



19 May 2015

Strengthening competitiveness in all EU policies

BUSINESSEUROPE contribution to the June 2015 European Commission initiative on industrial competitiveness

Europe's persistent competitiveness shortfall during the last years threatens growth and jobs. Europe keeps on losing ground towards main competitors. We will not regain global leadership without a strong industry bringing back growth, employment and innovation to the EU. It is mainly companies, not governments, which create jobs.

However, companies willing to invest in the EU keep facing too many hurdles. The fall in EU investment during the crisis was sharp, unprecedented, and is taking time to rebound. Private investment in the EU fell by 11% between 2007 and 2013. The current uncertainty, both economic and political, is a key reason holding back investment. Without investment, we will damage Europe's future productivity and competitiveness, permanently lagging behind our main competitors.

Much-needed structural reforms are still not implemented in all Member States holding back growth in Europe. High costs of doing business reduce the margins of companies. High levels of economic, political and regulatory uncertainty detain much needed investments hampering industrial competitiveness. Fragmented markets and uncoordinated policies impede the digitalisation of industry and contribute to high energy prices thereby driving private investment out of Europe. The World Economic Forum's Competitiveness Report also clearly shows a competitiveness divide among Europe's 28 Member States. However, as concluded in our 2015 BUSINESSEUROPE Reform Barometer, the structural reforms that have been implemented by some Members States in recent years are already paying off.

Industrial competitiveness returned to the centre of the EU policy agenda in the last years. In 2014, the European Council called upon the preparation of an industrial policy roadmap. The new European Commission is highlighting the need to put Europe's industry back on to a path of growth and to strengthen the EU's industrial competitiveness. President Juncker explicitly stressed in his 10 priorities to bring industry's weight in the EU's GDP back to 20% by 2020, from less than 16% today. BUSINESSEUROPE calls on the EU political leadership to deliver concrete actions now. The implementation of the following recommendations is a way to foster a high-performing industrial base and bring sustainable economic growth back to Europe.



I. Mainstreaming industrial competitiveness as a *modus operandi*

Mainstreaming industrial competitiveness requires all three EU institutions to consider industry concerns throughout the entire legislative process. The new European Commission has set important growth-oriented priorities and has been introducing key political strategies on better regulation, Digital Single Market, Energy Union and Capital Markets Union. However, the critical phase of translating political objectives and strategies into concrete legislation still lies ahead of us.

BUSINESSEUROPE calls on all three EU institutions to consider industrial competitiveness in all up-coming pieces of legislation. This must be the core of a holistically balanced and consistent European reindustrialisation policy.

In particular, rapid progress is needed on better regulation and governance:

⇒ *The Commission must proceed with its agenda on Better Regulation*

European industry demands all three EU institutions to focus on coherent regulation. Therefore, BUSINESSEUROPE welcomes the Commission's better regulation agenda and its aim to establish an effective impact assessment through a new inter-institutional Regulatory Scrutiny Board. We recommend that this impartial body should coordinate impact assessments, review existing legislation including fitness checks and ensure transparency and coherency with EU legislations. Europe needs an effective competitiveness check of all proposals and policy fields, both at EU and Member State level. For this, we call for an early disclosure of draft impact assessments to enable stakeholders to be consulted at an early stage of the process.

⇒ *Stronger governance by the Competitiveness Council*

BUSINESSEUROPE strongly recommends enhancing the Competitiveness Council to become the gatekeeper of competitiveness. It should not only play a key monitoring role, but also ensure that all policy initiatives and legislative proposals support industrial growth in Europe. If not, the Competitiveness Council should be ready to stand up and veto the proposal. For instance, the forthcoming reform of the EU Emissions Trading Scheme (ETS) is a major legislative initiative on which the Competitiveness Council should be deeply involved to make it a success.

The Competitiveness Council has to be supported by a strong High Level Group on Competitiveness and Growth with a clear focus on key Commission initiatives and regular monitoring and evaluating the global competitiveness of industry in Europe. For this, it should have in depth discussions on the basis of detailed data and competitiveness benchmarks, resulting into concrete policy recommendations. The recent changes to the role and function of the High Level Group are positive; their full implementation is necessary.

