



European Apparel and Textile Confederation

24 rue Montoyer – Box 10 – 1000 Brussels
Belgium

From the Director General

☎ : + 32.2.285.48.92 – Fax : +32.2.230.60.54

✉ : francesco.marchi@euratex.eu

Web-site: www.euratex.eu

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Contribution by:

European Apparel and Textile Confederation (EURATEX)

24 rue Montoyer – Box 10 – 1000 Brussels
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Introduction

EURATEX, representing the €200 billions plus EU textile and clothing industry, welcomes the initiative taken by President Barroso and the Commission to launch a consultation on medium to long term strategies for the European Union.

For a creative and innovative industry such as the one that EURATEX represents, characterised by a large number of very small to medium size companies subject to the effects of the globalisation of its markets while developing and marketing flexible materials and products for a myriad of applications for everyday life, the opportunity to reflect on the integration of EU policies and initiatives into transparent longer term objectives is essential for the maintenance of a lively and very competitive industry in the EU.

This industry has proved since the launch of the High Level Group exercise on the textile and clothing industry (2004-2006) its ability to already integrate in its industrial vision and strategies a number of policies upon which the future EU2020 strategy will probably be based. Even though the results may appear less noticeable than in other more “technology-driven” industries, the EU textile and clothing industry has in several cases been the pioneering sector in various policies showing abundantly its resilience and its resolution to turn its policy focus towards the more fundamental competitive assets in a knowledge-driven and sustainable growth oriented global economy such as innovation and creativity, research & technological development, education and skills preservation, implementation of sustainable business processes, supply chain cooperation, adoption of advanced ICT and proactive market access to third countries in order to preserve as much as possible of the EU textile and clothing pipeline within the EU boundaries¹. Moreover, the EU textile and clothing industry, which is since more than thirty years in a constant restructuring and adaptation mode, is currently reflecting on how it has to further transform itself by 2020 to cope with new challenges imposed by the expected considerable change of the international competition and emerging consumers and market trends.

EURATEX therefore accepts and supports the main ideas of the Commission's proposed in the future EU2020 strategy in order to keep, inter alia, knowledge and skills within the industry as a base for future European textile and clothing competitive assets. Although on certain specific themes EURATEX thinks that there are views which have to be taken into account to a greater extent than outlined, if the textile and clothing industry is to play its full part in successful implementation of the strategy.

¹ Examples of such initiatives include: the European Textile Technology Platform, the Protective Textiles Lead Market, the CrossTexNet ERA-Net project, the Education Observatories project, the market access working group, the eBIZ-TCF project for supply chain ICT harmonisation and various common initiatives with related industries.



Creating value by basing growth on knowledge

It would not come as a surprise that EURATEX, representing one of the most creative and innovative parts of the global textile and clothing industry, actively supports the Commission's ideas on the need to strongly link education, research, innovation and creativity. The textile and clothing industry welcomes the call for an increased cooperation and the need to pool resources between the EU and the Member States to accelerate the practical benefits of research. The fragmentation of duplication of research efforts resulting from the current set-up is clearly a weakness of Europe.

However, EURATEX would appreciate a clearer definition of the term "*creative industry*" to which the document refers to several times. Indeed, EURATEX considers crucial that such concept also cover the "non-technological innovation" which is key to number of European industries and in particular to the textile and clothing sector². Specific policies should be developed to foster such intangible value creation that is a clear strength of Europe and as such are central to the realization of the overall strategy proposed by the EU2020 communication.

Notwithstanding improved access to public R&D funding in recent years most post-R&D investments necessary to turn research results into innovative products have to be borne by companies themselves. This is an enormous effort and risk especially for SMEs or any type of company active in fast-moving markets such as the fashion sector, an aspect that is not sufficiently recognised by the private financial institutions or by public authorities. This calls for the following suggestions:

