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## DISCUSSION PAPER

# Sharing the same vision – The cornerstone of a new industrial policy for Europe

*Claire Dhéret*<sup>1</sup>

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### Executive Summary

The need to make the best use of the 2014 March European Council and to provide a clear vision of what a *European Industrial Renaissance* entails is more than pressing. Time is precious and the responsibility of EU heads of state and government is tremendous. Claire Dhéret argues in this discussion paper that they should seize the opportunity offered by the European Council to pave the way for an EU industrial policy providing the industry with what it needs most: an unambiguous and well-defined strategic plan for the decades to come.

This paper begins with the current prospects for European manufacturing. Facts and figures leave no room for ambiguity: the sector has been facing serious difficulties for a long time, illustrated by the constant reduction of the manufacturing share in almost all indicators. This steady decline is the result of two simultaneous developments: ever-mounting external pressures (1), as well as a profound fragmentation in the way industrial policies are pursued across Europe (2). The combination of these developments and the EU's incapacity to respond to a changing environment with one clear and common vision has made its industrial base uneven across the territory. In addition, growing divergences of industrial output across the EU and uncoordinated industrial policies are likely to have negative spill-over effects on other aspects, such as the functioning of the internal market and the resilience of the common currency.

Second, the author gives an overview of past and present EU actions to re-industrialise Europe. It is argued that despite recognising the importance of manufacturing for the economy with an additional ambitious rhetoric for re-industrialising Europe, the weakness of the current policy framework, both regarding the lack of clarity of EU strategic orientations and their questionable impact on national policies, seems unsuited to meet ongoing challenges.

Based on this assessment, and in the view to provide EU industries with a clear strategic plan, three possible scenarios with several policy implications are outlined: *Towards the Europeanisation of the Value Chain* (1); *The EU as Facilitator of a Level-Playing Field* (2); and *The Predominance of the Free Market Approach and National Forces* (3). They represent very different ways in which an EU industrial policy could evolve in the coming years. Fostering a frank debate around these three scenarios is urgently needed as it would provide the right framework to answer the key questions lying at the core of a new industrial policy for Europe.

Finally, the author suggests three concrete steps, which would lay the foundations for an EU industrial strategic plan. These steps include:

1. Coalition-building of EU countries to take the lead in the design of a EU industrial compact;
2. The establishment of a reflection group with high-level experts and a clear mandate to address the key questions of the future orientation of EU industrial policy, whilst also reflecting upon the policy implications of the three scenarios mentioned above; and
3. Concrete proposals – made by the coalition of EU countries – to address the main obstacles threatening EU industrial competitiveness: i.e. financial fragmentation (1), energy prices and the high price differential with Europe's competitors (2), and the absence of a level-playing field with other regions of the world (3), which should be addressed by the revision of the EU's state aid framework and the opening of foreign markets to EU industries through for instance, a stronger focus of trade negotiations on access to foreign public procurement markets.

Supporting the re-industrialisation rhetoric with a real action plan is crucial as focusing on either ambitious communication or technical and marginal issues will fall short of addressing the magnitude of current challenges and will rather perpetuate a long tradition where EU industrial policy is caught between a rock and a hard place.

## Introduction

In response to the decision to cancel the February 2014 European Council a feeling of disenchantment has taken possession over the European business community in Brussels, going even beyond the strict boundaries of the usual group of industrial lobbyists. The widely and long awaited decision of having an EU Summit dedicated to industrial competitiveness represented a strong signal to place industrial policy at centre stage of the European agenda. Since then, the European Commission published the Communication entitled "*For a European Industrial Renaissance*" in January 2014 "*urging Member States to recognise the central importance of industry for creating jobs and growth, and of mainstreaming industry-related competitiveness concerns across all policy areas*"<sup>12</sup>. But the issue of industrial competitiveness has been postponed to the already loaded agenda of the 2014 March European Council. Whilst this shows that industrial competitiveness is still receiving political attention, having it as part of a wider agenda raises the risk of getting swamped by other urgent matters. Extraordinary events like the ones related to the Ukrainian crisis have shown how rapidly the political agenda can be disrupted.

Notwithstanding the less favourable conditions to make tangible decisions on the future of EU industrial policy, the need to make the best use of the European Council is more than pressing. Time is precious, particularly with the upcoming European elections, and the struggle of many European industries to remain competitive. There is an urgent need to address, on the one hand, the disillusionment EU citizens feel about the inadequacy of policies to boost economic recovery and to make the European Union (EU) a robust global player, and on the other hand, to respond to large expectations of the business community. These expectations are all the more significant as the European Commission has sent, over the last years, strong signals indicating its firm intention to adopt an integrated industrial strategy and to become a more active supporter for European industries.

The simple act of putting industrial competitiveness on the agenda and reiterating well-known statements will not be sufficient. The responsibility of EU heads of state and government is tremendous and they should seize the opportunity offered by the 2014 March European Council to pave the way for an EU industrial policy providing the industry with what it needs most: an unambiguous and well-defined strategic plan for the decades to come. To this end, EU heads of state and government will have to courageously face the key questions, which can no longer be ignored.

