



**COMMISSION COMMUNICATION ON INDUSTRIAL POLICY
IN AN ENLARGED EUROPE
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**ORGALIME POSITION
3 March 2003**

Orgalime represents the mechanical, electrical, electronic and metalworking industries in 21 European countries. We speak for 32 trade federations representing over 100 000 companies. These industries, the vast majority of which are small and medium size enterprises, employ some 7,5 million people and, in 2001, accounted for 1200 billion Euro of output, that is a quarter of the EU's manufacturing output and a third of its manufactured exports.

Orgalime welcomes the issue of present Communication, which we believe may go some way towards redressing the balance of the EU's policy in the framework of EU's policy and regulatory activity: Orgalime believes that, for too long and, notwithstanding the conclusions of the Lisbon summit, the economic component of sustainable development has been underrepresented.

We believe that the Commission correctly analyses and identifies most of the causes underlying the strengths and weaknesses of European manufacturing industry and that the proposed monitoring of the competitive situation of individual sectors may be a useful tool for further gauging the competitive advantages and disadvantages of the EU's different manufacturing industry sectors. Such an analysis is however not enough: it is now three years since the Lisbon summit and, in our opinion, the EU is still far from the goals it set itself. We now need concerted action involving both regulators at the EU and national level and affected stakeholders.

In the present position, Orgalime wishes to stress in more detail certain elements in UNICE's position which we support.

Industry as the source of Europe's wealth

Orgalime welcomes in particular the recognition in the Communication of the key role that manufacturing plays as a generator of wealth, both directly through the employment it provides itself and indirectly through that generated in the services industry.

In a recent speech, the UK's Minister of State for Employment Relations, Industry and the Regions stated that the multiplier effect of manufacturing on the service industry is in the region of 4. Such statistics therefore serve to underpin the Commission's thinking.

Strengths and weaknesses

Orgalime recognizes that many of the comments made by the Commission on the weaknesses of manufacturing industry are grounded in truth.

We do believe, however, that our industry, which includes ICT, medical technologies and other high performance sectors such as mechanical engineering, still leads the world in many areas. If one uses one of the Commission's own measures – patents - we can see that in this area, the EU led the world in the issue of patents until 1999, but that more recently we have been overtaken by the US. This is of course a cause for concern.

Implications of enlargement for our industry

Orgalime supports the Commission's vision of the necessity to make the most of the opportunities that enlargement offers to Europe, including in the context of globalisation.

We believe that where industry in the enlargement countries has modernised, it is often in the position to compete effectively. Nevertheless this competitive advantage may diminish over time, as their economies evolve towards those of existing Member States.

It is therefore all the more necessary to aim to develop the attractiveness of the EU as a productive location and, in this context, it is the framework conditions, which are of vital importance.

It is also important to ensure that, if the legislative framework for enlargement has indeed been prepared, the task of actually applying the "acquis communautaire" on the ground is managed as well as possible.

Framework conditions for manufacturing in an enlarged EU

In Orgalime's opinion, there is a long way between recognising the need for achieving favourable framework conditions for manufacturing industry and the reality today: our industry, by far the largest industrial sector in the EU, is increasingly concerned by its competitiveness.

In 2002, we expect that the output of manufacturers in our industry in the EU will have dropped by some 3.9% and employment by over 150.000. Although we are aware of the present economic conditions at a global level and are hopeful that the outlook for 2003 should be better, we are nevertheless concerned by what we see as an increasing tendency: where there is today investment in our sector and in a number of our client sectors, such investment is often occurring outside the EU. This clearly is not a consequence of the present economic climate, but rather of the framework conditions for manufacturing in the EU.

We therefore welcome the Communication's acknowledgement of the key importance of framework conditions. While we must be aware that EU manufacturing industry will probably never be in a position to compete on factors such as labour cost, this does not explain why the US market is today attracting more investment from Europe than vice versa.

If the US no doubt has a certain advantage in the area of labour market flexibility, then it is all the more important that regulators should concentrate on those areas where progress can and still needs to be made: significant steps have already been achieved in areas such as the development of the internal market for goods, the introduction of the euro, the liberalisation of some sectors, such as telecommunications, but more effort must be put into areas such as the liberalisation of the energy markets and of financial services, ensuring that in the future the EU has sufficient skilled personnel to satisfy the needs of industry, completing the intermodal transport network, and ensuring the success of the internal market after enlargement.

If the framework conditions under which our industry operates in the EU are to improve, we believe that, for our industry, which is very largely composed of SMEs, a number of areas merit particular emphasis:

Functioning of the Internal Market

The Internal Market is one of the major if, as yet, incomplete achievements of the EU. It plays a key role in achieving the EU's Lisbon objective. However 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, such as services, must continue to be brought down.
- New barriers must be avoided : it is all too often that legislation in areas such as the environment gives rise to different transpositions in different Member States. While this is allowed by the Treaty, Orgalime questions the rationale of introducing such measures at the EU level, if one the prime aims of European regulators is not to achieve a significant degree of harmonisation at the level of the EU.
- Member states need to implement technical directives on time, completely and without adding further requirements; we therefore welcome the Commission's recent moves towards ensuring that the deficit in this area goes on falling.
- Confidence in the system is essential. Therefore, 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.

