



## **ORGALIME POSITION PAPER ON**

### **THE COMMUNICATION FROM THE COMMISSION IMPLEMENTING THE COMMUNITY LISBON PROGRAMME: A POLICY FRAMEWORK TO STRENGTHEN EU MANUFACTURING – TOWARDS A MORE INTEGRATED APPROACH FOR INDUSTRIAL POLICY COM (2005) 474 FINAL OF 5 OCTOBER 2005**

**8 FEBRUARY 2006**

Orgalime represents the mechanical, electrical, electronic and metalworking industries in 23 European countries. We speak for 34 trade federations representing over 130,000 companies. These industries, the vast majority of which are small and medium size enterprises, employ some 7 million people and, in 2004, accounted for 1235 billion Euro of output, that is over a quarter of the EU's manufacturing output and a third of its manufactured exports.

#### **Summary**

Orgalime welcomes the present Communication and the new and dynamic approach to industrial policy which fully recognises the core role that manufacturing industry plays in the economy of the EU, both today, in the jobs and growth agenda, and in the future, as “the key to exploiting the new knowledge economy”.

As one of the leading exporting sectors relying heavily on R&D and the development of innovative products, we fully concur with the Commission's analysis that “manufacturing generates the new and innovative products that provide some three quarters of EU exports”. Besides, we believe the impact that manufacturing related services provided by our industry provides further benefits both at the level of exports and in the internal market.

While we welcome the Commission's focus on horizontal cross-sectoral policy, we also believe that complementing these policies to take into account the specificities of individual sectors in areas, such as research and innovation or sector legislation, does provide an essential complement to the broad horizontal policies which manufacturing industry requires to operate competitively in Europe.

We now look forward to the development of these policies in practice and provide hereafter a number of comments and suggestions from our industry both on horizontal and on sectoral issues.

## **Orgalime detailed position**

### Cross-sectoral policy initiatives

Orgalime supports the concept of focusing on several specific policy areas, which we believe are of significant importance to much of manufacturing industry in the EU.

As an industry which has benefited substantially from the creation of the internal market, we welcome moves from the Commission towards ensuring that the internal market is further strengthened. We believe that notwithstanding existing internal market legislation, there are still many areas where market access within the EU is still restricted or heavily regulated at a national level, which limits the potential for our companies to compete and fully enjoy the benefits which a real internal market can provide. Areas which need further improvement include the infrastructure supply and distribution markets (for example energy, fixed telecom network, rail, postal services, etc...) and public procurement. We comment hereafter on different issues covered by the Communication:

### IPR

While Orgalime appreciates the measures that the Commission has already taken in the area of protection of IPR, such as the strengthening of the customs provisions to allow easier controls of potential counterfeit products, we believe that, with the pace at which globalisation is taking place, there is an increasing need to focus more on this area where we feel that the EU may be lagging behind some of our major trading partners in the protection of IPR, for a number of reasons including:

- The failure of the Council to adopt the Community Patent. The inability of regulators to reach an agreement in this area reflects poorly on their understanding of an issue which is of the highest importance for our companies competing in the global market: innovation, in the absence of certain other competitive advantages, plays an essential role for companies manufacturing in the EU.
- If the area of the patentability of computer implemented inventions has proven to be contentious, there is however a clear need to ensure that innovative engineering products, which often include both hardware and software, can effectively be protected by a patent regime which is more harmonised and more easily enforceable throughout the EU.

We also urge the Commission to focus on the area of market surveillance in the framework of its revision of the New Approach. While the transparent and open internal market has provided significant benefits to both consumers and industry in the EU, manufacturers in the EU are facing a significant rise in unfair competition from non-compliant or counterfeit products in our markets.

Finally, given ongoing work of the US on revision of its patent code, and their regulators' discussions on achieving greater harmonisation with other patent systems throughout the world, we believe that the area of IPR protection should be pursued as an area for transatlantic regulatory cooperation, with a view both to achieving systems which are closer, but also with a view to cooperating to ensure that third countries respect their obligations under the TRIPS agreement. With the rapid development of the economies of certain countries recently admitted to the WTO, this is becoming increasingly necessary in order to ensure that our manufacturers are able to compete on global markets under fair conditions.

