

## Summary of the Conference

More than 400 participants took part in this conference to discuss options on how to achieve a new decade of sustained growth and job creation in Europe. Speakers included Commission Vice-Presidents Antonio Tajani and Joaquin Almunia, Professor Xavier Sala-i-Martin and Professor Mario Monti. Top level speakers from the business community and social partners such as Nick Reilly and Peter Brabeck-Letmathe, chairmen of GM Europe and Nestlé respectively, as well as Peter Scherrer (European Metalworkers Federation) took part in lively discussions led by the TV moderator Michael Buerk. Wolfgang Münchau of the Financial Times gave a thought-provoking journalist's perspective.

There was broad agreement that there are signs of a modest recovery, and the need for a new European industrial policy which will enable the EU not only to recover from the current recession but also to usher in a new period of competitive, sustainable and inclusive growth.

### **Lessons learnt – and the short-term outlook**

Vice-President Antonio Tajani, Commissioner in charge of Industry and Entrepreneurship and the host of the event, highlighted the success of the policy response to the current crisis: *"We could not avoid a deep recession. But we could avoid a long-lasting recession. Indeed, the sharpest ever recession in the post world-war era is coming to an end and first signs of a sustained economic recovery are now emerging. It will still remain jobless growth this year, but if we get our exit strategy right, and our strategy for entering the post-crisis world, then this recovery will bring back old growth dynamics and substantial job creation already next year."* This assessment was also echoed by Philippe de Buck, the director-general of BusinessEurope, an umbrella group of business federations representing some 20 million European companies. *"Our figures, based on what companies are saying, are even more positive than what the Commission is saying,"* he remarked.

However, in the light of millions of jobs lost in the present crisis, Poul N. Rasmussen, the President of the Party of European Socialists, stuck to his earlier assessment, also voiced at the first high-level conference on industrial competitiveness of 17 March 2009, that *"too little had been done too late"*.

Commission Vice-President Joaquín Almunia, in his previous post as Commissioner for Economic and Monetary Affairs a central player in responding to the crisis, emphasised in his keynote speech the success of the EU's [coordinated emergency response](#) which focused on rescuing the financial system and underwriting liquidity in the markets. Although the EU has somewhat relaxed the rules on the state aid, they remain consistent with the Union's competition rules, which still apply. These are designed to ensure a level playing field, avoid market distortions, and maintain European competitiveness. Almunia, now the Commissioner in charge of the competition policy said plainly *"At the start of the current crisis, relevant voices called for the competition rules to be set aside. But the Commission continued to enforce the EU competition rules, and it is clear that this was the right decision"* he stated. The useful life of these emergency measures will soon come to an end, and we will need *"to focus on exiting the crisis and, once we have emerged, to place Europe on the path to balanced and sustainable growth"*, according to Almunia.

Jørgen Elmeskov, the OECD's deputy chief economist, described the paradox that, although the financial crisis originated in the United States, Europe was proven less resilient to the fallout than America. He also singled out "sovereign risk" as a major threat despite the rather optimistic short-term outlook. According to Elmeskov the risk of defaulting has been shifting from the private sector to the public sector, at least in some countries so far. Rasmussen, and also Wolfgang Münchau echoed this concern and highlighted the urgent need to get "the Greek problem" solved immediately and credibly so that financial markets and speculators will no longer feel inclined to bet on the default of entire European countries. In this context, Münchau drew attention to an often overlooked determinant of the international competitiveness of European industries, the exchange rate, and that the biggest project of European integration, the euro, is about to be challenged.

### Quotes on policies

*"The big contraction suffered by the most relevant economies and the need for public intervention led to risk being shifted from the private sector to the public sector."*

*"Protectionism is the wrong response [to the crisis]. Not to use competition-policy tools ... is a receipt for failure."*

*"Some of our decision-making processes are too slow."*

Joaquín Almunia

*"Industrial policy' is no longer a taboo. It is a word spoken in unexpected quarters of policy-making."*

Mario Monti

*"There is a very important policy play in Asia, especially in China, Korea and Japan ... Governments are working hand in hand with companies ... by providing funds ... and for making sure that its strategy is co-ordinated."*

*"In Europe ... money [is] split ad-hoc across countries, and companies - with no overall strategy, no co-ordination driving it."*

Nick Reilly

*"If you look at environmental standards on the one hand and food standards on the other: nothing is co-ordinated. This is not a competitive framework!"*

Peter Brabeck-Letmathe

### **The need for restructuring – and how to achieve it**

About three decades ago, services gradually began to be seen as the new engine of the economy with manufacturing taking a back seat. Against this background all panellists, agreed that the present economic crisis has not only shown the crucial importance of the financial sector for the overall economy but also the key role manufacturing industry still plays and needs to play in

Europe. In addition, several panellists voiced their conviction that a clear distinction between manufacturing and services is an increasingly artificial and outdated concept.

