



**COMMISSION COMMUNICATION
FOSTERING STRUCTURAL CHANGE:
AN INDUSTRIAL POLICY FOR AN ENLARGED EUROPE
COM(2004)274 FINAL OF 20 APRIL 2004**

**ORGALIME POSITION
13 July 2004**

Orgalime represents the mechanical, electrical, electronic and metalworking industries in 23 European countries. We speak for 33 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 2003, accounted for 1175 billion Euro of output, that is a quarter of the EU's manufacturing output and a third of its manufactured exports.

Introduction

Orgalime welcomes the issue of present Communication, which we believe is a useful further step which builds on the Commission Communication on Industrial policy in an enlarged Europe COM (2002) 714 final.

While we welcome the growing awareness of the EU institutions on the fundamental changes affecting European industry and the sometimes candid analysis which is carried out in the Communication, we feel that the conclusions of the analysis are perhaps somewhat optimistic and that the way forward is not charted with sufficient clarity: this analysis needs to be followed in particular by practical action at a general level, both by the EU institutions and by member states and, where appropriate, at a sectoral level, so as to improve the framework under which our industry is operating in the EU today.

We therefore very much welcome the Commission's commitment to undertake a sectoral initiative for one of the branches of the industry that we represent, the mechanical engineering industry and look forward to a positive collaboration and to achieving results in this area. We believe that monitoring the performance of specific sectors with a view to adjusting sector specific policies in areas, such as research and innovation or sector legislation, can usefully complement the broad horizontal policies which manufacturing industry requires to operate competitively in Europe.

We comment hereafter in more detail on the Communication.

“Deindustrialisation”

The Commission's postulate that deindustrialisation is limited to a few sectors might perhaps be considered as somewhat complacent. While it is clear that both service content and outsourcing are on the increase, one needs to take into account where such inputs are being sourced.

In the area of capital goods and certain consumer equipment represented by Orgalime, we have for the last three years faced some erosion in the output of our industry in the EU, a reduction in trade in the internal market, as well as a decrease in investment in manufacturing facilities and a significant drop in employment. This phenomenon would have been even more pronounced had our exports to Asia and particularly to China not provided welcome support to our manufacturers.

Although cyclical factors no doubt play a role, fundamental to this phenomenon, in our opinion, is the fact that growth in the EU15, including in our industry, is and has for some time been the lowest among major industrial areas (see annex); moreover, as our industry becomes more and more globalised, it is only logical that companies should give priority to investing in growth areas, such as China and the USA.

If we can expect that enlargement will favourably impact this situation, both because investment and outsourcing have been occurring in the new Member States, which at present enjoy lower costs than many of the EU15 countries, one must not forget that, if the output of the engineering industry in Europe is falling, this reflects lower investment, both in our industry and in other industries. Yet the shift to production of innovative products with higher added value cannot be made without investment. Innovation requires investment and the right framework conditions to stimulate it.

The Commission is therefore quite correct when it identifies “worrying signs”, since many of the signs which it identifies are not related to competition from low cost economies, but from other major industrial nations. Among those signs cited, which are major causes for concern, are the widening productivity gap with the USA, the gap investment in R&D with the USA and Japan as well as the increasing shift of R&D and innovation funding to the USA. It is therefore all the more important not to allow ourselves to become complacent, but to act.

Innovation and entrepreneurship as drivers of growth

Orgalime agrees with the Commission’s analysis that innovation and entrepreneurship are drivers of growth. In our opinion they are the prime drivers. Innovation policy must therefore be considered as intimately linked with industrial policy.

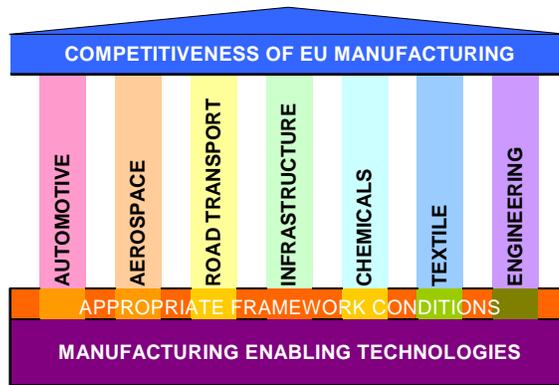
Research and innovation

We therefore welcome the Commission’s outline action plan for Europe which highlights the priorities for stimulating research and innovation in the EU.