### High-level group on Competitiveness, Energy and the Environment

Orgalime welcomes the Commission's proposal to introduce better consultation of stakeholders through the setting up of a high level group. We welcome this initiative and hope that this high level group's work will primarily aim at underpinning the Commission's policy on jobs and growth.

### External aspects of competitiveness and market access

As the principal manufacturing exporters of the EU, our industry is of course concerned to ensure that our export markets remain as open as possible. This is of particular importance at the present time where the growth of our industry – some 4.1% for our industry as whole in 2004 and an estimated 2.3% in 2005, is largely sustained by exports rather than by demand on the internal market: neither the uptake of consumer goods, nor that of capital goods in the internal market is today acting as a significant driver for growth and employment in our industry.

If we welcome the efforts being made to secure a successful new trade round at the WTO and hope that these will result in a further liberalisation of the markets in goods and services, we also hope that the Commission will take increasing account of the development of bilateral agreements between countries which, if not complemented by similar agreements with the EU, may threaten our ability to compete in certain markets, whether as a supplier of finished goods or as a supplier to other industries (e.g. to the automotive industry) exporting on world markets.

### New Legislative Simplification programme

Orgalime believes that the Commission's working document "European Industry - a sectoral overview SEC(2005)1216" provides a good snapshot of the challenges facing different branches of our industry. While we welcome the analysis in the area of mechanical engineering, electrical engineering and ICT, we regret that no analysis has been carried out on the metalworking industry, which is both a major employer in Europe and faces particular challenges which we believe need to be taken into account.

Orgalime believes that better and simpler regulation is a real issue, if our European regulatory system, both EU and national, is to stop undermining Europe's international competitiveness and our continued potential as a manufacturing base in the face of ever stronger global competition.

While Orgalime welcomes the Commission's determination, as evidenced in its recent Communications on pending proposals and simplification, to face the challenges of improving the regulatory framework under which companies operate, it is clear that our industry will judge the Commission on the determination that it shows in dealing decisively with the unnecessary burden that arises from much of the over-regulation that we face today or will face in pending proposals. We therefore would have hoped that the Commission would work further on simplification in a close and structured consultation process with our industry. We are concerned that the first lists of proposals for simplification do not comprehensively tackle some of the major issues in the pipeline which affect our industry, such as the directive on optical radiations, the proposed merger of the Simple Pressure Vessels, Transportable Pressure Equipment and Pressure Equipment directives, and elements of REACH. We can only regret this.

Given that these Communications on pending proposals and simplification, while listing actions, provide only limited details on the proposed simplification, we feel that:

- The proposed review of the WEEE and RoHS directives in 2008 appears to us to be part of the normal revision process foreseen in the directives, rather than a timely intervention of the Commission to solve the remaining and, in some cases, significant problems faced by our industry today.
- Notwithstanding the Commission's acceptance of the need to withdraw provisions on natural light from the proposal for a directive on optical radiations, we continue to believe that the withdrawal of the proposal, which is clearly not a model of better regulation would have provided a more convincing signal of the Commission's intention to effectively implement its better regulation agenda.
- The revision, as part of the thematic strategy on prevention and recycling of waste, of the waste and hazardous waste directives may provide an opportunity to effectively simplify the EU's legislation in this area which has become far too complex and often goes well beyond the requirements to which the EU has subscribed in the framework of the OECD.
- A real simplification of the Construction Products directive to reduce administrative costs and burdens, including through simplifying the conformity assessment procedures, should be welcomed by our industry.
- The simplification of the certification rules for 25 New Approach directives, may, if the procedures are effectively simplified, while at the same time being accompanied by effective market surveillance procedures, provide benefits. We would welcome further discussion with the Commission on this.
- Given the significant gold plating that occurs in the transposition of many directives in member states, we believe that the proposal of converting directives to regulations, if carried out without major changes to existing EU legislation, may provide an opportunity for simplification.
- The proposed recasting into one legal instrument of the Simple Pressure Vessels and the Pressure Equipment directives which we already had opposed, and now also the Transportable Pressure equipment directives, seems to follow an essentially bureaucratic logic. In our view, these outline proposals demonstrate a lack of understanding of the realities faced by the manufacturers of this type of equipment.