1. Widen the range of public funding instruments and their possible combination across the entire spectrum of research, creativity, innovation and education needs. All should be based on funding procedures which are as rapid, flexible and SME-friendly as possible;
2. The European Technology Platform (ETP) policies are a success story and must be continued and strengthened beyond the FP7 time frame. Linking ETP activities more closely to innovation and education policies in the sense of the knowledge triangle makes sense, but in such process the flexible and stakeholder-driven culture of most ETP today should not be lost in complexity.
3. The pooling of public resources from EU, national and regional level used for stimulating research, creativity, innovation and education must be further developed, always with an eye on accessibility, flexibility and simplicity of schemes.
4. Public-private partnerships (PPP) in research and innovation can offer new ways of tackling common industry-society challenges. However it should be kept in mind that complex large-scale structures such as FP7 Joint Technology Initiatives may not be suitable to all industry structures and situations. EURATEX strongly believes that future R&D cannot be carried out solely through PPP structures but that those should be an additional instrument offered alongside strongly continued "classical" forms of research and innovation support such as collaborative projects.
5. Supply-side support measures should be accompanied by more effective demand-side measures, such as a clearer link between research, innovation and public procurement. Indeed, the public authorities should encourage more visibly the uptake of the innovative products in the day-to-day life of their administrations. This will also encourage textile and clothing innovators to have greater recourse to the standardisation and certification of their processes/products, another way to secure their competitive assets.
6. To attract more innovation and creativity EURATEX considers crucial that the access to credit for innovation carried out by creative industries - dominated by a vast number of SMEs like in the textile and clothing sector – would be made easier, more available and affordable under all economic conditions. Therefore it is crucial for commercial banks to effectively use the dedicated EIB funds for helping those companies in making their innovation investment. Improving this would certainly be of great help to industries like textile and clothing and would lead also to more rapid uptake of results from public R&D programs.

² Non technological innovation in the textile and clothing depending from the type of product-range could represent up to 20% of the turnover invested in product development and creation on a yearly basis

7. The Commission rightly highlights the crucial role of the intellectual property rights (IPR) systems. This has always been key for our companies but the access to effective, easier, less burdensome and better protecting IPR systems including notably the protection of designs, trademarks and other intangible assets from innovation should be fostered. This is particularly important for SMEs and sectors dominated by intangible competitive assets like in the textile and clothing industry. This approach will encourage firms to be even more creative in their product development processes, to invest more in innovation while always preserving and widening their competitive knowledge advantage.

Empowering people in inclusive societies

EURATEX agrees with the views of the Commission that the post-crisis economy will be a challenging and a key period to ensure the maintenance of the EU competitiveness across all the industries with no distinction. In that context the textile and clothing industry shares the views laid-down in the EU2020 draft communication. However, EURATEX would like to draw the attention on a few elements important for its industry.

1. The right combination of flexibility and job security (“flexicurity”) is of great importance in particular in industries that are transforming themselves from labour-intensive to more capital/technology-intensive models like the textile and clothing industry. The current crisis showed abundantly that in the Member States where some forms of “flexicurity” were offered to businesses, they managed to maintain as much as possible employment while promoting the desirable restructuring programs for the continuation of their activity. On the opposite the lack of flexibility or the rigidity of the systems in place in a great number of Member States have encouraged or forced companies to shed more workers – in particular the less skilled ones and despite the costs linked to this practice - than it would have been necessary to ensure the maintenance of the company. Hence a plea for more flexibility, better integrated social and education systems to accompany the transformation of the EU textile and clothing industry by 2020 in a real knowledge-based industry.

2. The textile and clothing industry considers key for its competitiveness the preservation and the improvement of the workers skills. This is already factored in the companies policies even though the average size of the companies is not always conducive to more effective and efficient “life-long learning” programs. EURATEX is pleading for more effective matching between future skills and needs of the companies and this for all the functions needed by the companies. This should pass though: [a] more palatable promotion of the industry in general among the young generations; [b] the development of alternate trainings that will maximise the transfer of knowledge as well as [c] “smarter” and more practical education programs. By doing this we will ensure that core competences will be safeguarded and fostered in the EU and at the same time the unemployment risk will be minimized by adjusting the offer to the actual requests.

3. Strict control of state aid which governments may wish to offer for employment preservation is necessary. This is valid in particular for sectors or sub-sectors that are very sensitive to restructuring or to distortion of competition. Indeed in this very hectic period the temptation to have recourse to national or regional state aids to support the continuation in operation of non-competitive units at the best will perpetuate depresses financial returns for the more competitive companies. But it will most probably convince or force more competitive producers to delocalise their production units with their technology and their knowledge to avoid being forced out of business. This will be a net loss of competitiveness for the whole European industry. These distortions of competition can be avoided *inter alia* by strict rules on state aid control at EU level, and by their rigorous enforcement.

Creating a competitive, connected and greener economy

The European textile and clothing industry welcomes the Commission recognition of the crucial role played by the manufacturing industry and the need for a fresh approach to industrial policy. The latter must be implemented with no a-priori on the sectors concerned in order to have a broad-based modernisation of the industry.

EURATEX has developed since years a policy agenda aiming at favouring the modernisation of our sector by coordinating and encouraging better integration of innovation, R&D, education, skills, health and safety and environmental sound policies.

