

Industrial Policy: Reinforcing competitiveness

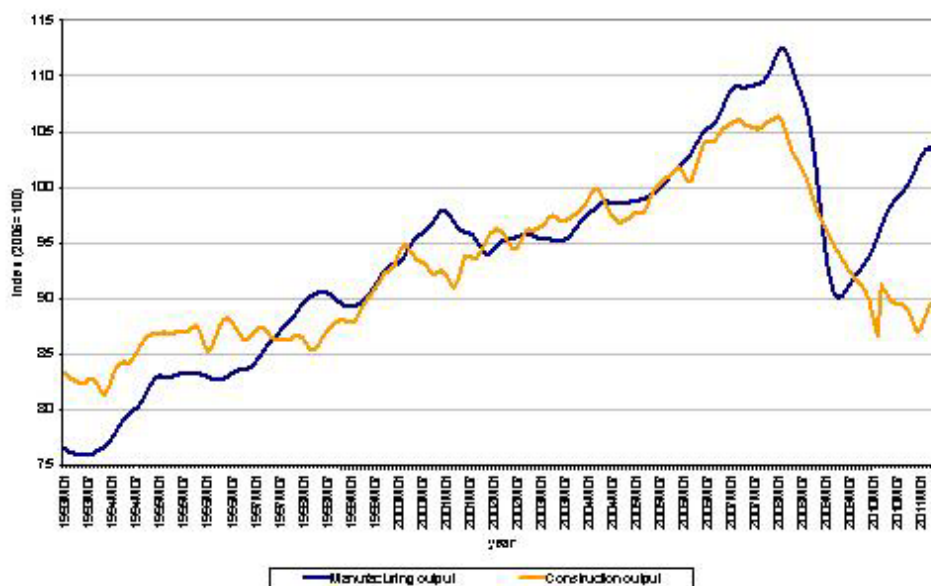
The European economy needs to get back to a growth path. This requires coherent and coordinated industrial policies from the Member States. Whilst financial and fiscal stability are necessary preconditions for sustainable growth, they need to be complemented by the implementation of structural reforms and microeconomic policies enhancing the competitiveness of the EU economy and its long term growth potential. This is the core message of the Communication on "Industrial policy: Reinforcing competitiveness" adopted by the European Commission today on the initiative of Vice-President Antonio Tajani. The Communication is a new yearly initiative that looks specifically at the competitiveness of the Member States. It is accompanied by the report on "Member States competitiveness performance and policies 2011" and the "European Competitiveness Report 2011" (ECR2011). Drawing on the Communication and these two reports, this Memo presents an abridged look at industrial competitiveness in EU Member States in the fields: innovative industry, sustainable industry, business environment and SME policy.

1. Economic recovery and international competitiveness

The EU economic recovery from the crisis has been relatively slow and remains fragile. Higher growth is necessary to create jobs and wealth, and is essential to get the public finances of the Member States onto a sustainable path. The fragility of the recovery is reflected in the worsening sentiment across the European economy and there are clear downside risks stemming from financial markets, rising energy and raw materials prices, and the need for budgetary consolidation.

However, European manufacturing has picked up better than expected. Manufacturing output is now some 14% higher than its trough in early 2009 but still 9% below its peak in early 2008 (see Figure 1) and jobs in industry and industry-related services are still 11% below the 2008 peak.

Figure 1: EU27 production indices 1993 – 2011 (trend adjusted)



Source: Eurostat

Over the period 2000-2007, the cost competitiveness of the 27 EU Member States eroded by more than 25%, largely due to changes in the exchange rate of the euro against the currencies of the main trading partners. However, the drop in the exchange rate after 2007 has brought about a noticeable improvement in the EU position in terms of cost competitiveness.

From an aggregate point of view, unit labour costs within the EU only grew slightly faster than those of the main trading partners (+3% above them over 2000-2010). However, the situation varies considerably across Member States, and a few countries (including Germany, Austria, Poland, Sweden and the United Kingdom) have experienced a gain in external cost competitiveness over the last decade.