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II. Mainstreaming industrial competitiveness in all EU policies

The promotion of industrial value-chains and business ecosystems is key to reindustrialise Europe. A better understanding of the close and mutually beneficial interrelations that these chains allow for SMEs, mid-caps as well as larger companies will help to fully exploit their potentials, enabling more Europe-based companies to act as frontrunners, and to play a carrier function by enabling the integration of other firms in the value-chains and business ecosystems. It should also enable ever more SMEs to reach a sufficient level of efficiency and of “technological readiness” to be attractive to join forces with the frontrunners.

Furthermore, we call for concrete actions in the following policy fields:

Unleashing the potential of the single market

Creating the right business environment also entails removing remaining obstacles in the single market that still represent an untapped economic potential of at least 5% of EU GDP. The competitiveness of manufacturing in Europe greatly depends upon the availability of high quality and competitive goods and services. Barriers such as heavy administrative procedures, conflicting national standards, absence of mutual recognition or strains on company mobility need to be addressed decisively. This does often not require more legislation but rather better implementation and application of existing rules, thereby creating the stability and legal certainty needed to trigger investment.

BUSINESSEUROPE recommends i) removing remaining barriers and further harmonise and streamline national rules; ii) increasing cooperation between national market surveillance authorities to ensure consistent application of the rules applicable to goods; iii) sticking to the Commission “zero tolerance policy” by launching infringements procedures in cases of non-compliance with EU legislation.

Speeding up the digitalisation of the EU economy

The EU will have to facilitate the digitalisation of its economy as digital is a paradigm changer for European industry and will have a long-lasting impact on EU competitiveness. As for the single market, a fully working digital single market will allow businesses to increase scale and target more consumers. If Europe cannot leverage the potential of digital revolution, the EU's stated aim of increasing manufacturing's share of European GDP to 20 percent by 2020 will be out of reach. All new policy measures will therefore also have to be considered and mainstreamed from the perspective of their ability to encourage or stand in the way of this digitalisation.

BUSINESSEUROPE recommends i) enabling data-driven innovation, without creating excessive burdens for companies to collect, process and transfer data; ii) clarifying issue of access, ownership and usability of industrial data generated from machines; iii) focusing research, development and innovation in the areas where we can regain our leadership such as Internet of Things and the development of 5G networks; iv) incentivising private investment on broadband infrastructure.

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Matching energy & climate policy with EU competitiveness

Safe supply of energy at affordable price is crucial for businesses across Europe. European industry keeps facing high energy prices that affect its global competitiveness towards main industrial competitors. At the same time Europe witnesses investment leakage of energy intensive sectors. Action is needed to address the cumulative cost impact of policies such as carbon pricing, taxes and levies for energy intensive and trade exposed industries.

BUSINESSEUROPE recommends making sure that the energy cost-competitiveness issue receives the necessary political attention in order to speed-up actions. A useful means in this respect would be concrete recommendations to Member States based on regular analyses of drivers of energy costs for European industry.

Setting up a European framework for national labour market reforms

Europe's societies are facing a number of structural social challenges which will also strongly affect the EU's competitiveness. The aims are to remove unnecessary legal or administrative constraints to recruitment, address the causes of excessively high total labour costs due to taxes and levies on labour, and take a positive approach to flexible forms of work; foster worker mobility; and address skills mismatches. Therefore, labour markets, education and training and social protection systems need to be modernised to enhance Europe's competitiveness. To do this the Commission needs to build consensus on a European framework for national labour market reforms based on the Council principles on flexicurity and underpin this consensus with a reform friendly approach to EU employment and social policies aimed at increasing growth and job creation.

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Improving access to finance

Access to finance is a pre-condition to enable businesses to make necessary investments to strengthen their competitive position and to create jobs in Europe. Various obstacles still exist as access to finance conditions remains constrained and uneven among Member States. In this context there is the need to strengthen the existing instruments and to launch new measures to revive the credit market and to help SMEs to open up to outside capital. It is indeed essential to support businesses and SMEs in their capitalization effort in order for them to be open to external investors. Action is needed to examine the cumulative impact of the different financial reform measures on access to finance and to act accordingly to ensure that this issue is mainstreamed in all areas.

BUSINESSEUROPE recommends i) ensuring that prudential rules strike the right balance between increasing financial stability and supporting companies' need for capital for investment; ii) developing complementary sources of finance to bank lending; iii) to restore confidence in securitization.