While we agree that substantial increased investment in R&D is appropriate, we believe that significant changes will be needed in the future 7th Framework Programme for RTD, if major parts of our industry are to match public investment with private funding: if the present Craft structure does allow a certain number of SMEs to participate in the EU’s programmes, a far larger number of companies would participate, if the measures applied to SMEs were made available to mid size companies. There is a significant body of engineering companies, typically employing in the range of 250 to 1000 employees and an annual turnover of between some €40 and 150 million which are major investors in research and are drivers of much of innovation in our field. They profit very little, however, from EU funded research: they are too large to profit from the SME actions; they are uncomfortable when faced with the very large programmes. The present instruments of the Commission therefore need to be adapted to allow and encourage participation of these companies.

We would in particular welcome if the proposal for instituting different technology platforms were developed in a manner which would allow a cross-sectoral industry, such as the engineering industry, to participate fully in jointly funded research. Whereas existing technology platforms of course include a significant component of research in the equipment and technologies provided by our industry which are essential for technological progress in other industries (e.g. steel, textiles, automotive, construction technological platforms, etc.), as the providers of the enabling and productivity enhancing technologies we believe that there is a common core of technology in areas such as mechatronics, materials, communication and processes which could be developed in an engineering technology platform.

While the development of breakthrough technologies in the key areas cited in the Communication is essential, this can only occur if productivity enhancing and enabling technologies provided by our industry are developed and made available.



Our concept of a horizontal technology platform, which would cut across other technology platforms and covers the enabling technologies developed by our industries can be represented as follows:

The right people with the right skills

In order to allow further industrial development in the EU, in the coming years much more needs to be invested in education and skills so as to reverse the trend of the growing shortage in most European countries of high calibre apprentices, qualified workers, skilled technicians, engineers, designers and researchers working in engineering.

Our industry is firmly committed to playing an active role to attract skilled staff, and both companies and associations are playing an increasing role in this area, including working on improving the image of the engineering industry with a view to attracting more young people to study and work in engineering.

We also welcome the Commission's increasing support in this area including in the framework of the Charter for Small enterprises.

From research to the product...

Both research and skilled personnel are essential to innovation: nevertheless in spite of the many areas in which our industry is a world leader, we still have an insufficient capacity to turn new knowledge into value-creating new or improved products, services and processes.

Here the role of entrepreneurs is essential: this is a question of culture and education, but also of the right framework conditions. While many ideas are developed in Europe, there are too many obstacles and disincentives in the way of those trying to bring innovative products, service and processes on the EU market. Such obstacles often arise from regulatory or administrative requirements, whether at a national or European level. As long as such obstacles and disincentives dampen entrepreneurial spirit, it is inevitable that Europe should lag behind its main competitors in this area.

Framework conditions for manufacturing industry in the EU

In our last position on [industrial policy](#), we stressed that there was a long way between recognising the need for achieving favourable framework conditions for manufacturing industry and the reality today.

While regulators, both at the EU and national level, can arguably not have a major influence on a certain number of factors affecting companies such as exchange rates, we feel that significant efforts can be made by regulators at the level of the framework conditions under which companies are expected to operate. In recent years these have been progressively getting worse.

If these framework conditions are to improve, we believe that, for our industry, which is very largely composed of SMEs, a number of areas merit particular focus:

Global competition and the costs of inputs for companies operating in the EU

The Communication highlights the impact of the strong rise in the prices of raw materials “due essentially to the strong growth in China’s industrial output”. While there is in our view much truth in this assertion, to our mind, it perhaps oversimplifies the problems faced by different sectors.

If our industry is only beginning to feel the impact of cost rises in the sector of non ferrous metals, the situation is different at the level of steel: ever since the imposition of safeguard measures in the US in 2002 and the reaction of the EU and other countries which led to a brutal rise in the price of steel on world markets, the price of steel has continued rising. Part of the problem no doubt arises from the supply side, where over the years the output of crude steel in the EU has been reduced, while imports have been largely kept stable. We therefore feel that, while we may be facing a new phenomenon in the area of raw materials, it will be difficult to reach objective conclusions until such a time as the EU liberalises the market for steel to the extent that it has for engineering products.

