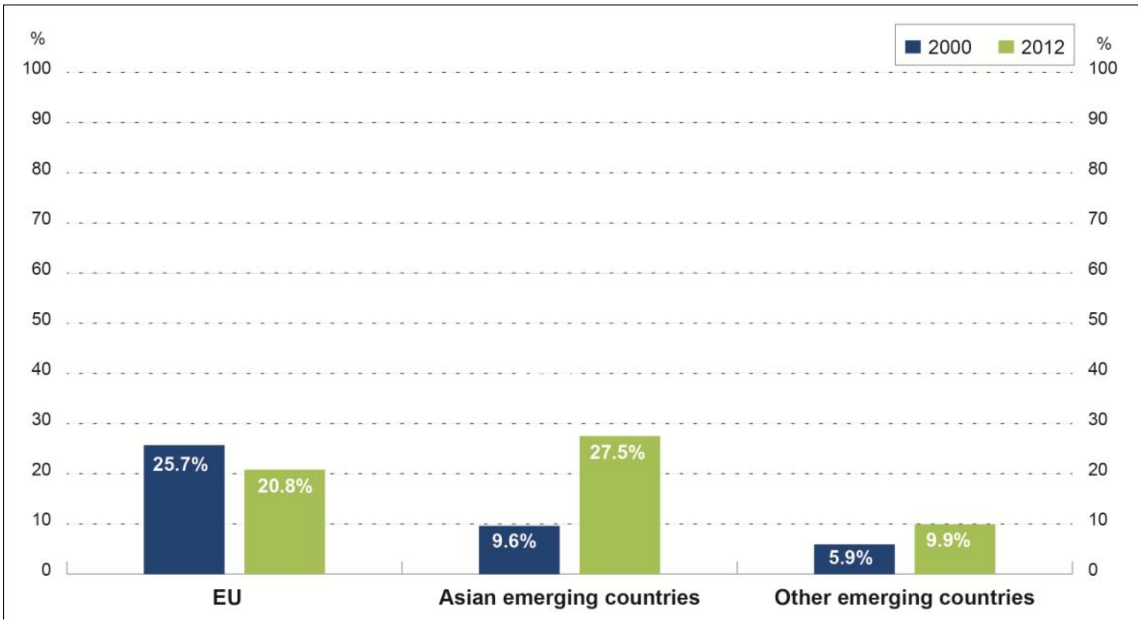
16 December 2013

POLICY RECOMMENDATIONS FOR AN INDUSTRIAL COMPACT FOR THE EU

Europe is losing ground in an ever more competitive global environment where emerging economies are rapidly developing. To win the competitiveness battle that threatens the ability of Europe to maintain citizens' living standards, we need a strong and innovative manufacturing industry and highly performing related-services. Europe must support companies in their efforts to increase their market share in the global economy. Otherwise, Europe will not achieve higher growth and more jobs. Outside Europe, companies carry a much lighter weight of regulatory and tax constraints. They are progressing every day on world markets. We must act now, tomorrow will be too late.

Share of world manufacturing's value-added (IW Consult GmbH, 2013)



In today's globalised world with ever stronger competition and cross-continental value chains, the competitiveness of European companies is becoming increasingly important for the future prosperity of the EU. European competitiveness must be strengthened across all sectors and sizes of companies. A prerequisite for improving conditions for businesses is to develop a strategy to strengthen the EU's industrial competitiveness.

European institutions and Member States urgently need to agree on an Industrial Compact for Europe. Industrial Compact means a 360° strategy based on a shared vision that industrial competitiveness is a prerequisite for maintaining a high standard of living in Europe. This Compact must provide competitive framework conditions that facilitate the growth of the more than ever interlinked European industry and services, drive investment and trade, support dynamic enterprises and enable the development and commercialisation of innovative technologies.

First and foremost, the Industrial Compact has to pave the way for a renaissance of manufacturing industry, which is the backbone of Europe's economy, a key driver of productivity growth and, therefore, of rising economic welfare. Manufacturing production generates 57 per cent of EU exports and 52 million jobs and also accounts for 65 per cent of investments in R&D.

Europe has the means to successfully compete in the global economy. Our continent is the cradle of industrial societies. The Single Market is the world's largest market with more than €12.6 trillion in GDP. Production in Europe increasingly involves value chains stretching across countries, with each country specialising in one or several stages. The EU's capacity to innovate together, building on the positive multiplier effects triggered by front-running companies, will guarantee a strong position in the face of global competition.