These questions include:

- What are the main factors challenging the competitiveness of European industries and what would be the added-value of EU actions in addressing them?
- What should European and national authorities do and, equally importantly, **not** do as part of a new industrial policy?
- What is the role that manufacturing should play in industrial policy<sup>3</sup> and Europe's recovery?
- Should Europe aim at a precise target for manufacturing production – irrespective of its nature – or should it focus on certain types of industrial activities?
- How to make the best use of EU industrial policy to benefit Europe's economy and support national re-industrialisation strategies?

In this discussion paper representing the intermediary step of the EPC Task Force<sup>4</sup> on EU industrial policy, Claire Dhéret describes current prospects for European manufacturing industries and gives an overview of EU actions, past and present, to re-industrialise Europe. Based on this assessment, three possible scenarios with several policy implications are outlined. They represent very different ways in which an EU industrial policy could evolve in the coming years and present strategic options that should be taken seriously by policy-makers. Fostering a frank debate around these three scenarios is urgently needed as it would provide the right framework to answer the key questions mentioned above. Finally, a series of concrete proposals have been suggested, which would, if endorsed by EU heads of state and government, lay the foundations for an EU industrial strategic plan and respond to the most pressing expectations of both EU citizens and the business community.

## **Part 1: Gloomy prospects for European manufacturing industries**

The decline of manufacturing in Europe is nothing new and a long list of studies already exists on the topic, leaving no room for ambiguity: the sector has been facing serious difficulties for a long time (a situation, which has been aggravated by the economic crisis in some countries), illustrated by the constant reduction of the manufacturing share in almost all indicators. The share of manufacturing in GDP has fallen from 15.8% before the crisis to 15.1% in 2013 and 3.5 million jobs have been lost since 2008.<sup>5</sup> In addition, one can observe a significant decline in the role of Europe in global manufacturing output as indicated by the EU's share of global manufacturing value added, which dropped from 30% in 2003 to 23% in 2010.<sup>6</sup> While such trends reflect, to some extent, a structural shift to the service sector and the changing nature of manufacturing<sup>7</sup>, which mirrors the move towards a more knowledge-intensive and green economy, they also reveal a profound weakness in EU manufacturing.

The steady decline over the last decades is the result of two simultaneous developments: ever-mounting external pressure and the growing role of emerging economies at a global scale (1) as well as a profound fragmentation – marked by national choices and interests whose sustainability are questionable in certain countries – in the way industrial policies are pursued across Europe (2). The combination of those developments and the EU's incapacity to respond to a changing environment with one clear and common vision has significantly weakened its industrial base, making it uneven across the territory and ill-equipped for global challenges.

### ***Ever-mounting external pressure***

The ever-mounting external pressure has led to the emergence of a new global distribution of manufacturing production and, as a result, to the decreasing importance of manufacturing in Europe's economy, which has intensified over recent times and has been driven by several factors.

First, productivity in Europe is running out of steam and progression is much slower than in other parts of the world (despite a relative strong productivity growth in manufacturing compared to the one in services). Not only do the usual competitors, which are also undertaking a 're-industrialisation strategy', such as the United States (U.S.), out-perform Europe<sup>8</sup>, but the productivity in emerging industrial giants is catching up at high speed. Innovation and investment in research and development (R&D) undeniably plays a significant role in explaining this growing productivity gap. However, more importantly, it is the capacity to translate research into the commercialisation of products, which is key. Looking at innovation output instead of input shows that the EU is underperforming with too much focus on basic research.<sup>9</sup> Conversely, countries like China invest much more in applied research and experimental development<sup>10</sup>, enabling them to turn research into advanced products.

Second, production costs play a role in determining the location of manufacturing production in different countries as they represent a key competitiveness factor and affect the final price of a product. Among them, energy costs feature as one of the top concerns of European industries due to the increase in energy price differential between Europe and its major competitors. For instance, estimations of the International Energy Agency show that EU industrial electricity prices are twice higher than in the U.S. and Russia and 20% higher than in China.<sup>11</sup> In light of recent choices made by our competitors (especially the 'shale gas revolution' occurring in the U.S.) and in the absence of any ambitious EU actions in this field, there is, unfortunately, no sign of a possible decrease in energy price differential in the near future.

Labour costs are also playing a role in total production costs. Their relation to productivity<sup>12</sup>, in addition to trade liberalisation driven by the reduction in transport costs and technological progress (particularly in information and communication technologies (ICT)), have contributed to favour the migration of manufacturing employment outside Europe. Indeed, labour costs differ enormously between EU countries and emerging economies, making it impossible for Europe to compete on this aspect.<sup>13</sup> In this context, dealing with the cost of offshoring and coordinating activities between and within companies has become more profitable for European industries than concentrating all activities in one location. Hence, globalisation has profoundly changed how manufactured goods are produced and delivered to final consumers. Production processes have internationalised, leading to an increased fragmentation of the value chain and the disappearance of certain types of manufacturing employment in Europe.<sup>14</sup>

Third, recent macro-economic forecasts have shown that a large part of economic growth<sup>15</sup> will be located outside Europe in the years to come. Where demand for manufactured goods is stagnating in Europe due to oversaturated markets, the rapid expansion of the middle class in other parts of the world is creating a large cohort of new consumers. This will shape the global distribution of manufacturing production even further, raising both opportunities and challenges for European manufacturing. European industries are therefore likely to continue to migrate their activities outside Europe in order to have direct access to those new consumers and to enable businesses to grow.