Nonetheless, this phenomenon of rising raw materials prices is also affecting producers in other countries; our main concerns therefore lie in the areas which are more specific to the EU, such as:

- Companies faced with a shortfall in the supply of steel and with irregular deliveries: part of the problem no doubt arises from the difficulty of steel producers to source their own raw materials: the closure of many coking plants in the EU, following the imposition of ever stricter environmental regulations has inevitably led to a relocation of much of the production of coke outside the EU, which is today affecting the European steel industry.
- The erosion of the EU supply base for other inputs leading to rising prices: the price of many chemical products has risen for our manufacturers following the introduction of different regulations governing the production, storage and marketing of substances. Companies are often having to buy larger quantities of products: as there are fewer local distribution facilities, deliveries, increasingly from outside the EU, need to be ordered in larger quantities. This in turn affects the cash flow of engineering companies and therefore their costs and their competitiveness.
- The cost of other inputs such as energy whose prices are being affected not only by international factors, but increasingly by the impact of regulation in the EU. Companies are still to a large extent awaiting the benefits which the liberalisation of the energy markets was expected to bring.

If the raw materials costs of course do have an impact on manufacturers, particularly if such costs do not reflect world market prices, we believe that a longer term concern is the gradual erosion of the manufacturing base in the EU, without which it will become increasingly complex for engineering to operate in the EU.

Functioning of the Internal Market

The Internal Market is one of the major if, as yet, incomplete achievements of the EU. A well functioning Internal Market which provides manufacturers in the EU with a large home market is an essential competitive advantage. Nevertheless the Internal Market can only achieve its full potential, if a certain number of conditions are met:

- Existing trade barriers within the EU, in a number of areas, must continue to be brought down with a minimum of additional regulation.
- New barriers must be avoided: such barriers are becoming more and more apparent in areas such as environmental legislation, where differing transpositions in different Member States are a frequent occurrence, particularly for directives under Article 175 of the EC Treaty. While this may be allowed, we question the rationale of introducing legislation at a EU level which does not aim to achieve a harmonised approach. For our

products, we can cite the example of the ongoing transposition of directive 2002/96/EC on WEEE where member states and the Commission have failed to take the opportunity to opt for as harmonised as possible an approach across Europe. Our industry is concerned about the risk of facing the maze of 25 different transposition laws in the EU as in a number of crucial areas, such as the scope or the role of the “producer”, on which the Commission and member states have not yet come to an agreement at less than one month from the transposition date deadline. Likewise, the risk of new barriers to trade also exist in the area of the transposition of directive 2002/95/EC on RoHS where member states and the Commission, although the directive is based on Article 95 of the Treaty, are failing to agree on essential elements of the directive, such as the criteria for compliance with the directive’s substance phase-out requirements.

- Member states need to implement technical directives on time, completely and without adding further requirements: a recent survey carried out by a number of national confederations (“It’s the Internal market, stupid!”) found that over 60% of companies are forced to modify products/packaging or make extra testing or certification due to national mandatory requirements.
- Market surveillance must be made to function properly: Orgalime believes that what is needed is not new legislation, but a better application of existing legislation. We welcome the efforts of the Commission and Member States in the area of the administrative co-operation between national market surveillance authorities and urge Member States to increase the resources they put into strengthening market surveillance. This is becoming ever more important in the face of what many companies perceive as unfair competition from products not respecting the substantial body of European and national regulation.

Supporting the international dimension

We welcome the Commission’s drive to achieve fair conditions of access to and trade with our export markets. We also appreciate the increasingly vigorous action led by the Commission to combat the scourge of counterfeit products finding their way into the EU and would welcome additional support at an international level to reinforce observance of the WTO-TRIPs agreement.

We hope that the Commission will continue its efforts to ensure that the products of our industry, one of the major EU exporting industries, has equal access to other markets as their products have to ours. We are concerned that measures such as the China Compulsory Certification scheme place unnecessarily high administrative burdens and financial costs on our companies. Our industry, as a major exporter to China, is particularly sensitive to this issue.

Acting to reduce the weight of legislation...

