

RECOMMENDATIONS FROM *CERCLE DE L'INDUSTRIE* ON THE EU INDUSTRIAL POLICY

A COMPETITIVE INTEGRATED STRATEGY TOWARDS SUSTAINABLE ECONOMIC GROWTH AND JOBS RECOVERY

Executive summary

Cercle de l'Industrie is a forum for exchanges that brings together 32 large industrial companies and policy-makers. It aims at promoting the role of industry in the national and European economic systems. In 2009, member companies of *Cercle de l'Industrie* had a turnover of around 800 billion euros. They employed almost 3 million people.

Members of *Cercle de l'Industrie* note that industrial competitiveness is at the core of European growth and wealth, as it has a significant impact on GDP, employment, trade balance and citizens. That is why the EU needs **an ambitious integrated strategy**, based on a broad consensus between public and private actors.

First, *Cercle de l'Industrie* considers that implementing an integrated and competitiveness-targeted framework should be the prerequisite of industrial policy.

- **Horizontally, “Better Regulation”** is a critical issue that needs to be addressed. First, **consistency among policy objectives and decision-makers should be enhanced**. Objectives set in the EU 2020 strategy should be integrated within all industry-related policies (such as EU competition rules and decisions). This implies a better coordination at EU and national levels. Second, **competitiveness objectives should be more integrated upstream of the decision making process**. Impact assessments are efficient tools that should be conducted with flexibility, more transparently, and reviewed at all stages of the decision making process. As regards **external competitiveness, currently not sufficiently taken into account**, *Cercle de l'Industrie* calls the Commission to systematically apply the “competitiveness proofing” and identify, through benchmarks, successful industrial initiatives outside the EU. Moreover, as third countries’ massive support in some strategic areas leads to unfair competition, the Commission shall identify such practices (thanks to an “observatory of public aid in third countries”) and address them accordingly, for instance, through a more flexible application of its competition rules (for example, easing the matching clause within the RDI).
- **A similar integrated approach should be developed vertically**, as the EU identifies some strategic sectors and technologies that benefit from a dedicated support. *Cercle de l'Industrie* insists that this identification **should be based on objective, clear and transparent criteria**. Then, the Commission should **implement the appropriate strategies in cooperation with interested stakeholders**, gathered in consultative task forces. Lastly, beyond the decision making process itself, **it is necessary to build synergies among the public and economic actors**. The European Commission must actively foster cooperation and alignment between EU countries on priority areas, by encouraging transnational initiatives (e.g. through tailored state aid rules). Collaborative/transnational projects among the private (large companies and SMEs) and public-private sector should also be supported.



Second, some EU policies that support companies' ability to address consumer demand and gain market shares, have a strong impact on industrial competitiveness. *Cercle de l'Industrie* invites Commission to have a strong focus on:

- **R&D and innovation support**, which should be a major priority: public authorities should aim at ensuring **an overarching innovation-friendly framework, predictable and tailored** to its specificities and challenges, such as the difficulties to pass across the "valley of death". Furthermore, **facilitating businesses' access to available funds** is essential. Members of *Cercle de l'Industrie* support the Commission's proposals on the "2014-2020 Budget Framework" and, above all, "Horizon 2020": they encourage the European Parliament and the Member States to send a clear signal, by backing the levels of funds and simplifications that are proposed by the Commission. Members of *Cercle de l'Industrie* support any alternative financial support mechanisms as well (e.g. projects bonds, private-public partnership). **Fostering skills adaptation towards high-quality jobs** is also critical to improve businesses' performances in RDI. *Cercle de l'Industrie* welcomes the latest "employment package" and invites the Commission to focus on the skills and jobs related to Science, Technology Engineering and Maths.
- **the enforcement and supervision of the single market**: EU institutions must primarily focus on **the implementation of existing single market-related rules**, for instance through the monitoring of member states' performances. Moreover, **the European system of protection of intellectual and industrial property rights (IPRs) needs to be strengthened**: the Commission should extend the scope of the existing legislation to trade secrets. The enforcement of IPRs is also a topic of concern. Members of *Cercle de l'Industrie* have preoccupations about counterfeiting: they encourage the Commission to create a "black list" preventing European Companies convicted of theft and breach of intellectual property from tendering procedures.
- **trade policy contribution to EU's external competitiveness**: any new trade agreement negotiated by the Commission should rely **on the transparent and balanced assessment of its potential impacts**. The importance of effective stakeholder consultation cannot be overstated. The EU should also be able to **ensure a level playing field with third countries**, by taking into account **reciprocity principles**. *Cercle de l'Industrie* supports the Commission's new approach on the initiative on third country access to the EU's public procurement market. Besides, it is important that the EU react efficiently and in due time against unfair practices of competitors from third countries. Existing instruments and tools should be applied forcefully.

