"Do we need a policy to reindustrialize the European Union and how should it be steered?"

Recommendation of the Economic and Social Commission endorsed by the Central Council on 13 June 2014

I The Economic and Social Commission of the European League for Economic Cooperation, which met in Paris on 15 May 2014, discussed the question "Do we need a policy to reindustrialise the European Union and how should it be steered?" with a number of experts in the field: Francisco CABALLERO–SANZ, Chief Economist at the European Commission's DG Enterprise and Industry, Grégoire POSTEL-VINAY, Deputy Director-General for Competitiveness, Industry and Services at the French Ministry of the Economy, Pierre SABATIER, co-founder of the economic and financial research company PrimeView, Michael GERNER from the Ministry of Finance and the Economy of the State of Baden-Württemberg and Thierry WEIL, Managing Director of the think tank *La fabrique de l'industrie*.

This discussion gave rise to the following **conclusions**, which complement those already presented in the Commission's resolution of 12 May 2011: **"Keys to future competitiveness for Europe in the global economy"**

a) Despite the significant growth in global industrial output (which has increased fifty-fold in a hundred years), in recent decades the decrease in the share of industry in Europe, both in terms of activity (measured in the form of GDP) and employment, has been marked. This share is said to have fallen from 18.5% of European GDP in 2000 to 15.1% by mid-2013, and the European Commission has set a target of re-vamping it to 20% by 2020. Clearly, the rate of this development has varied from one country to another but the trend is evident in all European countries: the share of manufacturing jobs in the total fell from 23% to 17% in Italy and Germany, from 16% to 10.5% in France and from 16% to about 8% in the UK.

b) This trend, which is common to all de-industrialised countries, is due in part to the fact that growth in productivity is faster in industry than in other sectors of the economy, which means that the percentage of industrial jobs tends to fall more quickly than that of industrial activities. Conversely, the share of services in the total is increasing in spite of the slowness of their gains in productivity and, consequently, the increase in their prices, which, moreover, weakens overall potential growth. From a statistical perspective, this factor is further emphasised by the large-scale transfer to the service sector of activities which were previously included in the turnover of industrial companies (accountancy, personnel management, maintenance, logistics...). However, even if you add to pure industry the major "industrial support services" sector, the relative decline of all of these activities remains significant.

c) Moreover, this relative reduction is due to a large extent to the rise of emerging countries such as China, which has become the "factory for the world" (its industrial output has *increased tenfold* in less than twenty years and, on its own, accounts for two thirds of that of the emerging countries), but also India, Brazil and Indonesia. These countries are themselves currently in competition with countries with very low production costs, such as Vietnam or Bangladesh. In total, Europe's share of global manufacturing output fell from 32% in 2003 to 22% in 2011.

d) However, it is essential to retain a sector whose direct and indirect contribution is vital, both in terms of the overall competitiveness of our economies (around 80% of exports are directly associated with industry) and in terms of innovation and, consequently, potential for growth: the majority of research and development, patents filed etc. derives from industrial companies.

e) Recent developments indicate however that, although supporters of the "post-industrial" economy argument would say otherwise, industrial decline is not inevitable. The current example of the US, but also that of Germany in the EU for several years, demonstrate that a combination of a moderate increase in production costs, low energy costs in the US (emulated so far in Germany by focusing on products with a higher added value) and a high level of productivity attracts manufacturing activities and sometimes even results in the re-establishment of factories which had previously been relocated.

II Faced with this worrying situation, in January 2014, the European Commission published a communication entitled "For a European Industrial Renaissance". The European Council followed suit in its conclusions of 21 March 2014 on "*Industrial competitiveness and policy*". The aim of this input is "to ensure that the manufacturing industry's share of EU GDP increases to 20% by 2020". In the light of the completion of the internal market and in order to contribute to this objective, which it endorses, the League's Economic and Social Commission makes the following **recommendations**:

1. The ***competitiveness*** of the industrial sector must be greatly improved, at three levels in particular: labour costs (including social security contributions) per unit produced, and the qualifications of the workforce; energy costs (which assumes both use of the cheapest sources compatible with sustainable development and a favourable split between industrial and residential users in terms of the tariffs charged); and taxation (taxes on profits, physical and financial capital, income, cost-effectiveness of public services....). It is crucial that companies' margins are sufficient to allow them to invest and modernise. And it is equally essential that Europe takes the common decisions required to implement a proper energy strategy which guarantees the sustainable, secure, low-cost supply of energy to industry.

