 23 million small and medium-sized businesses. There are men and women like you with dreams they want to realize. If we are able to liberate their full potential, we will truly have a new industrial revolution.

Thank you.