Several panellists referred to the fact that the poles of growth, both for production and consumption, are rapidly moving to Asian Pacific, Latin America and Russia, making European markets much less important for global players, such as car manufacturers or the agro-food industry. Nick Reilly from GM Europe spoke of American and European markets being "dwarfed" by the growth dynamics in the Asian-Pacific region, and Peter Brabeck-Letmathe of Nestlé confirmed that Europe is presently accounts for only half his company's turnover as compared to ten years ago.

All panellists and speakers highlighted the importance of innovation, and of strengthening the single market. Some also highlighted the need for labour market reform, and the need for a raw materials strategy to ensure access to primary products for European industry in the face of growing global competition, not to mention the role that industrial services can play in boosting both manufacturing competitiveness and getting the full potential from the single market.

However, divergences became visible with respect to the way how to achieve such goals. Rasmussen, Aldo Fumagalli-Romario from Confindustria or Gina Domanig from Emerald Technology Ventures highlighted the need for the greening of industry and providing it with the necessary capital. They view this greening as a new source of dynamic long term growth, but Herbert Reul, the chairman of the ITRE Committee of the European Parliament cautioned on narrowing down the policy discussion to the greening and decarbonisation of industry, saying "*The future of industry is not green*". Also Reilly warned that striving for more sustainability should not lead to a crowding out of industries.

None of the panellists challenged the need for restructuring. However, Peter Scherrer, the Secretary-general of the European Metal Workers Federation, said that millions of European workers viewed "restructuring" as synonymous with job losses. "*This occurs not only in troubled industries but in highly profitable ones,*" he added. Restructuring must therefore be agreed upon between the social partners to be politically and economically acceptable.

### **Quotes on markets and strategies**

*"We will only remain industrially strong if we sustain our capacity to create and develop a strong supply chain. Any supply chain will be as strong as its weakest link."*

Bernard Bismuth

*"A few years ago, the size of the European market used to be roughly the same as the size of the North-American market. Now they are both dwarfed by the markets in Asian Pacific, with China alone having overtaken both the US and Western Europe with respect to the size of the car market."*

*"I personally don't think that there is enough realisation of the massive switch of economic power to the East – and the rapidly declining competitiveness of Europe if we stay complacent."*

Nick Reilly

*"If you restructure you are saving jobs, because in the long run, you are staying in this industry. If you don't restructure ... if you don't increase productivity ... you destroy jobs. The only difference is the time frame."*

*"The danger for Europe is not the low labour costs in the BRIC countries. The real danger for Europe is that in China every 18 hours one new research centre is building up."*

*"American railways: 100 years ago it was European technology, American money and Chinese labour. Now it is Chinese technology, American labour, and the Europeans don't see this ..."*

*"The Americans have advocates, lawyers, the Europeans have sociologists, and the Chinese and Indians have engineers. What do you think who will win this race?"*

Peter Brabeck-Letmathe

*"It is very important that workers and their representatives are involved in the restructuring process from the start... The process of change should be shaped by all of us together in order to retain jobs and create new ones."*

Peter Scherrer

*"Venture capital plays a key role in transforming innovation into products. It can also play a pivotal role in greening the economy."*

Gina Domanig

### **Innovation is the name of the game – and strengthened and more effective European integration**

While there was a certain lack of consensus on industrial growth strategies, how to restructure, and the new sources of growth, there was broad consensus on the need for more innovation in Europe. However, *"innovation is sometimes confused with research and development"* in high-tech sectors, noted Xavier Sala-i-Martin, professor of economics at Columbia University. *"Innovation is needed in every sector, it usually occurs in small steps"*, and is generally not pushed by publicly funded R&D but by participants in the production process, namely employees, and by close supplier-customer discussions.

This was echoed by the entrepreneur Bernard Bismuth who agreed that *"innovation isn't just about patents; it's about finding new and better ways to serve our customers. Innovation is about inventing and reinventing ourselves every day."*

Sala-i-Martin noted that innovation requires societies that not only have new ideas but implement them, and this requires the right kind of education system encouraging critical thinking and creativity, particularly at university level.

Numerous speakers highlighted the need for more effective European economic governance, e.g. through a further deepening and broadening of the Single Market, and for better coordinating national interventions in markets. Also the spending of the EU budget with its ad-hoc splitting of funding across countries, sectors and companies with no co-ordinated strategy behind was seen as not contributing to the creation of European champions or of supporting the long-term competitiveness of European industry.

## **Towards a new industrial policy**

The European Commission is currently working on proposals for ‘a new industrial policy for the globalisation era’, which is a flagship initiative of the ‘Europe 2020’ strategy’ [please link to <http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf>]. This conference was part of that effort. As a basis for discussion, first tentative findings of 'sector specific analysis' [[http://ec.europa.eu/enterprise/policies/industrial-competitiveness/economic-crisis/files/eu\\_manufacturing\\_challenges\\_and\\_opportunities\\_en.pdf](http://ec.europa.eu/enterprise/policies/industrial-competitiveness/economic-crisis/files/eu_manufacturing_challenges_and_opportunities_en.pdf)] of the EU manufacturing industry were made available at the conference. The European Commission invites all stakeholders to [provide](#) feedback on the issues identified and analysed in this document [ENTR-IND-COMPETITIVENESS@ec.europa.eu] by 21 May 2010.