CONTENT

INTRODUCTION: WHY EUROPEAN UNION NEEDS A STRONG INDUSTRIAL STRATEGY	4
PART I: IMPROVING EU POLICY FRAMEWORK TO SHAPE A SUCCESSFUL INDUSTRIAL STRATEGY....	5
Horizontally: Enhancing the Consistency and Efficiency of EU Decision-Making Processes	5
First recommendation: enhance consistency among policy objectives and decision-makers at European and national levels.....	5
Second recommendation: better take into account the competitiveness objectives upstream of the decision process	6
Vertically : Implementing Consistent and Targeted Sectoral Strategies.....	8
First recommendation: set objective, stable, and transparent criteria.....	8
Second recommendation: implement appropriate sector-based strategies in cooperation with interested stakeholders.....	8
Third recommendation: develop synergies among public and economic actors of the value-chain	9
PART II: ACTIVATE THREE EU PRIORITY POLICIES AS LEVERAGE TO STRENGTHEN EUROPEAN INDUSTRIAL COMPETITIVENESS	10
Above all: Supporting Research, Development and Innovation Activities	10
First recommendation: foster an overarching innovation-friendly policy framework.....	10
Second recommendation: facilitate companies' access to available funds.....	11
Third recommendation: boost skill adaptation and transitions towards high-potential jobs	12
Strengthening and Deepening the Internal Market	13
First recommendation: focus on the implementation and monitoring of existing rules	13
Second recommendation: strengthen the protection of intellectual and industrial property rights....	14
External Competitiveness: Strengthening the EU's Position in Relation to its International Trade Partners	15
First recommendation: make decisions based on their potential long-term impacts within the trade negotiation process	15
Second recommendation: ensure a level playing field between the European Union and third countries through trade policy	16

INTRODUCTION: WHY THE EUROPEAN UNION NEEDS A STRONG INDUSTRIAL STRATEGY

The European Union is currently going through **great difficulties**. It is expected to achieve zero growth in 2012, and even negative growth in the Eurozone. Unemployment has been rising and exceeds more than 10%¹. Although the EU share in global export remains significant (around 17.2% in 2009²), the EU's leadership is decreasing due to market performances of emerging countries. Furthermore, there are huge differences between member states: German, Belgian, Dutch, and Sweden trade balances are positive, whereas French, British, Spanish or Italian ones are negative.

Given these facts, *Cercle de l'Industrie* strongly believes that **industrial competitiveness at EU level within member states is essential** to recover from the crisis and foster sustainable growth. It significantly contributes to jobs recovery, both directly (industry, excluding construction, represents 17% of EU total employment³) and indirectly (for instance, every job in manufacturing is linked to two additional jobs in high-quality services⁴). Furthermore, industry creates wealth as it accounts 19% of EU GDP⁵ and almost 80% of EU exports⁶. Third, industrial investments in research and innovation (representing more than a half of EU R&D spending) enable the EU to keep its technological leadership and tackle new challenges such as climate change or ageing. For these reasons, the European Union needs **a strong and competitive industry on its territory**.

Cercle de l'Industrie acknowledges that industrial companies have to strive to improve their own performances. However, their efforts need to be supported and stimulated by **an industrial policy**.

Competitiveness should be a priority objective for all EU public policies. It implies that policy-makers, at all levels, work together with economic actors to initiate and develop a common vision for industry strategy, based on a shared understanding and a broad consensus.

To be more efficient, the EU must pick a small number of economically feasible priorities and translate most of these into concrete actions and results. *Cercle de l'Industrie* has chosen to select a few priority areas.

- First, it is essential to build the appropriate framework for an integrated strategy, through better regulation and an enhanced sectoral approach.
- Second, *Cercle de l'Industrie* identifies three policy areas able to contribute to industrial competitiveness: R&D and innovation, the single market and trade.

¹ Data from Eurostat

² Ibid

³ Ibid. 24% including construction

⁴ Data from European Factories of the Future Research Association

⁵ Data from Eurostat. 25% including construction

⁶ Data from Eurostat

PART I: IMPROVING EU POLICY FRAMEWORK TO SHAPE A SUCCESSFUL INDUSTRIAL STRATEGY

Industrial strategy should be based on an attractive European market, both for businesses and investors. It depends on a stable, predictable framework enabling industries to anticipate their long term investments in Europe. **More generally, a global vision of industry and its challenges is needed.** That is why *Cercle de l'Industrie* considers that the implementation of a common and integrated policy framework is **not only the main priority, but also the prerequisite** for an efficient industrial strategy.

This implies more coordination and more consistency between EU and national policies as well as among EU objectives. It is also essential to initiate, at EU level, integrated and efficient sectoral **industry strategies**.

Horizontally: Enhancing the Consistency and Efficiency of EU Decision-Making Processes

Cercle de l'Industrie insists that the EU decision-making process should ensure consistency of public policies and make sure that competitiveness-related criteria are taken into account upstream of the process.

First recommendation: enhance consistency among policy objectives and decision-makers at European and national levels

The need for the EU to boost its industrial competitiveness is outlined in the Europe 2020 Strategy⁷. Although *Cercle de l'Industrie* acknowledges that environment, health, consumer protection and competition are critical for the EU, it recalls that industry and economic competitiveness-related objectives deserve the same level of priority and should be integrated in all EU policies. For instance, *Cercle de l'Industrie* underlines that **industrial and competition policies are often considered independent from each other**, and even opposites. For instance, as part of the Community framework for State Aid for Research, Development and Innovation⁸ (hereinafter EU state aid rules for RDI), assessment criteria and the notification process, solely based on the market approach, do not integrate industrial policy objectives. **Yet, competition and industrial objectives can be complementary**⁹.