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Focusing the EU investment plan on reducing barriers to private investment

The EU needs a competitive industry to (re-)invest in Europe. The EU investment plan must address obstacles to investment and ensure Europe becomes an attractive place to invest in. While public investment remains important in many areas, the focus must be placed on rising private sector investment. The European Fund for Strategic Investment is an important step forward that will allow important projects in research and innovation, infrastructure, SMEs and mid-caps to materialize. It is necessary to ensure that the EFSI Regulation is fit for purpose and does not put off private investors. It also needs to be innovative and ambitious in order to attract projects of a higher risk.

In the long term, however, for companies to invest, we need to remove barriers to investment. This means reducing unnecessary and overly expensive regulation, bringing down costs of doing business, including high taxation, allowing better access to finance through balanced regulation and expanding non-bank financing sources, and scrapping barriers to the single market. Thus, it needs to be ensured that all companies located in the EU operate on comparable and fair market terms.

BUSINESSEUROPE recommends i) hammering down barriers for investment in Europe, reducing costs of doing business and regulatory burden; ii) ensuring a swift adoption of the European Fund for Strategic Investment regulation.

Regaining innovation leadership

In the interest of its global competitiveness, European industry will have to regain the innovation leadership and capture more added value from innovation through an investment-friendly environment, as well as by scaling up investments in R&D and especially in close-to-market innovations. The EU will have to build a true culture of innovation, encouraging reasonable risk-taking rather than over-playing the precautionary principle, and balance it with an innovation principle.

The EU will have to guarantee a more important role for scientific and technological evidence in the policy process, as well as a strong consideration of the impact on innovation. Due to steadily declining industry participation in the framework programs, the EU needs to incentivize higher involvement of the business sector.

BUSINESSEUROPE recommends i) introducing an innovation principle in the EU policy-making process to complement the precautionary principle; ii) developing a guidance document outlining a common methodology for assessing the impact any new legislative proposal could have on innovation.

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Developing a comprehensive resource strategy

Growing global demand for resources, geopolitical uncertainties, climate change are key factors that put security of supply of resources under pressure. BUSINESSEUROPE would urge the EU to develop a strategic agenda to strengthen the long term security of supply of resources in order to sustainably enhance the competitiveness of European industry.

With its Raw Materials Initiative (RMI) the European Commission has undertaken an important step towards developing an overarching strategy on raw materials policy, covering trade aspects, supply from domestic resources and matters of resource efficiency. However, these three pillars of the RMI still remain too fragmented, resulting in conflicting goals and initiatives. While the European Commission has made use of trade instruments at its disposal to counter restrictions on raw material exports, strategic and coordinated resources diplomacy is missing. The EU also has to build up a knowledge base on resources availability and associated supply risks. Domestic supply of resources still offers untapped potentials that need to be addressed. Finally, resource efficiency needs to be implemented in a manner that makes sense from an environmental as well as an economic perspective. This is the only way of gaining the full potential out of it.

BUSINESSEUROPE recommends the EU Raw Materials Initiative (RMI) is further reinforced with a strong diplomatic angle, while coordination among its three pillars – access to markets, supply from domestic EU resources, resource efficiency – is improved.

Proceeding with FTAs and market access initiatives

In order to be competitive, the EU will have to secure improved access to worldwide markets. 90% of world economic growth by the end of 2015 is expected to be created outside of the EU and one European job out of ten depends on exports. The European Union will have to work towards more open and fairer trading conditions. Ensuring the EU market access strategy effectively deals with trade and investment restrictions in third markets and properly monitors the implementation of existing bilateral agreements. Concluding ambitious and comprehensive free trade and investment agreements with strategic partners is essential for the prosperity and competitiveness of European businesses. This overall economic advantage needs to be effectively streamlined in other policy fields as well. Moreover, we should address existing trade barriers in third countries independently of bilateral trade negotiations since European companies, in particular SMEs, need to seize market opportunities wherever they are.

BUSINESSEUROPE recommends pursuing an offensive and effective market access strategy, addressing existing market barriers in third countries through the conclusion of ambitious FTAs and the development of ambitious trade and investment relations in key markets.

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