The Communication highlights the cumulative effects of regulation and accepts the need to reduce the weight of legislation. We believe that companies need a stable regulatory environment and legislation which is as simple and as user friendly as possible. For a number of years our companies, the vast majority of which are SMEs, benefited to a large extent from the development of regulation under the New Approach which facilitated the development of the Internal Market for engineering products while ensuring a high degree of protection for workers and consumers.

In recent years, however, the situation has changed: while we welcomed the Commission’s Better Regulation package of June 2002, we are not yet convinced that the institutions are really committed to applying it. We are concerned at the increasing and excessive use of regulation, often with little or no prior impact assessment.

As examples we can cite:

- the proposed introduction of a directive on optical radiation: this proposal originally discussed in 1993, but then set aside by the Council, is being relaunched without carrying out even a summary impact assessment. As it is clear that there have been substantial changes in both workplace practices and technology over the last eleven

years, it is difficult for us to understand how the institutions can consider acting without carrying out an assessment of whether such regulation is appropriate.

- The revision of the Machinery directive: the proposal, which in our opinion will provide few benefits, will lead, essentially for bureaucratic reasons, to further costs estimated by our industry at some 800.000.000 euros for revising standards and machinery manuals. This is the cost of the 2.45 million engineering staff man/days of work which our industry, already faced with a shortage of skilled personnel, will need. Focusing on producing innovative products and processes would, in our opinion, make better use of the competence of this staff.

We therefore hope that the Commission will take up the challenge of seriously considering if and when new regulation is appropriate, while at the same time analysing the existing body of Community legislation affecting our industry.

We look forward to the time when the Commission takes the lead in proposing measures to achieve a stable and coherent body of regulation for manufacturers operating in the EU. We hope that such an approach will be initiated in the framework of the initiative that the Communication proposes in the area of mechanical engineering.

Orgalime also intends, in collaboration with other industries to provide further input to the institutions in the area of impact assessments, with a view to providing a further contribution to achieving better regulation.

Conclusions

Orgalime welcomes the Commission's latest Communication on industrial policy which we feel again highlights many of the areas which industrial policy both at the EU and at the national level needs to address.

We are already supporting the Commission's follow up to this initiative through participating in a review of one of the branches of the industry, which we represent. We hope that the conclusions of this work will lead to concrete proposals to enhance the competitiveness of our industry operating in the EU.

We firmly believe that now is the time to act, if the Lisbon objectives are to be substantially achieved. The coming years must lead to a focus on the competitiveness of manufacturing industry in the EU. If the Commission and the Member States do not make a concerted effort to face the reality of the changes which our industry is undergoing at the present time, we are concerned that the "worrying signs" discussed in the Communication will inevitably be taken over by structural changes which may prove difficult to reverse.

We are therefore looking for the Communication to be followed by action. The diagnosis has been made, now is the time for the treatment.

ANNEX

**COMPARATIVE DATA ON GROWTH IN VOLUME PRODUCTION IN METALWORKING, MECHANICAL
ENGINEERING, ELECTRICAL ENGINEERING AND ELECTRONICS SECTORS
IN THE EU, JAPAN AND USA BETWEEN 1986 & 2004**

GROWTH IN VOLUME OF PRODUCTION PER YEAR												
NACE & COUNTRY	Japan 28 Metals	Japan 29 Machinery	Japan 30-33 Elect.	Japan Total	USA 28 Metals	USA 29 Machinery	USA 30-33 Elect.	USA Total	EU15 28 Metals	EU15 29 Machinery	EU15 30-33 Elect.	EU15 Total
YEARS												
1986-2003	-0,3%	-0,2%	4,4%	2,0%	1,2%	1,3%	6,9%	4,8%	1,6%	1,0%	2,9%	1,9%
1995-2000	-1,9%	1,2%	6,9%	3,7%	3,6%	3,6%	25,6%	15,1%	3,4%	2,8%	6,6%	4,1%
2001-2004	-4,0%	-1,4%	1,3%	-0,3%	-2,7%	-4,1%	5,3%	1,0%	0,0%	0,1%	-1,4%	-0,5%
1995-2004	-2,8%	0,1%	4,6%	2,1%	1,1%	0,4%	17,1%	9,2%	2,0%	1,7%	3,0%	2,3%

Source: NACE