Furthermore, it is necessary that policy-makers, whatever their level of intervention, participate in achieving a common strategy policy. This should not be jeopardised by inconsistencies arising in particular:

- **from within the European Commission:** the proliferation of measures on the same topic, sometimes barely coordinated, hampers the development of rounded EU policies. For example, in the field of life science, **industry currently faces four different sets of measures originating from four different Directorates of the Commission, dealing with the same issues, but characterised by different purposes and modalities for implementation:** two programmes for the 2014-2020 period, issued in November 2011, ("Horizon 2020" and, "Health for Growth Programme"), the Single Market Act and a proposal for a new directive on the "Transparency of Measures Regulating the Prices of Products for Human Use and their Inclusion in the Scope of Public Health Insurance Systems". Coordination should be enhanced to avoid the absence of visibility and complexity for companies.
- **among member states:** achieving an EU wide industrial strategy cannot be done without a **convergence between national and EU policies**, but also **among national policies** themselves. Indeed, they may differ to a great extent, which can hamper the implementation of EU policies and objectives. For example, national governments do not coordinate, or even discuss their energy mix policies. It results in an increasing competitiveness' gap among member states.

⁷ Europe 2020, A strategy for smart, sustainable and inclusive growth, COM(2010) 2020 final

⁸ Communication from the Commission (2006/C 323/01) "Community framework for State aid for research and development"

⁹ See Bruegel policy brief: rethinking industrial policy: this analysis, based on the Chinese market, shows that targeted public intervention on a few sectors can stimulate enterprises operating in the same market to innovate in order to "escape" competition

Cercle de l'Industrie considers that EU competitiveness goals, as set in the Europe 2020 strategy, should be better **integrated in all EU policies and legislation**. The implementation of clear objectives related to industry (similar to the “20-20-20 goals” in the field of energy), as mentioned by Commissioner Oettinger on July 16th 2012, could be an option. It is also essential to ensure that **EU competition policy** is consistent with industry policy objectives and specificities.

Cercle de l'Industrie also encourages European policy-makers, at all levels, to **enhance their cooperation** during the decision-making process:

- **The Commission should better recognize the leading role of the Commissioner for Industry and Entrepreneurship**, as Chair of the “Group of Commissioners for Industrial Policy” (gathering, among others, the Commissioners for Internal market, Research and Innovation, Competition), under the authority of President Barroso;
- **Member states** are invited to increase coordination in their national policies and align on EU industrial strategy priorities; when needed, the **enhanced cooperation method** should be extended.

Second recommendation: better take into account the competitiveness objectives upstream of the decision process

Cercle de l'Industrie considers that a **smart decision making process should take into account the foreseeable impact of legislative or regulatory proposals on industrial competitiveness**. To that end, it supports **impact assessments** that enable policy-makers to know the economic, social and environmental effects of the planned decisions, through unbiased analysis. However, *Cercle de l'Industrie* considers that the process could be more **transparent**, as methodology, simulations and models on which assessments are based are not published yet. The decision to launch or thoroughly conduct the impact assessment, are not always proportionate to the sensitivity and **the political and economic impact of the measure under review**. As an example, the proposal to withdraw tires casings from the “waste” category should not require as much analysis as the proposal for a directive on energy efficiency, where there was a need for a thorough study. Furthermore, there is no assessments at the end of the decision process, while the text amended by the European Parliament and the Council may have huge differences with the original proposal.

Second, *Cercle de l'Industrie* strongly regrets that the European Commission, when drawing up measures that will have an impact on industry, does not consider **those that have been adopted by third countries** to improve the competitiveness of their industry. Japan's December 2009 “New Growth Strategy” provides a good example¹⁰. It is also essential to pay attention to the EU competitive position vis-à-vis third countries. In the field of **state aid**, third countries' financial support is frequently well above the amounts and scope authorised in Europe when it comes to strategic technology areas. As an example, the green automotive sector is massively supported by state authorities in China (RMB 100 billion allocated between 2011 and 2020) and in the USA (\$ 18 billion), whereas the 7th Framework Programme provides € 500 million over the 2007-2013 period.

¹⁰ This proposal highlights the main axes of Japanese industrial policy up to 2030, sets out efficient measures such as the identification of future technologies coupled with an investment plan including industry partnerships, and the combination of technologies and market segments to accelerate bringing innovations to market.

Cercle de l'Industrie calls on the European Commission to improve its impact assessment process by increasing its transparency and taking into account EU's industry international environment. It also should apply a **proportionality criterion (related to the economic impact and the political sensitivity of the initiative)**. **The assessment should be reviewed at all stages of the decision-making process.**

As regards the **external competitiveness** of EU policies, *Cercle de l'Industrie* supports the latest adoption of the "Competitiveness Proofing Toolkit for Use in Impact Assessments" that should be systematic, published as soon as possible and extended to all relevant EU policies (including competition). Furthermore, the Commission should:

- systematically conduct **benchmarks** to identify measures in favour of industry implemented by third countries,
- create an "**observatory of public aid in third countries**" to identify public initiatives (including hidden subsidies) undermining the level playing field between the EU and third countries.