### ***The European Union...let's call it European fragmentation!***

Despite the creation of the Economic and Monetary Union (EMU), the EU has been characterized by significant divergences in manufacturing performance and there is no doubt that the EMU is far from being homogenous in this regard. Major drivers of competitiveness, be it productivity level, capacity to export, or the structure and diversity of the manufacturing base, have evolved in different ways across the territory. For instance, comparing levels of labour productivity across Europe confirms the presence of huge differences between EU countries. While countries like Denmark, Ireland and Luxembourg had a productivity level of

above 50 euro per hour worked in 2012, the level of a large number of Eastern and Central European countries (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) as well as some Southern countries (Cyprus, Greece, Malta, and Portugal) was below 25 euro.<sup>16</sup>

As for the internationalisation of European companies, the situation also varies from country to country. For instance, German companies have been very successful in integrating emerging markets into their production chains and it represents a key source of their competitive advantage and their export performance. Drivers of this success are both explained by structural and institutional factors. From a structural viewpoint, the changes Germany has gone through over the last decades<sup>17</sup> have played an important role. This takes into account the average size of German companies<sup>18</sup> compared to other EU countries; the relatively easy access to credit; as well as the slow wage growth – allowed by a strong social dialogue. From an institutional perspective, the good performance of Chambers of Commerce and Industries to represent German interests outside Europe has often been taken as an example.

It is thus a set of factors, which explains the long and persistent fragmentation of the European industrial landscape and which has contributed to the co-existence of different industrial models in Europe. Nowadays, the EU is composed, on the one hand, of strong industrial bases in countries like Germany which hold a robust position on global markets and whose model is clearly export-oriented<sup>19</sup> and, on the other hand, Member States with relatively high commercial deficits (France, Spain, Portugal, Greece, Italy) and in some cases, little diversity in their industrial sector. Recent developments, especially the economic crisis and its consequences, have not only highlighted the co-existence of these models, they have also intensified the fragmentation of manufacturing output across Europe. The manufacturing industry has indeed been more resistant to the crisis and to previous global changes in some countries but it is now facing a long and rapid declining trend in others. The orientation taken by each model has contributed to some extent to these growing divergences: While Europe's internal demand has been undermined by the recent recession, it is the export-oriented model which has managed to offset sluggish domestic demand by exports and to appear – at least for the near future – as a winner.

In addition to the importance of structural and institutional factors mentioned above, the co-existence of such different models in Europe is due to the fact that industrial policies are shaped by national interests. Industrial and innovation policies are driven by national concepts and strategic choices do mostly reflect the role played by specific sectors in each country and the nature of the relations between relevant stakeholders. Such differences are difficult to overcome as they both reflect deep-rooted traditions and because industrial policy has always been seen as a national preserve. A diversified industrial policy across the EU could undeniably benefit Europe's economy, yet it is the predominance of national interests and the absence of coordination between different models, which bear specific risks.

### ***The risky consequences of uncoordinated industrial policies***

Pursuing economic integration whilst having very different industrial models has been often considered risky in several respects.

From an internal market point of view, both the divergence of manufacturing output as well as the predominance of national interests in the way industrial policy is carried out, represent clear obstacles to the well-functioning of the internal market. Given that innovation and national investments are primarily driven by national traditions, picking out common priorities is difficult. Furthermore, this diversity of non-coordinated investments does not favour cross-cutting trans-border projects or the emergence of pan-European networks, therefore hampering potential growth. In such a context, completing the single market and streamlining investments are condemned to remain marginal.

From a monetary perspective, the strong cleavage between the demand-driven and the exports-oriented models represents weak foundations for the currency union. Having such different models has been vehemently denounced by the opponents of the single currency as an element making the establishment of

a viable monetary system impossible. This element has been, however, neglected for a long time at the policy level and it has been placed into sharp spotlight only recently, as signalled by the ongoing debate of whether Germany's current account surplus<sup>20</sup> is harming the rest of the eurozone economy. Its significant high surplus of exports over imports has been indeed pointed out as a potential risk by the European Commission, which is now entitled to detect possible macro-economic imbalances<sup>21</sup> in each Member State.

## **Part 2: A new motto 'Re-industrialise Europe' – too little, too late?**

Against this dismal background, it is questionable whether Europe is doing enough to create the right framework conditions for boosting the competitiveness of its manufacturing industries. Despite a recognition of the importance of manufacturing for the economy, the weakness of the current policy framework, both regarding the lack of clarity of EU strategic orientations and their questionable impact on national policies, seems unsuited to meet ongoing challenges.