In setting the target of increasing the industrial share of Europe's GDP from its current 15.3% to 20% by 2020, the European Commission has rightly highlighted the need to put Europe's industry back onto a path of growth. To achieve this ambitious goal, EU leaders must swiftly address the bottlenecks which undermine the cost-competitiveness of European industry due to a propensity to over-regulate and impose multiple layers of labour or environmental taxes and levies on companies.

The beginning of the next five-year legislative term is a unique opportunity to define the elements of a comprehensive industrial strategy for Europe. BUSINESSEUROPE therefore calls on the European Council in February 2014 to agree on an ambitious action oriented Industrial Compact and calls on all European institutions and Member States to contribute to the implementation of this Compact during the next political cycle.

Agreeing on an Industrial Compact requires a fundamental change in governance structures and procedures. Furthermore, to mobilise policies to support industrial competitiveness, the EU must focus on the following seven key policy drivers:

1. Strengthening competitiveness in energy and climate policy
2. Opening foreign markets and unleashing the potential of the Single Market
3. Promoting cooperation for innovation
4. Expanding trans-European (and national) infrastructure
5. Improving access to finance
6. Making labour markets more dynamic, strengthening flexicurity and productivity
7. Making education and skills fit for industry

A FUNDAMENTAL CHANGE IN EUROPEAN GOVERNANCE FOR INDUSTRIAL COMPETITIVENESS

The Industrial Compact requires a fundamental change in European governance. It is necessary to prioritise and mainstream industrial competitiveness throughout all policy areas (energy, climate, environment, innovation, employment, financial services, corporate governance, etc.), and decision-making levels (European Commission, European Parliament, different Council formations, implementation by Member States).

A new industrial governance

- The European Council should give the strategic directions and set out the priorities for the implementation of the Industrial Compact. It should evaluate progress annually, based on reports from the European Commission and the Competitiveness Council.

- The European Commission has to coordinate and synchronise all EU policies to ensure that they have a positive impact on industrial competitiveness and must refrain from making legislative proposals, which threaten it. In order to optimally support the future President of the European Commission in this task, he/she must be advised by a permanent "Industrial Competitiveness Coordination Group", chaired by a Commissioner for Entrepreneurship and Industrial Competitiveness and made up of the Commissioners most relevant to industrial competitiveness.

- The role of the Competitiveness Council has to be significantly scaled up to become the gatekeeper of competitiveness in the EU. It has to ensure that all policy initiatives and legislative proposals support industrial growth in Europe. To support the Competitiveness Council in its crucial task, the European Commission should provide an annual report on the implementation of competitiveness proofing and the Competitiveness Council should follow-up on this report. The Competitiveness Council should also be granted the responsibility to ensure that all Council formations contribute to industrial competitiveness in Europe. To this end, competitiveness proofing needs to become an integral part of law-making in the Council and the Competitiveness Council should scrutinise its implementation across all Council formations.

- The European Semester and its country specific recommendations must take due account of industrial competitiveness and must be implemented by Member States in a consistent manner.

Smart regulation

- Concerning new legislative initiatives, competitiveness proofing, including the SME test, must become an integral part of ex-ante impact assessment for all policy initiatives and legislative proposals. Account should also be taken of the cumulative effects of different rules. The transparency of impact assessment must be improved. Stakeholders must be given the opportunity to address shortcomings in draft assessments directly with the Impact Assessment Board before the legislative proposal and the assessment is finalised. Impact assessments should be updated if the co-legislators (European Parliament and European Council) introduce burdensome amendments. This impact assessment should ultimately be carried out by a wholly independent external body.

Once new legislation is adopted, Member States must avoid adding burdens in the implementation of EU directives. This gold-plating impacts negatively on competitiveness and growth.

- Concerning existing EU legislation, the previous target of a 25% reduction in administrative burdens by 2012 should be succeeded by a new quantitative target for 2016. This target must not be undermined by new burdens, but should instead be offset by reductions in existing regulatory costs. Reduction targets should also be set for compliance costs.

- The Commission has to step up its efforts to streamline and critically evaluate existing legislation in the implementation of the REFIT programme. However, this exercise should be based on clear methodologies. It has to focus only on real simplification and must not paradoxically lead to an increase in the regulatory burden for business.

KEY POLICY DRIVERS TO FOSTER INDUSTRIAL COMPETITIVENESS

1. Strengthening competitiveness in energy and climate policy

The EU needs to reassess its approach to energy and climate policy. The high cost lessons from the current EU policy need to be fully addressed while taking game changers such as the shale gas revolution in the US and the very limited progress in global climate talks into account. This requires an energy and climate policy that secures a supply of affordable energy and strengthens the competitiveness of Europe's internationally competing industry.