Cercle de l'Industrie strongly believes that **EU rules on state aid should be adapted** to avoid competitive distortions detrimental to European companies. In the framework of the modernisation of EU state aid rules for RDI, the activation of **the "matching clause"** should be facilitated by alleviating the burden of proof.

Vertically : Implementing Consistent and Targeted Sectoral Strategies

Cercle de l'Industrie considers that the implementation of an efficient industrial strategy should be based on a **consistent and selective approach focusing on specific industrial branches or technologies**. *Cercle de l'Industrie* notes that the latest declarations from the Commission have sent a positive signal, provided that they do not remain at the stage of wistful thinking.

Cercle de l'Industrie emphasizes three conditions on which the policy framework for these strategic areas should be based.

First recommendation: set objective, stable, and transparent criteria

Cercle de l'Industrie strongly believes that European policy-makers should have a particular focus on a few specific strategic sectors, able to significantly boost European competitiveness and growth. Commissioner Tajani has identified 10 key driving sectors¹¹, which will benefit from a dedicated strategy implemented at the European level. However, no clear information on the selection criteria of the sectors was given to justify the Commission's decision.

***Cercle de l'Industrie* considers that the Commission, when identifying priority sectors, should publish transparent, clear and objective criteria that are the basis of its decision.** Such criteria could include:

- the actual weight of the sector in European Industry, its growth prospect and its direct/indirect contribution to EU overall economy and employment,
- the location of production units in Europe,
- R&D content and the location of R&D facilities in Europe,
- The contribution to EU's external competitiveness: international deployment of their enterprises and their weight in the external EU trade balance,
- their ability to come to grips with societal and environmental challenges, such as health or climate change.

Second recommendation: implement appropriate sector-based strategies in cooperation with interested stakeholders

Cercle de l'Industrie considers critical that measures impacting an industrial sector are based upon a realistic knowledge of the industry concerned and involve an appropriate level of dialogue. Consulting private stakeholders, **through professional task forces** gathering economic actors of the value chain, would enable decision-makers to have a **more comprehensive understanding** of a given sector. Such forums can also provide opportunities for stakeholders to present their views to decision-makers and participate in building strategies. *Cercle de l'Industrie* considers that such consultations will help the Commission to identify the most appropriate, consensual, and therefore efficient initiatives.

For instance, the **High-Level Expert Group on Key Enabling Technologies** (HLG on KETs), launched in July 2010, was a very positive initiative which had resulted in a Final Report¹² including 11 policy recommendations to enhance development and deployment of KETs in Europe. On the basis of this input, the European Commission published a communication "A European Strategy for Key Enabling Technologies – a bridge to growth and jobs". *Cercle de l'Industrie* welcomes this approach, based on a broad consensus among public authorities and businesses. It highlights that the HLG's and the Commission's recommendations should lead to the development of a long-term strategy taken into account by all the policy-makers and to the implementation of operational measures.

¹¹ Competitive and sustainable industry, SMEs (with a focus on the green ones), car of the future, renewable energies, sustainable building, sustainable tourism, smart cities and smart grids, raw materials, KETs, space

¹² « High-Level Expert Group on Key Enabling Technology : Final Report », June 28th 2011:
http://ec.europa.eu/enterprise/sectors/ict/files/kets/hlg_report_final_en.pdf

Cercle de l'Industrie invites the Commission to **extend consultative task forces**, gathering delegates from EU institutions, member states and private sector, **to the identified strategic areas**. The conclusions of these forums should be published in a communication presenting a **roadmap** tailored to the sectors' specificities. On this basis, the European Commission should decide whether regulatory or legislative action, as well as operational recommendations, should be initiated. Should the Commission decide not to launch concrete actions, such a decision will have to be **publicly justified**.

Third recommendation: develop synergies among public and economic actors of the value-chain

The success of sectoral policies depends on the active involvement of all the concerned actors (public authorities, research organisations, leading firms and subcontractors participating to the value chain).

Member states, supported by the Commission, are responsible for conceiving and implementing industrial policies¹³: a convergence of means and objectives among them, in strategic areas, is therefore needed. The **space sector** is an excellent illustration of how intervention of national authorities can be coordinated and mutualised, to optimise sending and implement a joint European strategy, notably in R&D and innovation. Member States work together in the framework of the European Space Agency (ESA), where each State invests resources and expects geographical return, in terms of contracts for its national space industry. This provides the incentive for States to invest jointly in a large number of common programs of mutual interest avoiding also duplication and sends very positive signals to public opinion and investors.

As regards economic actors, *Cercle de l'Industrie* highlights the need to **enhance relations between large companies and SMEs** to ensure the development of an integrated industrial basis. While the former, as ordering parties, can benefit from SMEs' flexibility and technological know-how, the latter, as subcontractors, have the opportunity to develop their innovation activities and achieve their compliance with common standards. Furthermore, within every sector, large companies' export activities have a positive impact on SMEs' international deployment.

Cercle de l'Industrie highlights that the private sector, and particularly large companies, has to **take the lead** in building bridges between actors in the value chain. However, the European Commission can play a **key role** by encouraging such initiatives, through an appropriate regulatory framework. For instance, GDF Suez invests € 1.45 billion (out of €4.25 billion) in the project CRAFTM (Carbon Reduction by Auxiliary Firing Techniques for glass Melter) that aims at testing a new low-carbon burning technology on melting furnaces. The project involves research centres and manufacturers (SMEs and large companies) from various countries. Such initiatives generate R&D activity, foster interactions and are the basis for future exports and eventually structure the value chain.