### ***A large recognition in the role of manufacturing industry***

'Industrial policy matters!' is the new slogan citizens hear all over Europe. Alongside very fierce campaigns to keep the industrial base on the national territory, governmental reports and communications highlighting the key role that manufacturing may play in reviving national economies have proliferated. Even in countries such as the UK where the largely dominating neoliberal economic doctrine has allowed market forces to shape the economy for the last 30 decades and to shift it away from its traditional strengths in manufacturing towards financial services, the rhetoric has now changed.<sup>22</sup> De-industrialisation is no longer perceived as a natural process of economic development and the focus on the services sector has somewhat faded away due to several factors. The high volatility of financial markets and the recent bursting of the financial sector have obviously contributed to revive the interest in manufacturing. In addition, the comparative resilience of some EU countries with a strong industrial base to the economic recession, together with the positive role that the state played in robust and/or emerging economies, debunked the *laissez-faire* mantra and encouraged EU Member States to recognise both the need for industrial policy and the importance of having a proactive state supporting strategic industries.

The change in rhetoric is also explained by some strong evidence showing that manufacturing is an essential pillar of the economy as "*additional final demand in manufacturing generates around half as much additional final demand elsewhere in the economy*".<sup>23</sup> Indeed, manufacturing represents the major source of investment in R&D (65.3% between 2008 and 2010)<sup>24</sup>, a key source of exports (67% of Europe's exports)<sup>25</sup> and a main driver for employment in other sectors, including services (each additional job in manufacturing creates 0.5-2 jobs in other sectors).<sup>26</sup>

In light of this, while manufacturing and services have been considered by some as two incompatible choices of economic strategies in the past, there is now no doubt that the two of them are complementing each other, or even depending on each other. Services have indeed entered the world of manufacturing in all sequential stages of a product, be it in the development, production or marketing phase, and the service content in manufacturing final output has significantly increased over the last decades.<sup>27</sup> Disentangling the production of manufactured goods from the pre- and after-sales services has therefore become increasingly difficult.

Despite the recognition in the importance of a large and strong industrial base, some basic questions pertaining to the nature of Europe's re-industrialisation strategy are left in the air. Answering these basic questions are, however, a pre-condition for the design of a robust and coherent EU industrial strategy capable of meeting present and future challenges and of providing European industries with a long-term vision.

### ***The EU strategy – Go back to basics!***

Looking at what constitutes industrial policy both at EU and national level suggests that it is difficult to get a clear idea of whether a strategic direction has been taken. First of all and from a theoretical viewpoint, it is hard to grasp what is understood by 'industrial policy' as the term is not always used with the same meaning. Where some strategic documents emphasise the need to boost manufacturing production, others have a larger scope and also include the services embedded in it. Hence, defining first what industrial policy is and is not, should provide the starting point of any solid plan.

Secondly, from a more pragmatic viewpoint there is no indication of what the key objectives are that should be pursued by an EU industrial strategy. While EU Industry Commissioner Antonio Tajani announced the Commission's aspiration to raise the contribution of industry to GDP to as much as 20% by 2020<sup>28</sup>, how to reach such a target is left open. In other words, the European Commission does not provide any indication of what kind of production activities this 20% should be composed of and leaves the following questions open: What is hidden behind such a figure? Is the intention to shift European manufacturing only towards high added-value activities or to re-locate most of the production chain in Europe in order to protect jobs, including those that are low-skilled and low-waged? What is Europe's approach *vis-à-vis* the increased fragmentation of production processes, which is undeniably leading to job migration but might also augment European industries' competitiveness by allowing them to reduce production costs and to gain new market shares?

An answer to these questions could be found in recent strategic documents of the Commission, emphasising on the knowledge economy and suggesting that Europe should focus on high value-added goods and services.<sup>29</sup> However, the approach currently taken by a large number of Member States is more ambiguous. National public discourses promoting national pride under the banner of 'Made in [national country]' are becoming increasingly popular. Furthermore, state actions to bail out ailing industries in order to protect employment – irrespective of its type – are making headlines frequently<sup>30</sup>, although it might be questioned whether they occur more often than in the past.

Adding to the ambiguity, it is questionable that actions aiming to achieve the 20% target of manufacturing contribution to GDP will support other EU objectives, in particular relating to climate change and energy. Recent EU communications in those fields have been strongly denounced by the industry as creating additional costs and threatening their competitiveness. More importantly, EU objectives on climate and energy<sup>31</sup>, on the one hand, and industrial competitiveness and manufacturing production, on the other, are often perceived as two antagonistic choices, which are difficult to reconcile. Hence, the industry community has even accused the EU targets on climate and energy to accelerate Europe's de-industrialisation. This signals a great deal of confusion and a perceived lack of coherence between different EU policies, which in turn, might reduce the attractiveness of Europe for private and foreign investment. It is, therefore, now time for the EU to clarify its position on this matter<sup>32</sup>, to decide on the future of energy-intensive industries in Europe, and to identify how far Europe can play a role in climate change mitigation without a global framework.