EU level

- The EU's energy and climate goals of cost-competitiveness, security of supply and climate objectives must urgently be put on an equal footing. Europe must closely monitor energy competitiveness and security of supply to make sure that the three objectives are well balanced. To ensure political commitment and actions, targets and measures to address the energy price differential with major competitors and to ensure energy security should be introduced.

- In order to guarantee investors' long-term confidence and to incentivise investments in low-carbon and energy-efficient technologies, the EU should set a single 2030 emissions reduction target. Due to their overlapping scope with the EU ETS, the EU targets for energy efficiency and renewable energy sources should not be continued after 2020. Higher shares of low-carbon solutions after 2020, including renewable energy and energy efficiency, will be guided most cost-efficiently by a leading CO_2 target and support on early stages of technology development.

- To ensure a global level playing field for European industry, the EU should advocate for an ambitious international climate agreement in 2015. It should develop a negotiation position beforehand and whatever the outcome of the international climate negotiations in 2015, the EU should set a binding 2030 emissions reduction target. However, to avoid the negative consequences of unilateral decisions, the EU should take into account the outcome of the negotiations on this agreement before finalising EU legislation on a realistic 2030 CO_2 target.

- The ETS should be the main instrument to reduce emissions for industry and other covered sectors and to promote investments in low carbon technologies. However, direct and indirect cost increases must be compensated until a level playing field for exposed sectors is achieved globally: Full compensation through free allocation based on benchmarks must allow the most efficient companies to be globally competitive without being penalised by direct carbon costs. Compensation for indirect costs should be developed at EU level through common sectoral approaches rather than state aid rules in order to avoid international distortions. One hundred per cent of the ETS auctioning revenues should be used to support

European businesses in the transition towards a low-carbon economy either by promoting R&D&I or by preventing carbon leakage.

- The on-going revision of the EU's state aid framework must ensure that European industry maintains its competitiveness, while avoiding distortions within the Union. It is therefore crucial that the future environment and energy state aid guidelines permit measures that fully offset the cost impacts of decarbonisation policies on energy-intensive sectors.

- The effective implementation of the European internal energy market is a priority to ensure secure and affordable energy for industrial consumers, to reduce distortion of competition and ultimately to strengthen the competitiveness of European industries on global markets. Developing intra- and cross-border infrastructures and reducing national regulatory barriers is essential as well to foster competition and to optimise the balance between production and consumption of energy.

Member State level

- The impact of current renewable support schemes on energy costs must be reduced. Support for the market deployment of renewable should be progressively phased out to allow the market to determine energy choices. A transitional support structure should be designed taking into account the expected technological progress and decrease in production costs for different renewable technologies. After the transition period, support should be focused on the early stages of technology development.

2. Opening foreign markets and unleashing the potential of the Single Market

The Single Market is one of the EU's most powerful achievements. If properly implemented, it can offer enormous opportunities for citizens and businesses alike. The single market is an asset which should be used as a springboard to meet the challenges and seize the opportunities of the global market. To sustain and improve its global competitiveness, Europe must also increasingly direct its focus to foreign markets and match itself with other economic regions of the world. Due to the on-going integration of manufacturing industry and services, increased manufacturing exports can also serve as a driver of trade in services.

EU level

- The fight against protectionism and to increase access for EU exporters to important international markets should continue. In particular, the EU must not miss the opportunities offered by the ongoing negotiations with the United States which should lead to the swift conclusion of a comprehensive and ambitious growth-boosting agreement covering tariff and non-tariff barriers, services, investment, government procurement, intellectual property rights and trade facilitation. The effective reduction of non-tariff barriers must also be a priority also in negotiations with Japan. Furthermore, the EU should keep high ambition with Eastern European countries and important emerging partners such as India, MERCOSUR and several ASEAN countries. Finally, the EU should use available bilateral and multilateral instruments to ensure that its main trading partners enforce their international commitments.

- Single Market rules should be better enforced in order to increase intra-EU trade openness, factor mobility and opportunities for cross-border co-operation and value chain integration. The consistent introduction of a mutual recognition clause in EU legislation would lift many remaining obstacles to intra-EU trade without creating additional administrative burden.