Cercle de l'Industrie invites the member states, encouraged by the Commission (that could, for instance, adapt EU state aid rules), to **develop programmes gathering all voluntary EU countries** for sectors identified as strategic at EU level.

Furthermore, the European Commission could support the development of **European clusters** and **dialogue forums**. It also shall **acknowledge the key role of large companies** by activating tools stimulating **their involvement in collaborative and/or transnational projects** fostering transfers of technologies and SMEs' international deployment (e.g. the allocation of dedicated funds or a tailored state aid treatment).

¹³ According to article 173 of the Treaty on the Functioning of the European Union

PART II: ACTIVATE THREE EU PRIORITY POLICIES AS LEVERAGE TO STRENGTHEN EUROPEAN INDUSTRIAL COMPETITIVENESS

Cercle de l'Industrie identified three policy areas able to significantly contribute to enhance and generate performance, growth and employment within the sector. First, **research & development and innovation** (hereinafter RDI), which should benefit from a particular focus; second, **single market completion**, as it is the domestic market of EU companies; third, **external competitiveness and trade policy**, that remains the main positive growth driver in Europe.

Above all: Supporting Research, Development and Innovation Activities

In an increasingly globalised and competitive economy, the EU can strengthen European weight and wealth only by delivering high-quality products, inside and outside European markets. However, in spite of ambitious R&D objectives set by EU, R&D expenditures do not exceed 2% of GDP¹⁴. And when it comes to private spending, the rate is even lower: around 1.2% within the EU¹⁵.

Cercle de l'Industrie strongly believes that **RDI has to be the first priority**, not only for industrial companies that should invest to go upmarket and create added value, **but also for decision-makers**.

First recommendation: foster an overarching innovation-friendly policy framework

Public authorities shall give a **clear priority to R&D and innovation policy**, not only at European but also at national level. *Cercle de l'Industrie* welcomes the European Commission's attempt to focus on innovation and industry policies within the EU multiannual financial framework and hopes this approach will be supported by the Council and the Parliament.

Beyond companies' return on investments, the lack of recognition of RDI's specificities hampers the development of research activities in Europe and can **prevent innovative projects from reaching industrial development**. Most downstream innovation projects fail to cross the "**valley of death**"¹⁶. The programme TVMSL, led by Alcatel in 2006-2007 was a technological success but its commercialisation was a failure because the market, though having a high potential, was not sufficiently mature. Public support to downstream activities, such as the development of demonstration projects, is crucial to increase competitiveness and create new business opportunities for European companies.

An appropriate policy framework to **support innovation's access to markets is needed**. At national level, public authorities, that have only a short term budgetary vision, lack a strategic consistency between the R&D-related objectives and the absence of recognition at the time of commercialisation. For instance, public funding to support demonstration projects is crucial to increase competitiveness and create new business opportunities for European companies. In the field of public procurements, *Cercle de l'Industrie* welcomes the new Commission proposals¹⁷ aimed at addressing the shortcomings of the current system, by promoting of green innovative products (e.g. through the introduction of the whole-life-cost criteria). As regards **EU competition policy**, *Cercle de l'Industrie* regrets that the state aid rules for RDI, only based on market criteria, such as market proximity, tend to prohibit **public support for downstream innovation activities despite the fact that innovation is the best driver for competition**.

The public distrust towards **innovation also hampers the deployment of innovative projects**. For instance, due to the strong opposition of civil society to shale gas projects in France, the government set, in 2010, a moratorium on shale gas exploitation, extended to experimental wells. As a result France has postponed the opportunity to reduce the cost of its gas imports, amounting to about €10 billion in 2011.

¹⁴ Data from Eurostat

¹⁵ Ibid

¹⁶ It is the gap between basic knowledge generation and the subsequent commercialisation in marketable products

¹⁷ Proposals COM (2011) 0896 final on public procurement and COM (2011)0437 final on the award of concession contracts

Cercle de l'Industrie emphasises the need for the European Commission and member states to send a **clear signal in favour of innovation**. More especially, the European institutions are invited **to set RDI policy as a main priority within the 2014-2020 financial framework and to maintain adequate levels of funds**, as proposed by the Commission.

Furthermore, the European institution should set a policy framework fostering the commercialisation of innovative products, notably through the adoption of the EC's new **proposals for the public procurement directives**. It should also adapt state aid rules on RDI by **introducing new criteria** taking into account the innovation's specificities and **softening the "market proximity" concept**.

Regarding public acceptance of new technologies, the European Commission should, in coordination with member states, **identify and disseminate targeted information, through the implementation of dedicated platforms**.

Second recommendation: facilitate companies' access to available funds

As it is difficult for businesses to launch expensive and risky innovation activities only on their own funds, *Cercle de l'Industrie* recalls that **facilitating access to financial resources is a critical challenge**

As most European companies' financing rely on banks loans (80% against 25% in the US), it is essential to ensure transparency and safety of European markets. The proposals on the reviews of the **CRD IV¹⁸** and **Solvency 2¹⁹** directives, although aimed at strengthening market regulation, could raise corporate borrowing costs **and impede businesses' (and more particularly SMEs') access to funds and investments in long-term activities**.