Simple, coherent and stable regulation...

Companies, in order to be competitive need a stable regulatory environment and legislation which is as simple and as usable as possible. Orgalime has recently made a number of proposals where we believe that a certain stability or simplification (such as the development of a European Private Company Statute and the postponement of any revision of the Machinery directive) would benefit companies and particularly SMEs.

We are indeed more and more concerned by the increasingly complex regulatory environment in which companies are expected to operate. While we welcome the recent Better Regulation package issued in June 2002 by the Commission, we strongly object to what we see as the increasing and excessive use of regulation, usually with little prior analysis of the consequences on industry.

Our industry has recently been faced with a number of proposals being worked on by different Directorate Generals which are complex, overlapping and, in our opinion, would lead to incoherent regulatory packages.

This is of particular concern when such proposals (for example the introduction of some environmental regulation with respect to products and the ongoing initiatives on electromagnetic fields) not only regulate the same end product through different regulations, but also regulate manufacturing processes. While it is clear that product related legislation affects all competitors equally, legislation affecting manufacturing processes and conditions, inevitably only can affect EU manufacturers, thereby in many cases putting our industry at a competitive disadvantage.

In this context, we would like to stress that we believe that the undoubted success of the Internal Market has to a large extent been due to the application of the New Approach in the area of the technical directives. We therefore strongly support the continued application of the New Approach in this area and are interested in further discussing how far New Approach principles can effectively be applied to other areas, such as consumer protection, and the environment, where over-rigid regulation, often applied differently from one member state to another, can lead to the fragmentation of the Internal Market and stifle innovation.

... but only when needed and demonstrably so

When welcoming the Commission's Better Regulation package, Orgalime firmly supported the revision of the impact assessment methods which are being introduced as a prerequisite for launching any major new policy or regulatory initiative.

We believe that the Commission should always consider the cost of regulation, whether regulation is cost effective, or whether other approaches such as self-regulation by manufacturers or co-regulation will not achieve the same objective.

Regulators, in our opinion, should always, after discussion with stakeholders, select the least onerous and most flexible approach compatible with achieving a defined objective within a given time frame.

The challenge of globalisation

We also believe that the Commission should always consider, as part of its impact assessment procedures prior to adopting a new policy or regulatory initiative, the approach being taken by our main competitors and trading partners: we firmly encourage the Commission to follow its own recommendations in its previous Communication on industrial policy (1996) that, "in the absence of international regulation, (it should) take account of the competitiveness of EU industry prior to EU regulation."

EU manufacturers should not be subjected to costs or other constraints that are not imposed on our key competitors.

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 most significant drivers.

Increased investment in research and development is essential to facilitating innovation. We believe that there are significant areas in our industry, such as mechanical engineering, ICT applications in industry and ICT, where Europe has developed or is attained a commanding lead at the international level. This is of course underpinned by extensive investment in R&D.

Nevertheless, this is not enough. In the first place, 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.

Moreover, research is just the first of the many steps towards innovation: Orgalime welcomes the Commission's acknowledgement that the EU innovation system (even though there are many areas of excellence) has an insufficient capacity to turn new knowledge into value-creating new or improved products, services and processes.

For this to happen, again requires that the framework conditions should be right: if we are seeing clusters of excellence developing in our industry, often in the vicinity and as a direct result of research carried out in universities, there are still too many obstacles on the road from the idea to the innovative product, service and process. Such obstacles often arise from regulatory or administrative requirements, whether at a national or European level. As long as the entrepreneurial spirit is braked by such obstacles and disincentives, it is inevitable that Europe should lag behind its main competitors in this area. Such disincentives, while affecting all companies, will inevitably have a particular effect on SMEs, which do not have the resources for managing them. We therefore recommend that the Commission should analyse in detail the fundamental obstacles both at a Community and at a national level, which brake innovation and recommend those changes which are necessary.

Horizontal and sectoral industrial policy !

Orgalime welcomes the Commission's proposal to continue to follow a horizontal approach in industrial policy. We feel that such an approach may, if the political will is there, be most effective to analyse and improve the framework conditions under which European manufacturers operate.

Nonetheless in performing a review of the situation in the EU, it is clear that, in a number of areas, existing sectoral legislation will have to be taken into account, since such legislation directly impacts manufacturers: there is indeed a significant array of legislation issued by different Directorates General (DGs Enterprise, Markt, Environment, Employment and Social Affairs, Sanco, Tren) which impacts manufacturers in the engineering industry. Moreover, there are areas other than legislation, such as R&D, where sectoral initiatives play a vital role. Industrial policy is therefore inevitably a blend of both horizontal and sectoral approaches.

Conclusions

Orgalime welcomes the Commission's Communication which we feel pinpoints many of the areas which industrial policy at the EU level needs to address.

We are already working with the Commission on the 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 a concerted effort to consolidate an EU market where our industry can flourish and continue to compete in the global market.

We fully agree that one of the fundamental things that Europe must get right, if the Lisbon objectives are to be achieved, is to ensure that the framework conditions under which industry operates in Europe are improved. This can only be achieved if the Commission and the Member States, including the acceding countries, pick up the challenge and, together with industry develop a coherent vision on the future of manufacturing industry in Europe.

We therefore expect that the Communication will be followed by action.