Enhancing the global competitiveness of European industry is essential, as 75% of EU exports come from manufacturing firms, who also do 80% of industry R&D. The Communication has identified the following key areas where the competitiveness of the EU economy could be further strengthened in order to make significant progress towards the Europe 2020 goals:

- (1) **facilitating structural changes in the economy**, in order to move towards more innovative and knowledge-based sectors that have a higher productivity growth and which have suffered less from global competition;
- (2) **enabling innovation in industries**, in particular by pooling scarce resources, by reducing the fragmentation of innovation support systems and by increasing the market focus of research projects; The markets for key enabling technologies (e.g. nanotechnologies), for example, are expected to grow by up to 50% by 2015, creating thousands of high value-added new jobs;
- (3) **promoting sustainability and resource efficiency**, in particular by promoting innovation and the use of cleaner technologies, by ensuring fair and undistorted pricing of energy and by upgrading and interconnecting energy distribution networks;
- (4) **improving the business environment**, in particular by reducing the administrative burden on businesses and by promoting competition among service providers that use broadband, energy and transport infrastructure;

(5) **benefiting from the single market**, by supporting innovative services and by fully implementing the Single Market Regulation, in particular the Services Directive; Fully implementing the Services Directive could bring up to € 140 billion of EU-wide economic gains, representing a growth potential of 1.5% of GDP;

(6) **supporting small and medium-sized enterprises** (SMEs), in particular by favouring access to finance, by facilitating internationalisation and access to markets, and by ensuring that public administrations reduce payment times and adhere strictly to the Late Payments Directive;

The Communication and the accompanying reports conclude that – particularly in an environment of intensive fiscal consolidation – coherent and coordinated industrial policies are an important potential source of growth that could facilitate the recovery from the crisis and strengthen the EU's position as a global economic player. The Communication encourages Member States to reinforce the implementation of their competitiveness policies and commits the Commission to strengthen its support to their efforts. To this end, the Commission will support the coordination of Member States' industrial policies by promoting and monitoring structural improvements and by providing a forum for identifying and discussing good practices in the promotion of growth through industrial policies.

2. Towards an innovative industry

The EU has achieved excellence in many research and development (R&D) fields but in terms of R&D intensity (i.e. R&D expenditures in relation to value added) it stays in the third place behind the US and Japan, largely because of lower R&D investments in individual business sectors. Evidence also indicates poorer performance of the EU in respect to the commercial application of research and innovation.

Within the EU, Denmark, Finland, Germany and Sweden are innovation leaders. This year's Innovation Union Scoreboard concludes that, while less innovative Member States have been catching up with the more innovative countries, this convergence process seems to be slowing down. Moreover, the Member States at the forefront of innovation, specialised in technology-driven sectors, such as Germany, Ireland or the Netherlands, may need to invest even more in research and innovation than they currently do to maintain their positions.

One of the bases for future competitiveness of EU industry are so-called "key enabling technologies", which include for example advanced materials, nanotechnology, biotechnology, photonics or advanced manufacturing systems, including space-related technologies. Many Member States are actively promoting these technologies.

Industry is also increasingly intertwined with services. In particular knowledge intensive business services are increasingly used as direct and indirect inputs by industry, accounting for up to 9% of EU-12 and 18% of EU-15 exports.