The efforts in improving the efficiency and the productivity are already a reality in the textile and clothing. The European textile and clothing pipeline has an environmental and carbon footprint which is probably amongst the lowest in the world and its products are essential components in many environmental and climate change functions.

With the above in mind, EURATEX would like to stress on a few elements of importance for its industry.

1. Greening of products is an attractive concept that is supported by EURATEX since several years but its effective and practical implementation is more difficult. Companies need to take into account their investment life-cycle to ensure a correct return on investment. It is therefore crucial that the EU strategy does integrate the “investment life-cycle” in its policy approach if the EU2020 strategy is to command the uptake of greener technologies. To this end, the strategy should: [a] reward green innovations through better protection, enhanced standard systems, targeted subsidies at better conditions than the market, and [b] not introduce new Regulations disconnected from the life-cycle of the technologies as the return on investment is by far not always immediate with those new approaches.

2. The EU should address the issue of the bankers and consumers’ resistance in rewarding more environmentally-friendly products/processes. Indeed both actors are today not ready to invest in those products or technologies. In particular the latter is not adapting his/her wish for a “safer, greener consumption” with its behaviour as he/she is not prepared to pay adequately for “greener” but slightly costlier textile and clothing products. This is favouring imports and is not conducive to encourage European SMEs to invest in those new technologies or processes.

To be effective, the greening of products calls for a lot of expectations for support policies from Member States and the Commission. It is worth a trial to have more active promotion policies for the up-take and the generalisation of greener textiles and clothing products that are an effective response to certain challenges through: [a] more targeted research, development and innovation of green processes irrespective of the industry sector; [b] the creation of specific credit lines for “greening” investments across the whole spectrum of the EU textile and clothing industry; [c] clearer and more realistic public procurement policies; [d] active tax policies and subsidies to stimulate more demand for greener textile products³; [e] dynamic and targeted public-private advertisement policies at national level showing the environmentally, social and societal advantages of those new products.

3. EURATEX stresses the importance of European investment in efficient and environmentally favourable electricity generation and transmission. Reliable electricity supply, at prices comparable to other regions of the world and with no noticeable difference among EU Member States, is one of the keys to industrial competitiveness. Clearly, this goes hand in hand with investment in energy efficiency, which also helps to reduce costs by limiting the number of generation plants required.

4. It should be emphasised that European environmental policy decisions must take into account the implications for industrial competitiveness. Further increases in costs for European industry, stemming from a wide range of policies coupled with the pressure on the prices in the world markets and a lack of access to credits weaken the international competitiveness of the European textile and clothing industry, which is already best in class on a global basis. The result will be at best loss of production in the European Union, and a growth of imports - largely produced in regions with higher energy intensity per unit of output, higher carbon emissions in electricity production and lower standards of pollution control and health and safety encouraging by the same token environmental dumping in the EU.

5. The simplification of legislation should be streamlined and the result should in the end not cost more than the existing set of legislations. An effective independent impact assessment of the legislations should, therefore, be implemented and be made more visible and inclusive to avoid unnecessary delays in their adoption and implementation.

In this context the impact on competitiveness from over-regulation or complex rules – at national, regional as much as at European level – as well as the impact of unnecessary delaying in the adoption and the implementation of simplified rules for the industry must also be taken into account. Three examples among others: the complexity and limitations of the detailed emission trading system rules which are

³ VAT rebate, active tourism policies for the modernisation of their facilities including textiles, etc.

slowly emerging will greatly reduce the effectiveness of the carbon leakage provision⁴; the delay in the adoption of simplified rules on generic fibre names and in the rules on bioactive fibres. In the last two cases it is recognised that the existing laws discourage or hamper innovation and the delays in the adoption of the revised legislations will not give any clear advantage in terms of consumer safety and will favour imported products. In addition there is the risk that further delaying their adoption will increase requests from the legislator of additional and redundant new legislations or provisions that will in the end not better protect the consumer and will increase further the costs, discouraging their effective uptake.

The comments in the previous section on “flexicurity”, skills preservation and state aid control are also relevant to this section.

Making it happen: starting with a successful exit from the crisis

It should not come as a surprise to the Commission that EURATEX shares its assessments on the need for an orderly exit from the crisis.