Public resources also provide **major leverage** to support competitive industrial sectors and technologies. However, the way current EU programmes are managed often hampers efficient and quick access to EU funds. The current **scattering of resources** is a major impediment. *Cercle de l'Industrie* notes that the automotive sector, which represents 24% of European R&D private spending, benefits from only 2% of the allocated funds. Sectors having a high added value for EU citizens and requiring massive investment are particularly affected. For example, the Monti report²⁰ assessed that **€ 1,000 billion will be necessary to develop energy infrastructures projects until 2020**. *Cercle de l'Industrie* notes that, in third countries, the level of public support provided to such projects is much higher than the in EU. This is a competitive advantage for third-country companies both domestically and internationally. In such projects, European Union support is particularly legitimate. The Connecting Europe Facility could be an efficient tool, provided that it is coordinated with other mechanisms, such as cohesion funds.

Besides, as the EU actually has limited resources, alternative financing tools, based on the **collaboration between private and public actors**, are crucial to secure and stimulate private investments, provided they remain on the long run, so as to provide companies/projects a stable financing framework.

¹⁸ Proposal 2011/0203 (COD) on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and amending Directive 2002/87/EC of the European Parliament and of the Council, on October 20th 2011

¹⁹ Proposal COM(2012) 217 final for a Directive amending the Solvency II Directive (2009/138/EC) as regards the dates of its transposition and application and the date of repeal of certain Directives, May 5th 2012

²⁰ A New Strategy for the Single Market at the Service of Europe's Economy and Society, Report to the President of the European Commission by Mario Monti, 2010

Cercle de l'Industrie encourages the EU institutions to ease **provisions in the CRD IV and Solvency 2 proposals related to banks' long-term resources when those resources are dedicated to supporting business activities.**

As regards public resources, *Cercle de l'Industrie* encourages the EU institutions **to simplify EU budget allocation and management**, coordinate the programmes and focus on industrial projects. It strongly supports "**Horizon 2020**" proposal, based on such an approach, and calls on member states to **maintain the amounts of dedicated funds** proposed by the European Commission.

Cercle de l'Industrie also supports the Commission's proposal to develop "**projects of common interest**", as well as initiatives such as the Connecting Europe Facility, aimed at tackling challenges affecting all the member states and requiring massive investments, whilst increasing EU competitiveness.

The European institutions are invited to implement project bonds, to strengthen the role of the European Investment Banks, to set up an appropriate European framework for public-private partnerships.

Third recommendation: boost skill adaptation and transitions towards high-potential jobs

The creation of new products/technologies, their development and the optimisation of production processes also rely on productive, high-skilled human resources. *Cercle de l'Industrie* points out the following **mismatch within the labour market**. While the unemployment rate is increasing (from 10.4% at the end of 2011 to 10.9% in April 2012 in the Eurozone), some industrial sectors have increasing difficulties to hire workers with the abilities required, particularly in the field of **Science, Technology, Engineering and Maths (STEM)**. For example, in Germany alone, the number of vacancies for engineers reached 111,300 in April²¹.

Cercle de l'Industrie strongly believes that EU institutions can play a key role. In that respect, *Cercle de l'Industrie* welcomes the **employment package**²² recently adopted by the European Commission. In particular, **merging all the existing anticipation tools** to identify sectors with high level of vacancies will be useful, particularly to SMEs, as only 26% are able to assess the skills they need.²³

Besides, *Cercle de l'Industrie* considers necessary to make industry and the related jobs more attractive. Initiatives promoting industry's image and strengthening **relations between businesses and schools** would lead students towards industrial sector and STEM skills. This would enable universities to deepen their knowledge of business needs in terms of skills and adapt their training so that it better enables students to acquire the high-quality and dedicated skills required by companies.

Cercle de l'Industrie invites the Commission and member states to **implement as soon as possible initiatives from the employment package**, such as the creation of a comprehensive tool to identify and anticipate the skills needed.

Policy-makers should particularly focus on transitions **STEM skills**. *Cercle de l'Industrie* considers that the EC should support initiatives aimed at developing training in this field, such as **European centres of excellence** gathering businesses, research and education organisations. The European Commission should develop **tools stimulating the involvement of the private sector in such initiatives** e.g. the allocation of dedicated funds (from programmes such as Structural Funds and the European Globalisation Fund), and public grants.

²¹ "Severe Shortage of Engineers" Press release from the Association of German Engineers, June 6th 2012

²² Communication COM(2012)173 final "Towards a job-rich recovery" on April 18th 2012

²³ "Employer-provided vocational training in Europe: Evaluation and interpretation of the third continuing vocational training survey", Cedefop, 2010

Strengthening and Deepening the Internal Market

The internal market, of around **0.5 billion consumers** with high standards of living and sophisticated needs, is one of the main strengths of the European Union. Completing and strengthening the single market is critical as it will increase the demand for products from EU countries, and foster EU growth.