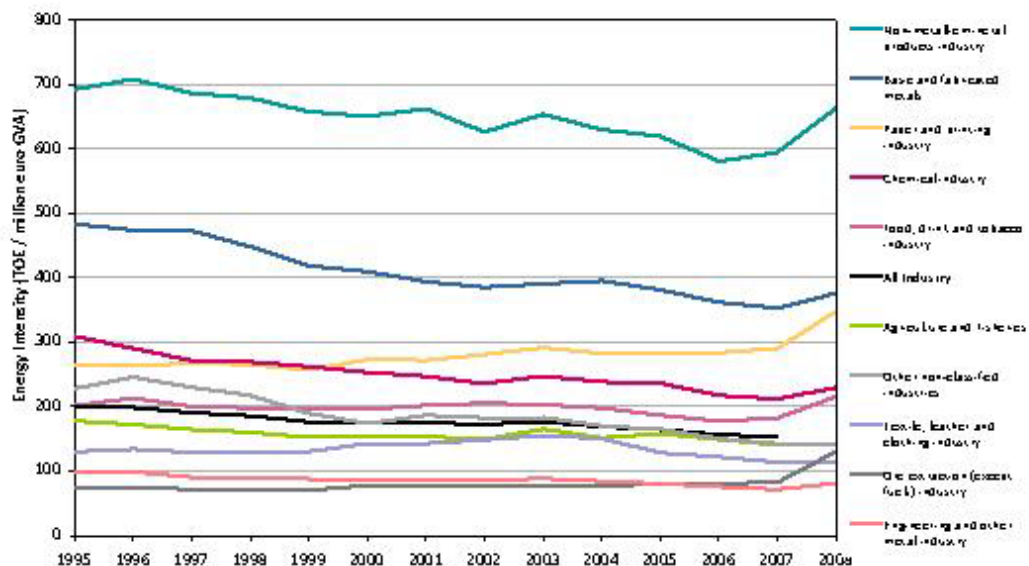
Technological and industrial changes are also increasing the demand for people with high and intermediate-level skills and a number of sectors already experience a shortage of skilled labour.

3. Towards a sustainable industry

Decoupling economic growth from natural resources usage is a major societal challenge. The related policies (regulation and/or incentive schemes) have direct implications for the business sector. The path towards sustainable ways of production requires a policy framework which provides for both short and long term incentives and which addresses the whole value chain, including recycling.

Energy intensity in EU 27 industry decreased by 27.5% between 1995 and 2009, driven by energy savings and growth in value added, and new Member States (EU-12) are converging rapidly to the EU-15 average. Energy efficiency improvements were observed within most industrial sectors, in particular in those with the highest initial energy intensities. For example, the basic and fabricated metals sector – i.e. iron and steel and non-ferrous metals industries – saw an improvement of 22.2% from 1990 to 2008. The downward trend continued until 2007-2008, when a significant decline in Gross Value Added – caused by the crisis – resulted in an increase in energy intensity (see Figure 2).

Figure 2: Energy intensity by sector, 1995-2008



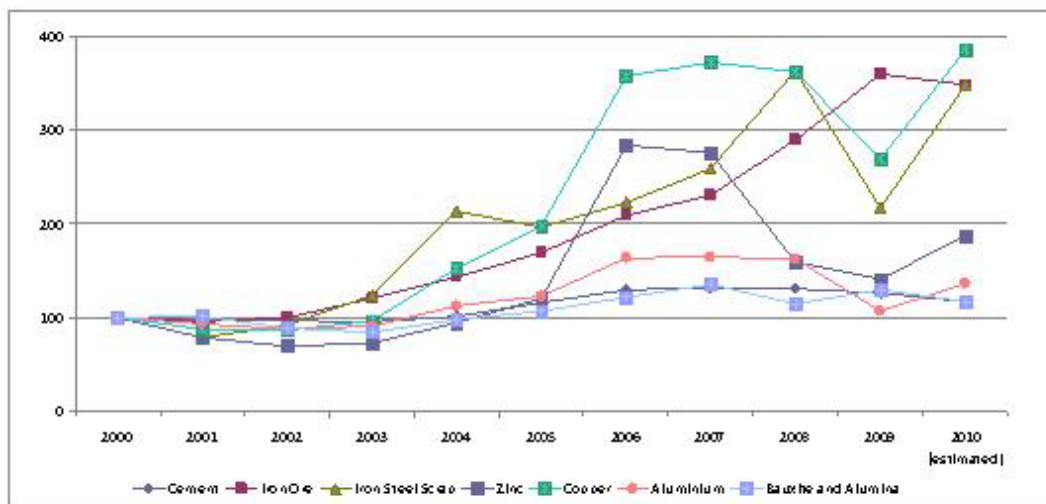
Source: Eurostat and EU KLEMS data (ECR2011)

Note: final energy consumption (in tonnes of oil equivalent) in relation to Gross Value Added in million euros (1995 constant prices).

