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VCI Discussion Paper on Industrial Policy for the European Council

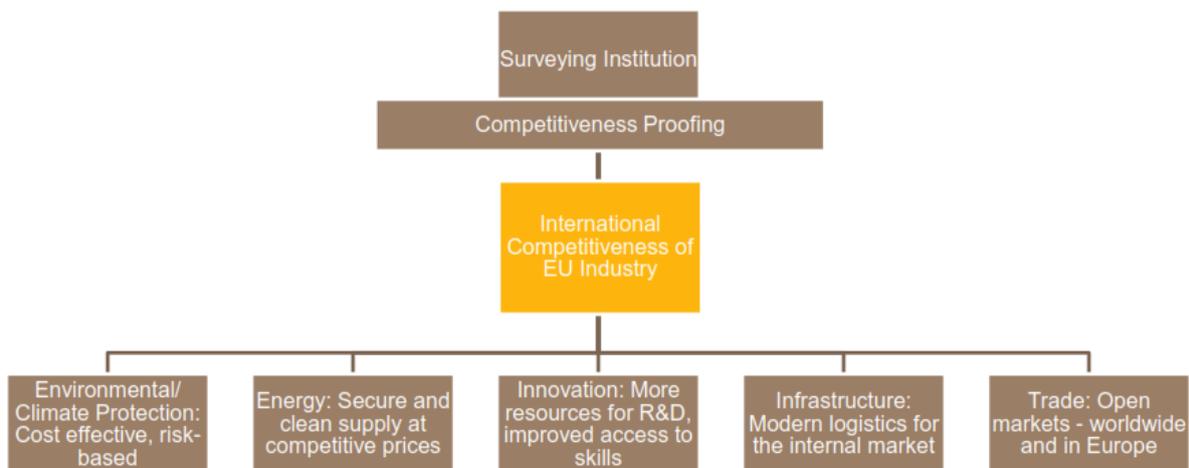
Kickstarting the Industrial Renaissance of Europe

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Europe is the birthplace of modern industry. In recent years many EU Member States had a relatively weak growth performance together with politically induced structural changes – to the detriment of industry. Furthermore, at EU level ambitious new political goals – especially in the areas of climate and environmental protection – have overtaken the goal of a strong, prosperous and innovative European industry.

In its Industrial Policy Communication of October 2012, the European Commission became aware of this negative trend and set a new goal: 20 percent of the GDP should be produced in the manufacturing sector by 2020, i.e. 4.5 percentage points more than in 2011. But in its Competitiveness Report of September 2013 the Commission had to acknowledge that the share of industry in GDP was declining even further, namely to 15.1 percent. Obviously, with this decline of industry in many European countries, Europe’s weight in the world economy is declining as well. How can this alarming development be reversed?

Industrial competitiveness and the ability to innovate are at the core of an industrial renaissance. VCI proposes initiatives in six fields of activity, in order to put a halt to the de-industrialisation of Europe and to start European re-industrialisation. The overall structure is as follows:



Re-industrialisation needs to build upon industry as a whole. Europe depends on stable value chains to solve the challenges of tomorrow – from basic industries to capital and consumer goods. Needless to say that the strengthening of European industry must not adversely affect the service sector; many services are indispensable for a strong industry.

Strengthening industry is no purpose in itself. Five years after the beginning of the financial and economic crisis, Europe urgently needs higher and sustainable growth with more employment. Europe cannot return to the growth path without a strong industry. Consequently, an industrial renaissance goes hand-in-hand with overcoming the crisis. Therefore, this industrial renaissance needs to be launched without delay.

VCI discussion points on how Europe could regain and improve industrial competitiveness:

1. Establish a “Competitiveness Watchdog” for EU initiatives and their implementation in the Member States

The competitiveness of European industry needs to become a central element of other EU policies – in order to achieve the 20 percent policy goal mentioned above. For this reason, the institutional framework should be adapted at both Commission and Council levels.

The decision-making structure in the **European Commission** should be adapted to the goal of an industrial renaissance. Within the Commission new and meaningful powers should be allocated so that new initiatives do not endanger or counteract the industrial renaissance. There are several possibilities on how to achieve such an institutional shift.

Preferably, a more powerful role of the **Industry Commissioner** could be envisaged, enabling the Commissioner to intervene in favour of industry’s competitiveness. Alternatively, the **President of the Commission** could be given wider powers with a view to taking competitiveness into account.

Furthermore, the **Secretariat-General** – in its coordinating role – should be strengthened. The Secretariat-General could achieve more coherence of EU legislation and should effectively take into consideration the cumulative effects of legislation, thus driving forward competitiveness as a central concern across all the Directorates General of the European Union. In this “watchdog” function, the Secretariat-General should oversee legislative initiatives at horizontal level (other Directorates General) and at vertical level (implementation in the Member States).

The position of the **Scientific Advisor** to the Commission President should be maintained and strengthened.

At **Council** level, the “Competitiveness Council” could be given a stronger role, comparable with that of the Economic and Financial Affairs Council (ECOFIN).