While DG Internal Market and Services is currently preparing a new initiative following the Single Market Act, aimed, inter alia, at stimulating growth, competitiveness and social progress, we draw the Commission's attention to two major issues, mentioned below.

First recommendation: focus on the implementation and monitoring of existing rules

Cercle de l'Industrie calls on the European institution's attention on the need to **strengthen existing rules aimed at completing internal markets rather than extending the scope of internal market harmonisation**. *Cercle de l'Industrie* considers that **European harmonisation of law, though truly needed in some areas²⁴, is not always necessary and should not be an objective in itself**. As an example, the European Commission's proposal to apply the prudential norms of Solvency II in the scope of the IORP Directive²⁵ (applicable to pension funds), currently under review, does not seem justified and can even be counterproductive.

Monitoring and verifying the compliance of products traded on the internal market with legal norms is a necessary corollary to the promulgation of those norms. This is a major concern for the European manufacturing sector: the systems put into place by the EU and enforced at member-state level to check the compliance of products that are traded in the internal market with EU technical rules. European companies tend to ensure the conformity of their products to EU rules, whereas **competitors from third countries importing goods in the EU do not do so as often**. For instance, pocket lighters manufactured in the EU are faced with products that do not comply with EU standards. BIC, which is the main European producer of pocket lighters, has lost 25% of its sales volume since 2001²⁶. Customs control at EU external borders of the conformity of imported products should be enhanced.

Cercle de l'Industrie considers that the European institutions, before deciding to harmonise national rules or technical norms in new areas of the internal market, should systematically **assess the added-value and relevance** of such an initiative.

Cercle de l'Industrie supports the Commission's communication "Better governance for the single market" of June 2012; in this framework it invites the Commission to **monitor closely member states' performances** in terms of transposition and enforcement of EU legislation and, as already planned, to accelerate infringement procedures brought against them.

Cercle de l'Industrie invites member states to devote **human resources and regulatory means** to ensure stronger enforcement of EU rules on traded and imported goods. The current system for verifying the conformity of products from third countries with EU norms should also be strengthened: the option of setting up a **European authority for market surveillance** should be considered.

²⁴ For example, there is a need of harmonisation in the field of national social and fiscal rights

²⁵ Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision, 03.06.2003.

²⁶ "En finir avec la mondialisation déloyale !", Report by Yvon Jacob et Serge Guillon, January 2012 (p.103)

Second recommendation: strengthen the protection of intellectual and industrial property rights

Effective protection of intellectual property rights stimulates innovation in business and rewards companies' efforts to offer better products than their competitors. *Cercle de l'Industrie* underlines the **need for an intellectual property rights regime that is stable and enforced** through administrative and judicial tools. Enforcement mechanisms must be accessible to all businesses, and allow companies, *inter alia* young innovative enterprises and SMEs, to protect their innovations at affordable cost. Yet, the European system of protection of intellectual property rights is **incomplete and must be strengthened**. Legal and judiciary systems differ from one member state to another. For example, in Germany, infringement and validity of patents are handled separately by two different courts, whereas they are handled at the same time by the same court in France, Netherlands and UK. We call for harmonisation at European level. Despite broad consensus on the urgent need for action in this area, the recent agreement is not yet operational. In addition, "**trade secrets**", especially the "know-how" part of innovative solutions included in public tenders, are not protected by EU legislation. This situation deprives businesses from any fraud dissuasion or elimination measures.

European businesses are increasingly faced with **counterfeiting**, especially from companies in emerging economies. The level of prevention and repression is insufficient. For instance, counterfeit cement bags have been identified on the Ukrainian market, which has resulted in the launch of police investigations in that country. The implementation of effective strategies restricting the entry into the European market of counterfeit products is a key issue.

Cercle de l'Industrie invites the European Institutions to ensure the review and strengthening of **Directive 2004/48/EC** on the enforcement of intellectual property rights and **Regulation EC/1383/2003** on customs actions regarding goods suspected of infringing intellectual property rights; furthermore, a legislative text recognising the value and protecting **trade secrets** should be adopted.

Cercle de l'Industrie also encourages the European Commission to create a "**blacklist**" that would prevent European companies convicted of theft and breach of intellectual property, from tendering procedures.

Third, *Cercle de l'Industrie* urges the European institutions to quickly reach an agreement **on the unitary patent system** and make it operational as soon as possible.

External Competitiveness: Strengthening the EU's Position in Relation to its International Trade Partners

The **consistency between internal and external policies**, on which the European Union started to reflect in 2008²⁷, is now, more than ever, a key issue. Trade is the only positive growth driver in Europe in 2012, and, from 2050, **90% of world economic growth is expected to take place outside Europe**. Industry accounts for almost **80%** of EU global exports. In the light of the Europe 2020 Strategy, the external competitiveness of EU industries should therefore be one of these priorities, through a more proactive and more offensive strategy (especially regarding major partners) and better use of existing instruments.

First recommendation: make decisions based on their potential long-term impacts within the trade negotiation process

In the absence of progress in the multilateral trade negotiations, members of *Cercle de l'Industrie* acknowledge the EU should explore **bilateral approach** to strengthen its trade relations.