  As an increase in competition intensity stimulates efficiency and cost savings in this Single Market, attention should be given to products and services used in manufacturing so that the competitiveness throughout the whole value chain can be strengthened. The Commission should thus step up its efforts, in particular through Single Market infringement procedures, to ensure that Member States implement the Services Directive and the Third Energy Package rapidly and consistently. In addition the swift adoption of the 4th Railway Package and of the Single European Sky 2 should be prioritised to improve integration of transport infrastructure and interconnectivity.

- To ensure open access to raw materials, the EU should continue to rigorously address export restrictions practices in resource-holding countries, using all available trade instruments in the framework of the WTO dispute settlement, and of free-trade agreements as well as through an effective and more strategic use of EU trade defence instruments. Stricter legal constraints on export taxes/restrictions (and comparable measures which restrict the supply of resources) are therefore urgently needed. Exploration and exploitation of raw materials within the EU should also be strengthened by improved regulatory harmonisation and alignment of best practices among Member States.

- The EU should develop an effective ‘resource diplomacy’. This could be used as a lever for European industry to engage in partnerships with resource-holding countries, not only to gain more access to raw materials but also to increase cooperation in the field of recycling and reuse of raw materials.

Member State level

- Member States should contribute to the definition of a common EU economic strategy to advocate the benefits of reciprocal market opening. They should contribute more actively to the good functioning of the Single Market through better transposition, implementation and enforcement of its rules, as well as more consistent application of the mutual recognition principle. Also on the national level, attention should be on products and services used in manufacturing. Thus, implementation of the Services Directive and of the Third Energy Package is a key priority.

3. Promoting cooperation for innovation

The manufacturing sector is the main source of research and development in most European countries, amounting to two thirds of R&D expenditure. Innovation increasingly relies on cooperation among businesses. Highly dynamic and innovative enterprises comprising a high innovation potential, broad-based international business activities and an active participation in networks, act as front-runners and trigger important economic multiplier effects.

EU level

- Incentives for cooperation of companies and research institutes in networks and clusters should be improved in order to facilitate the commercialisation of innovations. For example, the proposals on Joint Technology Initiatives (JTIs) should be rapidly adopted. Adequate financing of JTIs through the EU budget, structural funds and Member State contributions must be ensured. Additionally, the role of innovative and dynamic enterprises as front-runners and economic multipliers should be enhanced. Targeted “Excellence Initiatives for European Companies” could help upgrade regional networks and foster cross-border collaboration.

- Strengthening competition should be seen as the main driver of innovation. However, sufficient funds for effective research and innovation activities need to be available. Private investment must increasingly be attracted to fund promising research projects, for instance by strengthening the venture capital facility and other risk sharing facilities of the EIB. In addition, public support to promote close-to-market activities is needed. Horizon 2020 should be implemented in a business-friendly manner. The “Fast Track to Innovation” Open Call Pilot should be used appropriately as a valuable tool to translate new ideas into viable innovative projects and products with a visible market impact. It is of utmost importance that the time period to bring innovation to the market is shortened if Europe wants to be competitive.

- The European Research Area has to be completed by 2014 in line with the European Council’s target. It should be developed with the objective of excellence so that Europe becomes the most attractive region for students, scientists and industrial research. The mobility of scientific knowledge and skills in the EU should be increased through better use of existing tools such as European Employment Service (EURES) and the provision of information and support for researchers.

- The impact of digital technology developments are a key enabler of business growth even in the traditional economic sectors. The EU should effectively promote innovation through all sectors and areas of the economy, especially among those linked to the digital economy (e.g. cloud computing, data analytics and intelligent connected machines) which will transform European industry. The legislative framework should provide workable solutions for companies to collect, analyse and transfer data, while providing safeguards which enhance users' trust. Legislation in the field of cyber security must allow a risk-based approach. The setting of common standards to ensure the interoperability of IT systems across borders should be coordinated.

- Today more than ever before innovation relies on effective use and management of intellectual property (IP). Companies need an “IP-friendly” environment in Europe. This requires a holistic, comprehensive and enabling framework for IP that is able to respond to the challenge of the acceleration of technological progress as well as strategic vision from the side of European policy-makers.

- The Commission should ensure that application of the precautionary principle is based on solid scientific evaluations. It should be complemented by an innovation principle. Such a principle should ensure that EU decision-making accepts the need for taking risk in order to promote innovation and their commercialisation.

Member State level

- To foster business-based innovation in a market-friendly way, tax exemptions for R&D expenditures should be provided where appropriate. Furthermore, public financing for basic and applied R&D&I is essential and governments should provide platforms for innovation cooperation between businesses and research institutions at a national level in order to tackle the commercialisation gap.