Nevertheless EURATEX would like to stress again the aspect of access to credit including the restoration of normal and workable conditions in credit insurance and the access to specific “green-credits”. This is of great importance for an industry dominated by SMEs that are facing huge difficulties to finance their daily activities because of the very strict conditions imposed by the private banks on firms for respecting the “Basel II” requirements. EURATEX have already stressed this point in February 2009 and is still of the view that the negative effects of an excessively strict implementation of the “Basel II” credit conditions to the SMEs – highlighted since the start by the industry and revealed by the current crisis - should be addressed in priority and with urgency. This to avoid that the exit from the crisis is slowed-down by a lack of accessible credit and by discriminating among businesses and sectors based on “automatic credit criteria” approaches disconnected from the reality, thus impeding firms to raise their investment intensity on competences (skills, knowledge) and on new processes (greening production process, R&D and innovation, etc.) key for their survival and the future implementation of the proposed EU2020 strategy.

Finally, we also emphasise the importance of sustainable public finances. Excessive deficits will drive up interest rates, and risk future instability and crises.

Making it happen: harnessing existing instruments in a new approach

➤ Fully exploiting the single market

EURATEX supports the comments of the Commission.

➤ Setting EU 2020 in a global context

EURATEX believes that even in 2020, although there will be new products and new activities based on green and other advanced technologies, it is certain that the majority of EU industrial activity will still be based on more “traditional” sectors integrating a growing number of those new technologies. Of course, these will have adjusted their technologies and product ranges in line with the drivers to which the Commission calls attention, but they will still be competing globally with producers in countries which have chosen not to advance as quickly as the EU in the direction of regulatory controls which increase costs. The EU textile and clothing industry should therefore benefit from a better access to fast growing third markets for its creative, innovative and environmental sound products as a way to secure companies’ investments in the EU and to avoid shift of production to less environmentally stringent countries or regions that are part of the main world competitors of this particular industry.

Moreover all efforts to increase the knowledge and the productivity to support the EU2020 strategy should allow EU companies to conquer new market niches not only within the European Union markets but more importantly across the world. Here the extent of the premium which European consumers will be ready to pay for “green” products is very far from clear (see previous sections), but experience has shown to be very low and unlikely to change. As a matter of consequence, the competitive situation of these industries, as the textile and clothing sector, marketing greener end-products has to be one of the major factors in a global context. The linkage between the EU industrial and competitive policies with the trade policy should be more consistent and straightforward.

⁴ ETS: The list of sectors at risk of “carbon leakage” includes the entire textile and clothing pipeline of production

Moreover, EURATEX is convinced that while securing open markets for EU exports is important, so is retaining effective trade defence capability, in line with WTO rules in order.

Deepening relations with key strategic partners through Free Trade Agreements can be a helpful part of the global policy. However in order to achieve an effective and consistent trade improvement we need to select carefully our potential partners ensuring that targeted markets are sufficiently attractive for EU Industry. Moreover we need to ensure balanced and symmetric provisions in the agreements by: [a] avoiding excessive transition periods before EU gains access to other markets; [b] maintaining a consistency in the applied rules and in the possible negotiating concessions. It is also fundamental to ensure effective monitoring and compliance provisions in order to prevent the reinstatement of market protective measures by third countries. For the textile and clothing industry, trade relations within the Euro-Med area, and with Eastern Europe, are of particular strategic importance and we have to make sure their full development potential is accomplished.

Finally, the maintenance of a strong WTO framework is essential – whatever the ultimate outcome of the DDA negotiations is. In this respect it is fundamental that the accession process of important trade partners is concluded (i.e. Russia) and that we ensure the full compliance of WTO Rules by all members and particularly by the key trade players.

➤ **Supporting growth through full use of the Stability and Growth Pact**

EURATEX shares the Commission’s approach. A reinforced structural reform agenda is highly desirable in particular if this is accompanied by a more realistic Euro/US Dollar exchange rate policy. The latter should help EU companies to be able to better leverage investments in the areas of development proposed by the EU2020 approach and to widen the market opportunities for selling their “greener” products.

➤ **Reflecting political priorities in our public budgets**

EURATEX notes the Commission’s approach and hopes that the new priorities will receive from the Commission and the Member States the adequate attention and will be commensurate to the ambitious new priorities expressed in the draft EU 2020 strategy while respecting the stability pact. EURATEX is ready to contribute to the thinking on exploring how new financing resources can contribute to the overall strategy set in this document.

➤ **Establishing clear governance to make the new strategy effective**

Partnership with all stakeholders, public (at regional, national and European level) and private, will be essential. The role of industry is key to delivering good economic results both at overall level and at the level of each industry or particular sectors.

EURATEX looks forward to constructive cooperation with the Commission as the EU 2020 strategy moves forward.

Brussels 14th January 2010