Finally we also wish to stress that, for manufacturers, regulatory stability is of primary importance. The tendency both at EU and national level over the past years to continuously develop regulation, affecting our manufacturers or to revise existing legislation, which, even if not perfect works in practice, is leading to justifiable concern among companies about the investment climate in the EU. This can only act as a disincentive to investment in the EU.

We therefore welcome the Commission's commitment to better regulation, to introducing a real and high quality system of impact assessments. We also hope that the Commission will heed our industry's plea for regulatory stability in areas such as the review of the Low Voltage directive and the abovementioned directives affecting different types of pressure equipment.

### Improving sectoral skills

As stated in our past position paper on the issue and in our manifesto “Engineering the Future”, the shortage of skilled personnel is indeed a concern of our companies in most countries of the EU. It is perhaps surprising for many to see that, despite high unemployment rates in most EU countries, our industry is often faced with a shortage of skilled staff at all levels - high calibre apprentices, qualified workers, technicians, engineers and researchers. If companies are to maintain their competitiveness, technological development and innovative potential, it is essential that they have access to a highly skilled, committed and adaptable workforce.

It is vital that this workforce is equipped to meet the needs of companies and the challenges of both globalisation and ever increasing technological changes. This can only happen with appropriate education in schools and collaboration between schools and the manufacturing sector, through the provision of high quality vocational and occupational training, with regular refresher courses during people’s working lives.

We therefore look forward to the Commission’s proposed assessment of the current sectoral skill requirements and skill gaps as a first step to mapping, on a more scientific basis, the situation that many employers are facing in practice today. We hope that this will serve as a basis for intensifying action in a number of areas such as:

- Achieving a better use of the skilled personnel that is available today: it is time that we in Europe seriously reconsider the trend towards shorter working times and early retirement.
- Intensifying the drive to attract young people to technical and scientific studies: there are too few young people with the right skills for the manufacturing industry entering the labour market. Matters are often made worse due to the widespread shortage of teachers for scientific subjects and the limited appeal that careers in the manufacturing sector present for young people, both men and women.
- Opening up our higher education system much more to foreign students who could play a key role here in the future. Many countries used to have a tradition of welcoming foreign students, but today national governments often consider such students more as a burden, than an asset. At a time when the USA has become increasingly restrictive in welcoming foreign students, we should further open our higher education establishments to foreign students who will broaden and enrich our science and technology resources.

### Industrial Research and Innovation

The life cycles of products in our industry - whether capital or consumer goods - are getting shorter by the day. As a result, companies have to focus even more today on producing innovative products to suit the fast changing needs of their clients in the market.

In an increasingly competitive global environment, where our companies, operating in Europe, face a variety of cost handicaps, we must ensure that research leads to innovation and innovation to growth. The focus of EU funding for research has increasingly shifted in the last years to improving European research infrastructures. As a result, funding for industry and market-driven research has faltered and is at

present insufficient. We therefore welcome the Commission's increased focus on establishing an integrated approach to Industrial Research and Innovation. In our opinion, this is essential if the Commission is to succeed in its growth and job agenda, because it is innovation, with the application of new technologies, particularly in our own markets which will help to drive growth and therefore employment.