2. Investment must be strongly encouraged, both by the way tax is charged on writedowns and industrial property and by providing sufficient funding in the form of loans and equity. The policy of the EIB and the European Investment Fund, which has often been deemed to be too cautious, must be re-focused in this direction, accepting the taking of reasonable risks, and supplemented by a programme of commercial loans which would benefit from a European public guarantee to finance priority investments (e.g. the digital economy; clean energies (particularly the storage of electricity), health; biotechnologies and nanotechnologies; defence). A regulatory framework which is favourable to long-term investment and risk taking is also a prerequisite for success. *NB: The European Commission has already launched a COSME programme with a budget of €2.3 billion (2014-2020), but these actions should be grouped with those of the structural funds.*

3. ***Exchange rates*** must also be taken into account from a competitiveness perspective. Although import costs, which are reduced by a strong currency, are also an important determining factor for competitiveness, if the value of the euro (i.e. the effective real exchange rate) is too high this will have a detrimental effect on European industry.

4. The priority which has so far been given to the ***policy of competition*** must be reviewed in the light of globalization: it must lead to strong positions not only on the European single market but also at global level by encouraging conditions such as European champions could arise. *See Chancellor Merkel's statement of 12 May 2014: "What we need is major players who are capable of giving the other major players on the other side of the Atlantic or in Asia a run for their money".*

5. In this context, ***collaboration between businesses*** in the EU must be encouraged. There must be more Airbus-type projects, which involve public and private partners from the outset during the initial period of formation and growth. Cooperation must be encouraged and cross-border value chains must be developed. The issue of a common economic security policy which would allow the EU to respond to attempts by non-EU players to take control of strategic sectors must also be discussed.

6. A concerted effort must be made to promote ***major research programmes*** at EU or euro area level or joint ventures, with "incentives" from the EU (or the EIB) supplementing the contributions of Member States or partner companies. SMEs must be able to access these major programmes easily

and the transfer of technology to SMEs must be encouraged. However, well-established industries must not be abandoned: no sector is finally lost (i.e. the textiles industry in the US, the shoe industry in Germany, the consumer electronics sector in France); it is a matter of modernisation, through investment, training and commercial networks. And this presupposes appropriate funding for restructuring.

7. The policy on ***education and training*** (both initial and further training) must consider to a far greater extent the need to include training which is relevant to the professions of the future and to make students and teachers more aware of the realities of the commercial world: sandwich courses, exchanges, internships... Exchanges between European companies, based on the highly successful Erasmus model for academics, should be widely encouraged.

8. ***External commercial policy*** must equip itself with the resources required to ensure reciprocity, tackling counterfeiting and industrial espionage, environmental and social dumping and the protectionist use of public standards and regulations. The importance of European public contracts to focus the efforts of the manufacturing sector must be better acknowledged and, at the same time, public procurement contracts must be effectively opened up to others in all countries. Moreover, it is crucial that progress is made in establishing common European standards in the major industrial sectors. Efforts should be made to encourage the transition of social, fiscal and environmental charges towards minimum (satisfactory) global standards.

9. Finally, the EU must ensure that it has on its territory a ***financial market*** which is sufficiently powerful and open to support its industrial activities and industry-related services.

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We are indebted to our friend Theo van der Pluijm, who was unable to attend the meeting, for his substantial contribution "Reindustrialization of Europe at crossroads", in which he emphasises in particular the strategic importance of maintaining centres of decision-making in Europe.

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