In terms of carbon intensity, significant improvements have been achieved in all countries and in particular in most of the EU-12 Member States, which are progressively reducing the gap with the EU-15 average. Significant improvements have also been achieved concerning other industrial emissions (e.g. particulates PM10 responsible for human respiratory problems, nitrogen oxide (NOx), ammonia (NH4) and sulphur dioxide (SO2) responsible for acid rain), as well as water use, industrial waste generation and treatment.

Accessibility and affordability of non-energy raw materials are crucial for the competitiveness of several raw material intensive, import dependent manufacturing industries in the EU. Increasing demand for non-energy raw materials (driven to a great extent by the strong growth of industrializing economies), has led to soaring raw materials input prices (see Figure 3). In response to these developments, manufacturing industries are improving raw material efficiency (e.g. automotive industry) and increasingly use recyclates (e.g. steel, non-ferrous metal, pulp and paper industries) and innovative substitute materials (e.g. chemicals industry).

Figure 3: Price indices of selected raw materials (2000=100)



Source: United States Geological Survey (ECR2011)

The EU is leading the way in many instances in respect to industrial efficiency, generally ahead of the US and closing the gap on Japan. However, there are significant differences in performance across Member States and industrial sectors in the EU.

The development of eco-industries and eco-innovations are key factors for reaching EU climate change targets. They also provide great business opportunities and the possibility to strengthen the EU's competitiveness. Measures to support environmental industries take various forms in Member States. Recent examples include initiatives to support the development of the electrical vehicles market and the related infrastructures, the integration of environmental aspects in SMEs' business models as well as green public procurement).

4. The business environment

An open, efficient and competitive business environment provides opportunities and incentives to improve performance throughout an economy and across borders by reducing unnecessary costs for enterprises and promoting business activity, including foreign direct investment.

Some international studies show positive trends regarding the EU business environment, underlining that the EU remains the largest destination for foreign direct investment. According to the World Economic Forum index, six out of the ten most competitive economies in the world are EU Member States (Sweden, Finland, Germany, the Netherlands, Denmark and the United Kingdom). However, other international comparisons highlight that half of the EU Member States have slid down in rankings compared to previous years since other countries in the world are progressing faster in improving their business environments.

Considerable progress has been made in EU Member States regarding the reduction of administrative burden and regulation. For example, the implementation of the Services Directive has helped removing unjustified barriers and has simplified the regulatory framework for services. Moreover, the use of impact assessments in preparing legislation is becoming more common, and stakeholders are involved more systematically in the early stages of developing new legislation. EU Member States are also accelerating their transition towards e-government and "one-stop shop" solutions, which provide easier access to support services and simplify administrative procedures.

However, there are still areas which could see further improvements. For example, seven Member States (Austria, the Czech Republic, Estonia, Cyprus, Hungary, Poland and Italy) are still above the 1% transposition target of internal market legislation. Moreover, improvements of both transport and energy infrastructure also remain important challenges in many Member States.