### ***The EU industrial policy: a myth?***

As indicated above, it is undeniable that the EU institutions is trying to become more active with regards to industrial policy and to mainstream industrial competitiveness into other policy fields through various ways. For instance, recent developments in the Union's new economic governance have shown that the European Commission is becoming more vocal – in particular through the country-specific recommendations published in the framework of the European Semester – on issues deemed as key drivers of competitiveness such as taxation on labour and wage setting system, the internationalisation and commercialisation of research, the diversification of the industry, energy policy, and the export capacity of firms.<sup>33</sup>

In light of this, EU competences on industrial policy are, however, still limited, and the Union does not have a clear mandate to act in this field. The main reference to industrial policy in the Treaty, Art. 173<sup>34</sup>,

underlines the EU's role in creating the conditions necessary for the industry's competitiveness but restricts it to measures in support of national actions. As a result, measures aiming to drive industrial change are either relying on instruments from other policies, mainly internal market provisions, competition policy and trade policy, or on soft tools allowing consultation and coordination between Member States. This architecture is not only the result of a market-driven approach which has dominated EU policies over the last decades, but also of the wide resistance of Member States to endow the EU with more forceful instruments. Whether this division of competences is optimal is a debate on its own, and goes beyond the scope of this paper. However, recent exchanges<sup>35</sup> on state aid surveillance illustrate how aspects of such a framework can create tensions between the European and national level, and indicate how European and national powers can constrain each other.

In addition to constraining aspects of the framework, one may also wonder whether there is sufficient coordination between investment priorities across Europe. In its 2012 communication<sup>36</sup> the Commission decided to complement its horizontal approach with a more vertical one, giving emphasis on specific technologies. Hence, it announced intentions to focus investment and innovation on six priority action lines: advanced manufacturing technologies, key enabling technologies, bio-based products, sustainable industrial and construction policy and raw materials, clean vehicles, and smart grids. The success of turning such action lines into investment with a critical mass will obviously depend on whether similar priorities will be captured by other governance levels, such as the national and regional ones.

Looking at the industrial plans of three Member States with a firm commitment to re-industrialisation, i.e. France, Italy, and the UK, one can observe that the response to this question is far from obvious. Where all three countries have set out a roadmap of re-industrialisation and have agreed on horizontal measures aiming to set the right framework conditions for increased competitiveness, only France and the UK have identified very clear investment priorities in specific technologies, as shown by the comparative overview provided in Figure 1. This comparative overview shows that, although some priorities are similar both between the EU and national levels and among Member States, it is not always the case. Therefore, such similarities seem to be more coincidental rather than a deliberate intention to promote policy coordination.

Furthermore, France and Italy<sup>37</sup> have recently been the main initiators in a group of EU countries<sup>38</sup> calling for strong alliances in industrial policy, as well as an increased EU role in industrial policy. It is, however, hard to see the concrete implications of this call in terms of policy and investment coordination. There is neither an indication that national investments are coordinated with each other or aligned on the six EU priority action lines.



Figure 1: A comparative overview of investment priorities at the EU and national levels (France, UK, and Italy)

Six EU priority action lines :  
 Advanced manufacturing technologies;  
 Key enabling technologies;  
 Bio-based products;  
 Sustainable industrial and construction policy and raw materials;  
 Clean vehicles;  
 Smart grids.

France/ 34 plans:

Renewable energies  
 Universal cars consuming less than 2 liters per 100 km  
 Electric charging stations  
 Battery life and power  
 Driverless vehicles  
 Electric planes and new-generation aircraft  
 Heavy-lift airships  
 Embedded software and systems  
 Electric-propulsion satellites  
 High-speed train of the future  
 Environmentally friendly ships  
 Technical and smart textiles  
 Wood industry  
 Recycling and green materials  
 Thermal renovation of buildings  
 Smart grids  
 Water quality and scarcity management  
 Green chemicals and biofuels  
 Medical biotechnologies  
 Digital healthcare  
 Medical devices and new healthcare equipment  
 Innovative products for safe, healthy, and sustainable food  
 Big data  
 Cloud computing  
 E-learning  
 Telecom sovereignty  
 Nano-electronics  
 Connected devices  
 Augmented reality  
 Contactless services  
 Supercomputers  
 Robotics  
 Cybersecurity  
 Industrial plant of the future

UK/28 technology clusters :

Ambient intelligence in the built environment  
 Bespoke material design and metamaterials  
 Closing the nuclear cycle  
 Desirable sustainability and user-centric design  
 Display technologies  
 Energy materials and storage  
 Energy scavenging (including self-powered and low-powered devices)  
 Engineering the computer-brain interface  
 GM food and agri -next generation  
 Hydrogen eco  
 Lightweight infrastructure  
 Low impact materials  
 Managing and processing of real time social data  
 Synthetic biology  
 Multisensory input and sensing  
 New computer technologies  
 Organic solar cells  
 Tailored medicine  
 Photonics  
 Plastic electronics  
 Robotics  
 Sensor networks and speckled computing  
 Stem cells  
 Syngas  
 The cheap genome  
 The plus energy house  
 Smart grids-microgeneration  
 Smart water systems