- In cases where strong fiscal consolidation is needed, public R&D&I expenditure should be spared from cuts as far as possible.

4. Expanding trans-European (and national) infrastructure

Infrastructure networks are the veins of the economy. Strong and efficient infrastructure not only enables trade within and across borders, but serves as a key prerogative for businesses to engage in international value chain integration and cooperation. To ensure cost-effective and internationally accessible infrastructure, remaining regulatory, administrative and technical barriers in all modes of transport need to be removed.

EU Level

- Ensure that within the context of the agreement on the next Multiannual Financial Framework, funding is maximised for the urgently required cross-border expansion of transport, energy and digital infrastructure.

- Ensure adequate levels of funding and simplified administrative procedures to enhance Private-Public-Partnerships and project financing within the framework of the Connecting Europe facility. In addition, develop a comprehensive plan at EU level in favour of freight, industrial and distribution logistics.

- Increasingly mobilise private funds for trans-European infrastructure projects by means of project bonds with the involvement of the European Investment Bank. It is important that the EIB takes forward projects where there is a realistic long-term probability of profitability.

- Build on market-based solutions to guarantee access to all transport markets and remove regulatory, administrative and technical barriers in all modes of transport.

Member State level

- As infrastructure is an important driver of competitiveness, investment in national infrastructure should be increased including investments in smart grids. In countries with severe fiscal consolidation needs, expenditure cuts on needed infrastructure should be avoided as far as possible, including by seeking to mobilise private sector investment.

5. Improving access to finance

Access to finance on reasonable terms is vital for the survival and growth of companies of all sizes. Yet, access to credit is currently restricted, particularly for SMEs. Within the Euro area, interest rates charged to businesses continue to diverge significantly between Member States. As well as restoring normal bank lending conditions across the EU, access to finance for European businesses can also be improved by strengthening non-bank financing routes.

EU level

- The EU should act on both the systemic and non-systemic issues that can improve the lending capacity of banks and unlock alternatives to bank finance. Reforms must strike the right balance between increasing financial stability and supporting companies' need for capital to encourage investment and growth.

- The EU banking union is a priority given its important role in eliminating the fragmentation in the EU financial market. It is essential that non-viable banks are either restructured or wound down in an orderly way as early as possible. Otherwise, there is the danger that financial markets remain fragile and access to finance becomes a chronic problem. A properly functioning banking union is urgently needed. It will lead to deeper and more liquid markets, more resilient to financial shocks, and better able to support cross-border trade and investment.

- To complement conventional bank and corporate financing methods, the Commission should work to assist the market-based development of industry-focused financing instruments for SMEs, mid-tier companies and fast-growing businesses. In particular, the guidelines should support the development of companies' access to hybrid funding methods as well as equity funds, venture capital, loans and corporate guarantees. Furthermore, the EU should help to facilitate a careful revival of the securitisation markets to support new company lending and should support access to the corporate bond market and the market for private placement by disseminating best practices.

- Existing regulatory rules that jeopardise the creation and strengthening of efficient market structures must be addressed. In particular, the IFRS requirement for issuers of small corporate bonds listed on the stock exchange should be removed and prospectus requirements reviewed in order to allow a wider investor base to invest in corporate bonds.

- The new SME Finance initiative, blending the EU budget resources (including the Structural Funds) with the EIB lending capacity must start early 2014. However, it must be ensured that the securitised SME loans contain a proper risk profile. It is important that enough Member States participate, on a voluntary basis through a fraction of their Structural Funds, in order to generate a high impact on new SME lending.

Member State level

- Building on efforts already undertaken in a number of Member States to strengthen the financial setup, national bank supervisors should closely co-operate with the ECB in the pending analysis of banks' balance sheets and, in case of need, should press for a rapid recapitalisation by drawing as far as possible on funding from the market.

6. Making labour markets more dynamic, strengthening flexicurity and productivity

More needs to be done to effectively implement national structural labour market reforms and to ensure the financial sustainability of national social protection systems. The overall objective is to ensure open, dynamic and mobile labour markets through reforms focusing on stimulating job creation and employment participation, smoother labour market transitions, and better allocation of labour based on employers' needs.

EU level

- The European Semester should be fully mobilised to identify and recommend to Member States the structural labour market reforms they need. To achieve this, better implementation of country-specific recommendations is necessary.