We call on public policymakers to refocus public resources for research and innovation on a number of axes which are essential for the future of the engineering industry and of Europe:

- The gap between the research community and the market-driven sector needs to be bridged. European R&D-programmes should not be primarily science-driven with a long-term perspective, as has increasingly become the case, but should also reserve funding for applied research, which leads to innovative products. In this context, we very much welcome the concept of the technology platforms, which we believe will provide a welcome boost to developing lines of research which answer the requirements of industry's markets. As an industry we are involved not only in the Manufature technology platform, but, because our industry supplies the capital goods, technologies and services to all other sectors of the economy, our members are involved in many of the other technology platforms.
- More must be done to exploit the results of research and to facilitate the uptake of the results by SMEs. The development of science and technology parks, including in areas where specialist engineering industries are clustered and the required skills base exists, facilitates the exploitation of the results of research and the development through dynamic networks which spur the creation of start-ups and drive innovation. We therefore call on public authorities, both at EU and national level to concentrate investment in areas where the potential for development and growth is strongest.
- We would welcome more investment in large-scale infrastructure or public projects which drive research and innovation along the whole industrial chain. Major European projects, such as Airbus and now Galileo, have a considerable knock on effect throughout the manufacturing chain and provide European companies throughout the whole supply chain with lead technologies and markets both at home and abroad.
- We feel that there are many further areas where Europe could modernise its infrastructures, creating lead markets for innovative technologies, in particular in areas such as of transportation, energy, telecommunications, health and e-government. The recent enlargement of the EU provides significant opportunities to develop new and much needed modern transport and telecommunications infrastructures in these countries, including by using the structural funds where available and by promoting public private partnerships for such investments.
- It is, however, also important to achieve the right balance between funding major projects and the direct needs of innovating SMEs. For the engineering industry in particular, the EU's definition of SMEs is too restrictive, when applied to the area of research. There is a significant body of engineering companies, typically employing in the range of 250 to 1000 employees and with an annual turnover of between some 40 and 150 million euro which are

major investors in research and are drivers of much innovation in the industry. They profit very little, however, from EU funded research: they are too large to profit from the SME actions and are uncomfortable when faced with the large programmes. The present instruments of the Commission therefore need to be adapted to allow and encourage participation of these companies.

- If funding, whether private or public is often available for research, it is also essential to be able to move from research to development on a pilot scale and then to larger scale industrial production. This requires further investment, including for manufacturing R&D: there is often a gap between funding for research, on the one hand, and venture capital and normal commercial lending to operating entities on the other hand. There is clearly a need, in a number of countries, to establish some form of “innovation funding”, perhaps in the form of an “innovation bank”, providing longer term funding on commercial terms, and/or through an innovation fund which would assist in the structuring of finance of the phases from research to the pilot plant, and then the step up to commercial production. The investigation of practices in some countries, including for example those of the USA’s Small Business Innovation Research Programme awards, might be helpful.

Finally, if public financing is reallocated in part to certain priorities, the Commission has often stated that it expected two thirds of research budgets to be provided by industry. If it is clear that our companies must and do invest in research and innovation, will they however, do it in Europe? For this, it is the framework conditions under which companies operate that will make or break the future development of the engineering industry in Europe. There is therefore a clear need to focus EU and national regulatory simplification programmes on the conditions that are necessary to achieve this; this entails both revisiting existing legislation, but also developing regulation which facilitates the setting up and development of innovative enterprises.

### ***Sector specific concerns***

While the Commission’s proposed follow up for horizontal policies will no doubt cover the majority of the issues that our industry has put forward, we feel that there are certain sector specific issues that need to be dealt with.

#### *Mechanical engineering*

For the mechanical engineering branch, we believe that the setting up of a group which will be launched in February 2006 to examine and discuss sector specific issues will allow stakeholders to better identify the challenges faced by this branch of our industry in the coming years. We thank the Commission for launching this process and welcome this opportunity to develop sector specific actions.

#### *Electrical and electronic and communication industries (EECI)*

Orgalime will shortly issue a more detailed paper which will highlight many of the specific concerns of this branch of our industry. If such concerns may be met in part in the task force on the competitiveness of ICT, we believe that there are a number of other issues of specific interest to this branch of our industry, which we would welcome the Commission integrating into the further development of its industrial policy.