Italy/ a few sectoral measures

Energy sector: lowering the price of energy (through a liberalisation of distribution)  
 Investment in energy efficiency: Reduce energy consumption, reducing the cost of energy, reducing emissions  
 The 'Strategia Energetica Nazionale' (National Strategy for Energy) foresees an increasing in production of oil and gas  
 Tourism: stimulate the increase in the dimension of enterprises working in this sector; giving economic incentives for investments that exceed a certain amount  
 Promoting Public-Private partnerships on the transport sector (railway, highways, local public transport, requalification of urban areas)  
 Reform of ports (reform of management and a specific industrial plan for each Port is needed)  
 Airports - opening to private funds  
 Attract investments in the green sectors

Source: *Compilation of information provided by the three governments*

For France, see: [www.redressementproductif.gouv.fr/files/nouvelle-france-industrielle\\_english.pdf](http://www.redressementproductif.gouv.fr/files/nouvelle-france-industrielle_english.pdf)

For UK, see: [www.bis.gov.uk/assets/foreight/docs/general-publications/10-1252-technology-and-innovation-futures.pdf](http://www.bis.gov.uk/assets/foreight/docs/general-publications/10-1252-technology-and-innovation-futures.pdf)

For Italy, see: <http://destinazioneitalia.gov.it/wp-content/uploads/2013/10/destinazioneitaliaEnglishVersion.pdf>

## Part 3: Hard but necessary choices for the future of industrial policy in Europe

The two first parts of this paper have shown that despite an urgent need to address current challenges, EU industrial policy is trying to be everything for everyone. Bringing more consistency and coherence in the way industrial policy is pursued will certainly require hard but necessary choices (highlighted below in the scenarios), providing the industry with more clarity and better predictability and increasing therefore the attractiveness of Europe for investment.

Europe has recently heard a host of ambitious declarations and snappy slogans, including 'manufacturing revolution' and 'industrial renaissance', which now need to be turned into tangible deeds. To this end, Europe needs a more in-depth reflection on the adequacy of current framework aspects supported by a sound and evidence-based understanding of the comparative advantage each framework could generate. In other words, Europe should initiate a thoughtful process of evaluating how an optimal framework could ensure the elimination of tensions between European and national competences, offer smooth coordination between EU and national policies and maximise the benefits of EU interventions.

In order to kick-start the reflection process, the following presents three possible framework scenarios – called Towards the Europeanisation of the Value Chain (1); The EU as Facilitator of a Level-Playing Field (2); and The Predominance of the Free Market Approach and National Forces (3) – with very different strategic options for the future of industrial policy in Europe. Where assessing the competitive advantage of each of those scenarios goes beyond the scope of this paper and is also a clear matter of political choices, this paper focuses mainly on drawing the scenarios' contours and setting the scene for further discussions.<sup>39</sup>

### Scenario 1: Towards the Europeanisation of the Value Chain

Moving towards the Europeanisation of the Value Chain implies a deeper integration of EU manufacturing with a high degree of intra-community specialisations based on national comparative advantages, more cooperative industrial relations among Member States, and the integration of many policies such as the ones related to research, labour market, innovation, and energy. European investment is streamlined in a coordinated way to ensure higher return and trans-European network projects as well as clusters form a key pillar of scenario 1. Europe is put at the centre of the production process and of the value chain without, however, neglecting the outside world. Such a scenario implies significant transfers of competences to the EU level and key changes in the way Member States approach industrial policy. National discourse promoting 'Made in...[national country]' would be replaced by a 'Made in Europe' giving a solid recognition to European champions. A robust EU governance model is a pre-condition to follow this path and should not necessarily involve all Member States as such a qualitative leap may only become possible with industrial models sharing a certain degree of similarity. Furthermore, scenario 1 requires a political commitment which goes beyond what we have seen so far.

## Scenario 2: The EU as Facilitator of a Level-Playing Field

Concentrating on the facilitating role the EU could play in establishing a level-playing field for industry in the EU and beyond its borders is the scenario closest to reality as it implies striking a delicate balance between European and national competencies. Several steps, laying the foundations for such a scenario – like the single market - have already been launched for decades. However, the EU's role in creating a level-playing field is far from being optimal. Important steps – some of them still under construction – will have to be pursued so as to turn the current architecture into a coherent bloc in which EU and national policies complement each other in a mutually reinforcing way. Completing and deepening the Single Market in order to boost intra-EU trade forms the most important pillar of such a scenario and some coordination and convergence mechanisms in areas like innovation, connectivity and cross-border infrastructure are fully activated in order to grasp the full benefits of the single market. In addition, instruments to strengthen the external dimension of EU industrial policy and engage in economic diplomacy will be further developed. This scenario combines an internal pragmatic approach, where Member States remain the main agents in the design of the strategic direction of future industrial developments, with a robust external strategy.

## Scenario 3: The Predominance of the Free Market Approach and National Forces

Going back to the mere predominance of national forces in the design and implementation of industrial policy requires not only abandoning moves towards a deeper European integration but also dismantling some achievements of the past. The third scenario does not mean the disintegration of the single market but places it at the centre of its strategy, leaving aside convergence mechanisms. The free market approach is at the core of scenario 3. The predominance of national forces and interests lead to the promotion of a culture of competition among EU Member States, regions and industries. Each Member State has its own way to deal with the globalisation process and its possible consequences on domestic industries and specialisation. The co-existence of very different industrial models in Europe is reinforced and industries are likely to be more concentrated in certain parts of the EU territory. In addition, the pursuit of the free market approach is likely to lead to the disappearance of weak industries and to reinforce the position of the most competitive ones. Under such circumstances, divergences between EU Member States are likely to grow, putting tremendous pressure on the common currency.