- The European Commission should monitor unit labour costs developments in Member States to prevent and, where needed, correct macro-economic imbalances linked to labour cost developments not consistent with productivity gains.

- With regard to employment policies, the aim should be to create open, dynamic and mobile labour markets. The EU should encourage Member States:

    - To ensure availability of different contractual arrangements on labour markets;
    - To provide for necessary working time and wage flexibility, while respecting the autonomy of social partners in the collective bargaining process;
    - To encourage employers to hire more staff by reducing the tax burden on labour, including targeted cuts in employers' social security contributions;
    - To recognise that skills are crucial for both competitiveness and employment security;
    - To facilitate companies' and workers' adaption to change, notably by ensuring legal framework for information and consultation is clear and manageable;
    - To reform pension systems by linking retirement age to life expectancy.

- The EU should also encourage intra-EU worker mobility through promoting language and cultural learning; better provision of information and guidance for EU citizens; simplified and time-efficient procedures for the recognition of qualifications; and a review of the extent to which certain professions need to be regulated in some Member States.

Member State level

- All Member States should focus on achieving a job rich recovery by undertaking reforms that ensure mobile, dynamic and open labour markets,

- Governments should consult national social partners on the reforms needed and leave them the option to agree on the reforms themselves in accordance with the diversity of national industrial relations systems. In particular, Member States should:

- amend their wage setting systems if they do not ensure an appropriate link between labour costs and productivity, such as in the case of indexation systems;
- remove unduly high employment protection legislation of permanent contracts which stifle job creation and damage transitions from flexible forms of employment to open-ended contracts, while recognising the relevance of such flexible contractual arrangements;
- provide the right financial incentives combined with effective active labour market policies to stimulate job creation, to make work pay compared with benefits, and encourage active job search behaviours;
- ensure the financial sustainability of their social protection systems in view of the impact of high unemployment in the short-term and ageing populations in the longer term;
- encourage and facilitate economic migration from third countries to tackle skills shortages which create immediate bottlenecks to growth.

7. Making education and skills fit for industry

Achieving growth, productivity, and a better match between skills and jobs in Europe relies on governments managing their human potential more effectively. The overall objective is to provide the skills needed to foster Europe's industrial growth. Governments should ensure that available resources are used by priority to bring to Europeans of all ages the knowledge and skills they need to succeed on labour markets. An important part of this is to address in the short-term shortages in terms of science, technology, engineering, mathematics – STEM – skills.

EU level

- The European Youth Employment Initiative and relevant EU funds and programmes, in particular the European Social Fund, should prioritise seed funding for Member States that wish to establish or reform their dual learning systems.
- The Commission should develop a policy framework that will promote STEM subjects and encourage Member States to learn from each other on how to increase the number and improve the quality of STEM graduates in conjunction with companies' skills needs.
- The EU alliance for apprenticeships should be fully mobilised to allow for an exchange of practices between Member States, national social partners and other relevant stakeholders. In particular, the EU should develop benchmarks for measuring and improving the performance of dual vocational systems in Europe.
- The EU should promote the mindset of lifelong learning and organise an exchange of practices between Member States and social partners to discuss the effectiveness of various national policies to support and reward employer and employee investment in continuing vocational education and training.
- Eurostat should improve the quality of data on job vacancies as part of a broader aim of ensuring Europeans have better information on labour market needs when making learning choices.
- The Commission and CEDEFOP should organise an exchange of best practice on how the short-term anticipation of skills needs can be improved in order to encourage mutual learning between Member States and/or regions.

Member State level

- Better align education to the needs of the labour markets and organise educational systems that balance young people's personal development and preparation for working life taking greater account of labour market requirements and the objectives of increasing employability of young people and addressing skills mismatches.
- Governments should create incentives for educational institutions to cooperate with the private sector. Companies, employers' organisations, and where appropriate social partners need to be involved in the design of curricula across all

levels of education. Work-based learning, information and communication technologies and promotion of an entrepreneurial mindset should also be integrated into educational systems.

- More particularly, in line with their educational and industrial relations systems, Member States should provide a well-functioning general school system – both primary and secondary – that limits the number of school dropouts.
    - Define the status of apprentices and trainees taking into account the general educational purpose of the scheme; and the goal of increasing the number of apprenticeships and traineeships.
    - Achieve resource efficient training schemes inside and outside companies, in accordance with cost sharing principles. These schemes need to be attractive to companies by cutting red tape wherever possible.
    - Review regularly the extent to which a profession needs to be or remain regulated with a view to reducing the number of regulated professions that are not needed.

* * *