The EU is involved in a significant number of bilateral negotiations. These agreements must comprehensively address the barriers faced by companies, rely on strong economic evidence and be negotiated transparently. Experience shows that trade agreements can **impact very heavily** on a specific sector: for instance since the EU-Korea FTA has entered into force (1st July 2011), the commercial deficit of the EU in the automotive sector has significantly increased²⁸.

Members of *Cercle de l'Industrie* regret that **interested parties are not more closely involved** in negotiations on free-trade agreements. **Impact assessments** are essential. Their results should be made available to industry before the official opening of the negotiation process. The same equally applies for scoping exercises, considering that more than often imbalance of starting positions makes it impossible to obtain win-win and balanced free-trade relations. It is unfortunate that EU-Japan scoping exercise and impact assessment reports have not yet been made public.

Cercle de l'Industrie considers that it is essential that, in the context of trade negotiations, the European Commission:

- **consults industrial operators**, ahead of any negotiations. Impact assessments and scoping exercises should be discussed with industry representatives before the official opening of the negotiation process;
- concentrates on negotiating **comprehensive and balanced agreements** (giving priority to the WTO's "Singapore issues") with EU's main strategic partners that are **open to reciprocity**;
- focuses on the implementation of existing bilateral agreements through the creation of small but permanent **monitoring groups** for each free-trade agreement, with representatives of industry.

²⁷ Commission Staff Working Document « The external dimension of the single market review », SEC(2007) 1519

²⁸ From 1 July 2011 to 31 May 2012, imports from Korea increased by 43% while, over the same time frame, EU exports only increased by 13%

Second recommendation: ensure a level playing field between the European Union and third countries through trade policy

It is critical for EU trade policy not to lose track of its primary objective to contribute to “the **progressive abolition of restrictions on international trade**” (article 206, TFEU). Ensuring a fair level playing field between the Union and third countries is critical to preserve competitiveness and jobs in Europe.

Confronted with rising protectionist pressures across G20-countries (including within the BRICS)²⁹, the EU should first stand firm against tariff and non-tariff barriers limiting the access of European companies to traditional export markets. It is important that the EU can **react against unfair practices of competitors from third countries**. Long-standing tariff and non-tariff barriers - such as requirements of local content, domestic preferences in government procurement, forced transfers of technology, costly and burdensome customs and certification procedures - continue to raise serious concerns among industrial companies. Besides, new trade restrictions are being implemented. Brazil, for instance, decided last year to increase the Brazilian Tax on Industrial Products, which mainly affects foreign vehicle manufacturers. *Cercle de l'Industrie* is critical towards such restrictions, especially when they mainly aim at stimulating national recovery in the framework of national industrial planning³⁰.

The EU should also be given the necessary leverage to open its main trading partners' markets. **Effective reciprocity in market opening** is key. Realistic efforts to restore fair competition conditions in international trade, in compliance with the legal framework set out in international agreements, should not be assimilated to protectionism. Indeed, the EU market is clearly open³¹ and, in comparison, some practices by third countries have become unacceptable. This is particularly evident in **public procurement markets**: based on the Commission's estimation, 85% of European public procurement markets are open for an amount of € 352 billion, against 32% in the United States (for an amount of € 178 billion), and 28% in Japan (for an amount of € 27 billion).

The European Council agreed in 2010 on “the need for Europe to promote its interests and values more assertively and in a spirit of **reciprocity** and mutual benefit”³². *Cercle de l'Industrie* members believe that moving further along this path is possible: the EU cannot impose its own companies environmental and social standards which imported products would totally escape. In any case, the European Union must ensure **compliance with EU regulations** by all businesses operating inside the EU market and this requires an efficient border control³³ (see above³⁴).

Cercle de l'Industrie invites the European institutions to adopt, as soon as possible, the Commission's initiative on **third-country access to the EU's public procurement market**. **The EU should** extend the debate on **the concept of reciprocity to other areas** (e.g. environmental or social norms), although it deserves to be handled with care and pragmatism.

Furthermore, the EU should reinforce bilateral regulatory cooperation and promote **full recognition of standards** by our trade partners. As regards **unfair practices** implemented by some trade partners, *Cercle de l'Industrie* members encourage the EU to make systematic use of the WTO Dispute Settlement Body to enforce the **international commitments** made by its trade partners; when needed, it should use **EU trade defence instruments** more proactively.

²⁹ As noted by the European Commission, protectionist practices have spread over the last few months amongst G20 countries, including within the BRICS: see the 9th Report on Potentially Trade Restrictive Measures, European Commission, June 2012

³⁰ such as the Five-Year Plan of People's Republic of China (2011-2015), India's National Manufacturing Policy and Plano Brasil Maior (2011-2014)

³¹ Most countries that have signed the 1994 Agreement on Public Procurement however excluded from its application many areas in which European companies are world leaders (rail market, production and transmission of electricity in Japan, production and transmission of electricity in Korea and Canada, transport market limited in the United States by the provisions of the Buy America Act...). Moreover, many key entities are also not covered by this agreement (28 states in the United States, Canadian provinces etc.)

³² European Council, Conclusions – 16 September 2010

³³ Report by Jean-Claude Karpeles, Vision of the CCIP of a new sustainable growth: an economic, social and environmental triptych, CCIP, 15 April 2010, CCIP

³⁴ See p.17 “Strengthening the protection of intellectual property rights”