The **European Semester** process should focus on strengthening growth and competi-

tiveness of the Member States; it should become more binding in its concrete shape.

All in all, there is too much regulatory activity in Europe, and this is harmful to the competitiveness of industry. Shortcomings in the implementation and enforcement of many EU legislations in environmental and consumer protection suggest heavy strains on the Member States. Here, the Commission should draw the right conclusion: So long as European laws and regulations are not implemented comparably – and also enforced effectively – in all the Member States, existing legislation should not be tightened (as is the case e.g. with the Commission proposal for the review of the Environmental Impact Assessment).

2. Meaningful assessment of economic impacts for all policy initiatives

The newly strengthened institution needs a robust and effective toolkit of instruments to intervene in favour of competitiveness. Since its Communication on Industrial Policy of 2010, DG Enterprise has already developed such instruments and programmes for draft legislation: Competitiveness checks examine the impact of regulatory initiatives on competitiveness within the impact assessment analysis (Competitiveness Proofing/CP). Furthermore, DG Enterprise has installed a process of “fitness checks” for existing legislations. Finally, there is the “REFIT programme” to reduce bureaucracy. These instruments need to be applied consistently, and they need to be strengthened in the decision-making process.

What does this mean for regulation?

The new institutional structure – together with the rigorous application of the competitiveness checks – will have consequences for political decisions:

- Draft legislation without the right balance between industrial competitiveness and the specific regulatory purpose will normally not be adopted.
- Draft legislation undermining competitiveness could be adopted only in exceptional circumstances where the political decision-makers clearly prefer other societal values over industrial competitiveness. Such decisions need to be taken in full transparency.

The following areas should be priorities for competitiveness proofing: **energy, climate, environmental and consumer-related policies.**

Fitness checks should analyse the effects of existing legislations on all major industrial sectors. Furthermore, they should result in proposals for more efficient and competitiveness-enhancing legislation.

Also, the Member States should think about a system of competitiveness checks and fitness checks at the national level.

Good competitiveness proofing needs the early involvement of stakeholders.

An effective competitiveness proofing and consistent fitness checks help ensure an adequate consideration of the economic pillar in the sustainability triangle.

3. Progressing the European Energy Market

Europe needs “more Europe” in the field of energy! This is where the potential inefficiency of individual national regulation by the Member States becomes the most obvious. An outstanding example is the Energiewende (energy transition) in Germany.

Energy availability and prices rank among the main factors for industrial competitiveness. However, important elements of energy policy are national competencies. This was plausible in a world which relied on nationally available fossil fuels where each country could build up their energy supplies – with an optimal use of their available fuels and according to their own needs. But this is no longer the case in today’s world – with Europe’s growing dependence on energy imports and an ever changing energy mix. Now, Europe needs to exploit all the chances and opportunities on this continent, in particular, for optimising renewable energies: with Europe’s diverse geography, its tradition of cooperation and within the ongoing integration process.

What should Europe do?

First: The goal of maintaining and enhancing competitiveness needs to stand on equal footing with the European harmonised CO₂ reduction targets. Goals for expanding renewable energies should not be primary goals as such: they should help achieve the CO₂ reduction targets in a cost-efficient manner. Consistent monitoring is needed for this. Consequently, expanding renewables in Europe cannot be a purpose in itself. The following yardstick should be applied to the expansion of renewable energies: What contribution does expanding renewables make to reducing CO₂ emissions and to reducing the dependence on energy imports – and thus to enhancing competitiveness? The Commission shows such farsightedness with the Green Paper “A 2030 framework for climate and energy policies”.

Second: The European goal of producing more energy from renewable sources can only be maintained if a reasonable timeframe is provided and if efficiency considerations are taken into account. However, further pursuing CO₂ reductions and maintaining competitiveness should have a higher priority than promoting renewable energy. Moreover, Europe should expand renewable energy in those areas where this is the most efficient – and not where the highest “subsidies” are paid.

Third: A common market for energy needs to be created, with a harmonisation of the various national promotion policies for renewable energy as the first priority. The Member States have introduced different mechanisms and targets for driving forward certain energy sources. This brings different burden levels for energy consumers, causing massive distortions of competition between energy-intensive companies inside the European internal market.

Notwithstanding the existing legal competencies of the Member States, the EU also needs to harmonise the rules which allow energy-intensive industries to cope with competitive issues as a result of the domestic support given to renewable energy. Such a framework should ensure a level playing field for companies inside Europe and maintain their competitiveness outside Europe.

Fourth: A European energy infrastructure is an essential prerequisite for a common European energy market. This applies for the European coordination of the expansion of the electricity grid and of the border interconnections, enabling more liquidity in the European electricity market.

Fifth: Europe can no longer afford a pioneering role in climate protection, putting at stake its own industrial basis and competitiveness while the rest of the world goes on as before. Such negative effects are observed with the greatest attention, especially by other industrial nations, emerging economies and developing countries. A pioneering role in this field can have a global effect – and persuade others to join in – only if the relevant political measures at EU level do not lead to carbon leakage and the loss of jobs and investments.