The key technologies and products in the EEI have a huge leverage effect on almost all sectors of economy. A strong innovative EEI is a cornerstone for growth and economic wealth in the EU. A sustainable industrial policy vision should, in our view, include major structuring programmes for this industry, combining R&D efforts, investment and public private partnership (PPP) projects and standardisation within a consistent framework with this common goal. Among the more important areas which would merit further investigation, we believe that the following should be considered:

- R&D and innovation in the area of modernising and developing high-tech infrastructures.
- Integrated concepts for industrial R&D with local, regional, European and international clusters.
- Private financing of public infrastructure projects.
- Competitive tax conditions for start up companies.
- The development in Europe of lead markets, in areas such as infrastructure, trans-European networks and transport.
- Increased activity in the area of standardisation, including the development of technology and market roadmaps for the development of markets through standardisation, the strengthening and speeding up of the capacity to develop market driven norms and standards in Europe, and the promotion of European standards worldwide, with a particular focus on China, India and Russia.

#### *Metalworking industry*

Although the Commission's own analysis highlights the sectoral competitiveness of this sector ("fabricated metal products"), it has to date shown little interest in this branch of our industry. With a turnover in the EU25 of some 397 billion euro in 2004, this industry is a major manufacturing branch in its own right; it is a major employer providing 3.3 million jobs in the EU25 and, with some 84 billion euro of intra and extra-trade, it is also a major exporter. The metalworking industry covers a wide range of products including tools and finished metal goods (accounting for some 40% of production), castings, forgings, boilers and metal containers, as well as secondary transformation on contract basis, such as treatment and coating of metals. This industry, therefore, produces inputs or products used in other sectors of engineering, as well as capital goods or parts for all other industry sectors. It also supplies a wide range of consumer products. Although it has limited dependence on exports, foreign trade still plays an important role.

The metalworking industry is relatively labour-intensive. Today it faces significant challenges including:

- Ever tougher competition from lower cost countries, due to the differential in prices of inputs, including labour, but even more importantly, raw materials. The price of raw material inputs, which can represent as much as 80% of the total cost of a finished product, is of particular importance in this industry. The fact that trade in certain areas, such as steel, is still regulated in the EU, whereas the EU's metalworking industry – a much larger producer and employer sector - faces competition for finished products from suppliers operating out of markets where access to raw materials is largely unregulated, is becoming an increasingly sensitive issue for this industry, which feels that the EU's trade policies in this area are jeopardising the competitiveness of the branch. In an



increasingly globalised economy, we believe that the present measures taken by EU authorities to “manage” essential parts of our supply chain, are counterproductive for our industry, which otherwise largely operates under free trade conditions. We count on the Commission to provide their support for the liberalisation of trade, which has brought significant benefits to the EU economy as a whole.

- Increasingly difficult market conditions in the internal market: the metalworking industry is essentially a SME industry, which purchases its inputs from major suppliers, and sells to major customers, either to distributors or retailers serving the consumer market (e.g. Do-it-yourself chains), or to industrial customers, such as the automotive and chemical industries. The increasing consolidation of both its supply and its customer base is putting rising pressure on metalworking companies, whose margins have declined sharply over the past years.

Orgalime therefore feels that it is time that the Commission should take due account of this branch of the engineering industry, which, unlike its supply and customer base, today has no counterpart either within DG Enterprise and Industry or within DG Trade.

## **Conclusions**

Orgalime very much welcomes the Commission’s fresh approach to industrial policy proposed in the present Communication and in the recent Communications on simplification of legislation and pending proposals. We believe that these are an essential corollary to re-establishing the rightful place that manufacturing industry should enjoy in the EU economy. They open the door to re-establishing the framework conditions that our industry needs to render the EU attractive as a manufacturing location, for our companies and for those of our clients.

The present Commission has indeed given a kick-start to its programme focusing on jobs and growth and on industrial policy. It was high time to do so, and the Commission has been quick off the mark. Now we hope that the Commission will be able to keep up the momentum and deliver results.

It is with less and better regulation and by providing the right conditions for manufacturing companies to invest, innovate and grow in the EU, that we will lift Europe out of a long period of sluggish growth and unacceptably high unemployment.