5. Entrepreneurship and SME policy

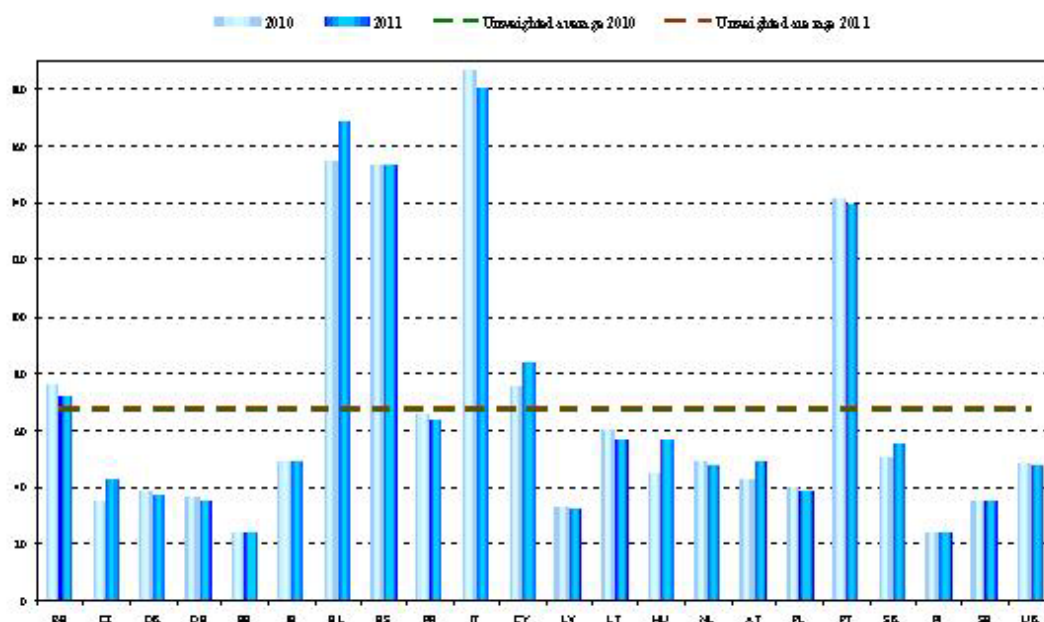
Many Member States have progressed substantially over the last years in promoting entrepreneurship and several have set up particular strategies dedicated to entrepreneurship education.

In order to simulate the creation of micro and small enterprises, some Member States have permanently reduced or abolished the minimum capital requirements to set up a company (e.g. Belgium, Estonia, Germany, Netherlands, Latvia and Luxembourg).

Access to finance remains an important challenge for many SMEs, as they have been particularly affected by tightening credit conditions. The results of the latest survey on access to finance for SMEs indicate that access to external financing continued to improve, albeit moderately. However, SMEs still face more difficult financing conditions than large enterprises, and the situation varies significantly across the EU Member States.

The average payment time also has an important impact on the financing needs of SMEs. The late payment directive adopted by the Council in January 2011 requires payments by public authorities to be processed within 30 days. Meeting this objective will be a challenge for many Member States (see Figure 4), but at the same time, a further reduction in late payments by public authorities could improve significantly the financing situation of enterprises and in particular that of SMEs.

Figure 4: Average payment times of public authorities



Source: European Payment Index 2011, Intrum Justitia.

Trade promotion by Member States improves the global presence of European firms and most Member States support the internationalisation of SMEs, providing finance, information and support on market access and regulation. About 25 % of European SMEs are engaged in exporting to EU and non-EU markets. On average, however, internationally active SMEs still generate only a relatively small percentage of their total turnover from international business activities (less than 20 % from other EU countries and about 10 % from third markets).

Background

As part of the Europe 2020 strategy, the Commission launched in 2010 a new industrial policy¹ that highlighted the actions needed to strengthen the attractiveness of Europe as a place for investment and production, including the commitment to monitor regularly Member States' competitiveness policies. The annual "European Competitiveness Report" and the report on "Member States' Competitiveness Performance and Policies" will contribute to the evaluation of the Member States under the broader framework of the European semester and Europe 2020.

More information

Communication "Industrial Policy: Reinforcing competitiveness"

"European Competitiveness Report 2011"

Report on "Member States' Competitiveness Performance and Policies 2011"

[IP/11/1192](#) "Industrial competitiveness to be turned into growth"

[MEMO/11/702](#) "Overview of competitiveness in 27 Member States"

Industrial Competitiveness: "An Industrial Policy for the Globalisation Era"

http://ec.europa.eu/enterprise/policies/industrial-competitiveness/industrial-policy/index_en.htm

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¹ An Integrated Industrial Policy for the Globalisation Era. Putting Competitiveness and Sustainability at Centre Stage, COM (2010) 614