The scenarios described above represent three different strategic options for the future of industrial policy. Although scenarios often bear the risk of over-simplification, they also offer the advantage of putting the cards on the table and clarifying what is at stake. Fostering a debate around them and their policy implications, ranging from institutional aspects, division of competences, policy reforms to budget considerations and EU fiscal capacity, will put EU Member States in front of essential questions and outline clear choices, forcing them to confront the future strategic direction of EU industrial policy.

Developing a shared vision around one of these scenarios will obviously not occur overnight. It takes a long process requiring the involvement of all relevant stakeholders, including the industry, and the full commitment of our policy-makers. The forthcoming European Council meeting should mark the starting point of such a reflection process.

In order to achieve such an objective, three concrete and ambitious steps listed below should be seriously implemented and undertaken by the EU heads of state and government at the 2014 March European Council:

First, there is no doubt that clear-cut choices in EU industrial policy will not be achieved without a high-level political commitment. A coalition of EU countries needs to take the lead in order to form governmental alliances and to work on the design of an EU industrial compact, which would complement the Compact for Growth and Jobs. The already existing group of EU countries called 'Friends of Industry' could serve as a forerunner for such a group but it will need to be endowed with clear objectives and a real action plan.

Second, this coalition of EU countries should establish a reflection group of high-level experts with a clear mandate to carry out analysis on cross-cutting and cross-sectoral issues, which are at the core of any industrial strategic plan. The starting point of this analysis should address the questions raised in this paper:

- What are the main factors challenging the competitiveness of European industries and what would be the added-value of EU actions in addressing them?
- What is the role that manufacturing should play in industrial policy and Europe's recovery?
- Should Europe aim at a precise target for manufacturing production – irrespective of its nature – or should it focus on certain types of industrial activities?
- Is the 20% manufacturing target a useful goal and how can it be combined with objectives in energy and climate change?
- How to make the best use of EU industrial policy to benefit Europe's economy and support national re-industrialisation strategies?

In addition, the group of high-level experts should reflect upon the policy implications of the three scenarios mentioned above in the view to identify the opportunities and challenges each of them would raise. The analysis should follow a rigorous timetable and the results should be delivered to the heads of state and governments within a reasonable time span. Such an exercise and the clear mandate given by a coalition of Member States would provide a right balance between experts' analysis and political choices. Indeed, the objective would be to feed the analysis findings into the choices made by the coalition.

Third, the coalition of EU countries would need to agree on some concrete proposals addressing the main obstacles, which are currently threatening industrial competitiveness in Europe. The priority should be given to three main issues perceived as top concerns by European industries: the financial fragmentation and the difficulty to access finance in some parts of Europe; energy prices and the high price differential with Europe's competitors; and the absence of a level-playing field with other regions of the world. This should be addressed by the revision of the EU's state aid framework and the opening of foreign markets to EU industries through for instance, a stronger focus of trade negotiations on EU industries' access to foreign public procurement markets.

These three concrete steps are undeniably ambitious. But they could ensure that the March European Council will produce substantial results moving away from analysis and towards a real action plan offering simultaneously concrete long-term solutions to the more pressing issues and providing European industries with a clear vision on the future of the EU industrial policy. This opportunity should not be missed, as time is precious. Supporting the re-industrialisation rhetoric with a real action plan is crucial because it focuses on either ambitious communication or technical and marginal issues, falling short of addressing the magnitude of current challenges. This will rather perpetuate a long tradition where EU industrial policy is caught between a rock and a hard place.

***Claire Dhéret is a Policy Analyst at the European Policy Centre.***

*EPC Discussion Papers aim to promote debate about current issues.  
The views expressed are the sole responsibility of the author.*