Therefore, existing instruments against carbon leakage need to be maintained so long as there is no level playing field for European industry. Against this backdrop, also the targets of non-EU Member States need to be given more consideration when examining whether EU draft legislation adversely affects competitiveness.

Finally, the “backloading” proposal is a severe blow to the reliability of the EU energy and climate policy. Backloading undermines the trust in the stability of the political framework for investment decisions. This is an unnecessary and arbitrary intervention into a functioning system which reliably brings emission reductions. Politically motivated market interventions cannot remedy the existing weaknesses of the ETS system. The framework for ETS needs to be stable and predictable. Therefore, a well thought-out further development of the existing system is preferable to interventionist activities.

4. Gearing up innovation

Europe has always been a driver of knowledge and innovation. Already the Lisbon Agenda and also Europe 2020 established the goal for the EU to become knowledge-based, innovative and to grow intelligent.

The results of these strategies for innovation are rather mixed. The innovation capabilities of the Member States are drifting apart. Europe’s relative position has weakened as compared with the economies in Asia. However, European countries have numerous functioning innovation systems on which Europe in its entirety can build and which can be strengthened, combined and further developed. In this respect, too, variety is a strong asset for Europe.

What should Europe do?

First: Strengthen the internal market as a whole and, in particular, strengthen the free movement of persons, capital and knowledge.

Second: Funds in the EU budget should be shifted with a stronger orientation to science and research. For example, the “Horizon 2020” programme can make a first contribution to enhancing industrial competitiveness if this programme is implemented with as little bureaucracy as possible. But there should be no shift in funds from the

Member States to the EU level.

Third: The European Commission should expressly call upon the Member States (e.g. within the European Semester) to introduce tax incentives for more R&D spending.

Fourth: Also in future, the Commission should work to facilitate the cooperation between the regions.

Fifth: For providing incentives for innovation, a strong and reliable system of intellectual property protection needs to be maintained and enforced – also internationally.

Sixth: The mutual recognition of professional qualifications between the Member States needs to be de-bureaucratized and improved. The domestic labour market must not be closed off.

Seventh: Finally, innovation is also about uncertainty, risk and the exploration of the new and unknown. In order to enable Europe to use its innovative strength, the institutions should apply the precautionary principle in its proper meaning and on a solid scientific basis.

5. Modernising European Infrastructure

Investments in modernising European infrastructure contribute to developing new technologies and reduce energy and logistics costs. Furthermore, they can stabilise the demand in the overall economy and enhance climate protection.

The European energy infrastructure (with a coordinated expansion of the electricity grid and of border interconnections) is addressed in chapter 3 of this paper.

There are additional potentials in the transport infrastructure. Further to the above-mentioned advantages, expanding the transport infrastructure strengthens both the internal market and the economic and social cohesion inside Europe.

For these reasons, the programme “Trans-European Transport Networks” (TEN-T) needs to be implemented without delay. Moreover, in view of the slow and complicated cross-border rail traffic, in particular the 4th Railway Package should be implemented consistently.

6. Working towards a world without trade barriers

For the following reasons, open markets are essential for a renaissance of European industry:

- Demand growth is – and will remain – strongest in emerging markets. This means that European companies need free access to these markets for their exports.
- The rising importance of differentiated global value chains highlights the significance of free access to imports for the respective own competitiveness of the various players.

A regulatory framework based on shared standards needs to be developed for a world trade system as described – with open markets and functioning global value chains. Undeniably, this is a complex process but first major impulses are urgently needed

already today. The EU has several levers at its disposal to contribute to such developments. Consequently, this is what the EU should do:

First: Engage in free trade negotiations with major trading partners, industrial nations and emerging economies where all industrial tariffs should be eliminated.

Second: Continue to support the multilateral rules-based system, and continue to work towards further multilateral trade liberalisation.

Third: Benefit from the Transatlantic Trade and Investment Partnership (TTIP) as a platform for better attuning the US and EU regulatory systems to each other. Shared rules of a transatlantic marketplace could become a blueprint for future multilateral rules and help narrow down the regulatory divide between Europe and the rest of the world.

Fourth: Support European producers in their efforts to obtain free access to raw materials.

Fifth: Europe itself should refrain from own protectionist measures, in order not to put at stake its competitiveness in the long run.

7. Conclusions

If the addressed measures are launched successfully and if the EU can thus make industrial competitiveness a central element of its policies, Europe will

- consolidate its economic basis,
- renew its role as a globally leading supplier of high-quality consumer, capital and input goods of high productivity,
- remain a global centre of innovation,
- offer jobs that enable growth, prosperity and social security,
- work for and achieve the resources for continuing – in a more cost-efficient manner – on its path towards sustainable energy and more sustainable forms of transport and housing.

With a policy based on pragmatic, rational and cost-efficient solutions – and not on ideology! – Europe could also become an example of a sustainable development for other industrialised and emerging countries.

Most of the proposals presented in this paper can be implemented within the existing legal structures. By contrast, in some areas (e.g. energy) more comprehensive competencies are needed for Brussels.