## Endnotes

- 1 Many thanks to Fabian Zuleeg, EPC Chief Executive, Janis A. Emmanouilidis, EPC Director of Studies, Katia Didaoui, European Affairs Manager, and Gabriel Crean, Director Europe, CEA, for their critical feedback and to Martina Morosi, EPC Programme Assistant, for her research assistance.
- 2 See European Commission (2014), *For a European industrial renaissance*, COM (2014) 14/2, p.22.
- 3 Industrial policy does not limit itself to manufacturing - manufacturing is internationally defined as the physical or chemical transformation of materials of components into new products, whether the work is performed by power- driven machines or by hand, whether it is done in a factory or in the worker's home, and whether the products are sold at wholesale or retail. Included are assembly of component parts of manufactured products and recycling of waste materials - but it includes a wide range of other activities. National and European documents and statements on industrial policy are generally ambiguous in this respect. While some focus strictly on manufacturing production, others address the larger scope of industrial policy. In this paper, the author calls for a clarification between the two and refers to the larger scope of industrial policy when manufacturing is not clearly mentioned.
- 4 The EPC Task Force entitled 'A New Industrial Policy for Europe' has organised a series of thematic meetings where several aspects of industrial policy have been addressed and debated among experts and EPC members. The Task Force, chaired by Gabriel Crean, Director Europe at CEA-TECH, will pursue its work until autumn 2014, when a final paper presenting thematic policy recommendations will be published. To see more on the EPC Task Force: [www.epc.eu/prog\\_forum.php?forum\\_id=31&prog\\_id=2](http://www.epc.eu/prog_forum.php?forum_id=31&prog_id=2)
- 5 See European Competitiveness Report 2013 (2013), *Towards knowledge-driven reindustrialisation*, Commission Staff Working Documents SWD (2013) 347 final.
- 6 See R. Veugelers (ed.) (2013), *Manufacturing Europe's future*, Bruegel blueprint 21, p.10.
- 7 There are clear indications of the growing share of workers in the manufacturing sector engaged in services-related occupations. The OECD has shown that "in 2002 about 40% of all persons employed in the manufacturing sector across OECD countries were employed in occupations that can be considered as services related, e.g. scientific professionals, accountants, lawyers, managers, clerks or other services occupations. Only about 60% of all manufacturing workers could still be considered as 'production workers'". See OECD (ed.) (2006), *The Changing Nature of Manufacturing in OECD Economies*, OECD Science, Technology and Industry Working Papers 2006/09, p.29.
- 8 Evidence has shown that labour productivity growth in U.S. manufacturing in 2000-2011 was 3.5% on average, against 2.4% in EU manufacturing. See European Competitiveness Report 2013, p. 28.
- 9 See for instance: F. Zuleeg (2008), *Tackling Europe's innovation deficit*, EPC Policy Brief.
- 10 Only 5% of China's total R&D is devoted to basic science, compared with 15-20% in other major OECD nations. See: R. Van Noorden (2014), *China tops Europe in R&D intensity*, Nature, vol. 505, p.144.
- 11 See European Commission (2014), *For a European industrial renaissance*, COM (2014) 14/2, p.13.
- 12 For instance, the rapid increase in labour costs during the first ten years of the euro contributed partly to the decline of manufacturing in the south (Bruegel p.58).
- 13 Average hourly compensation costs of manufacturing employees in China accounted for 1.74 U.S. Dollars between 2002 and 2009. In comparison, hourly compensation costs of manufacturing employees were above 40 U.S. Dollars in most EU 15 countries in 2009. See data from the US Bureau of Labor Statistics: [www.bls.gov/](http://www.bls.gov/)
- 14 For example, compiled data provided by Natixis shows that the textile industry followed by machinery suffered from the heaviest toll in terms of lost in manufacturing employment in EU 27. While 46.14% of jobs disappeared in the textile industry between 1998 and 2009, jobs in machinery reduced by 23.47% over the same period. See: Natixis (ed.) (2012), *Migration in European industries during 1998-2009: a map-based illustration*, Flash Economics, N° 110, p.2.
- 15 According to some economic forecasts by the Centre d'études prospectives et d'informations internationales (CEPII), around 90% of global economic growth in the next 10-15 years is likely to be generated outside Europe.
- 16 See Eurostat data.
- 17 K. Brenke (2009), *Real wages in Germany: Numerous Years of Decline*, DIW Berlin, Weekly Report N°28/2009, Vol.5.
- 18 In Greece companies with fewer than 10 employees account for 46% of total employment in manufacturing compared to 6 % in Germany. See: Veugelers, *Manufacturing Europe's future*, p. 61.
- 19 Other countries like Austria and the Netherlands do also have a preference for an export-oriented model. See interviews with Christian Saint Etienne  
[www.lunion.presse.fr/article/ardennes/entretien-leconomiste-christian-saint-etienne-il-faut-reindustrialiser-la-france](http://www.lunion.presse.fr/article/ardennes/entretien-leconomiste-christian-saint-etienne-il-faut-reindustrialiser-la-france)
- 20 Germany's surplus hit new record in 2013 and is in excess of 6% of its GDP since 2007.
- 21 In this context, the European Commission called on Germany to sustain conditions that enable wage growth and boost its domestic demand and it decided to prepare an in-depth analysis to find out whether it hampers the recovery of crisis-ridden Member States. See: [http://ec.europa.eu/economy\\_finance/publications/occasional\\_paper/2014/op174\\_en.htm](http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/op174_en.htm)
- 22 See a recent speech of Vince Cable, UK Secretary of State for Business, Innovation and Skills:  
[www.gov.uk/government/speeches/industrial-strategy-conference-2013](http://www.gov.uk/government/speeches/industrial-strategy-conference-2013)
- 23 See Competitiveness Report 2013 Memo: [http://europa.eu/rapid/press-release\\_MEMO-13-815\\_en.htm?locale=FR](http://europa.eu/rapid/press-release_MEMO-13-815_en.htm?locale=FR)
- 24 Data collected by BusinessEurope. See BusinessEurope (ed.) (2014), *Industry matters - Recommendations for an industrial compact*, p.6.
- 25 See Veugelers, *Manufacturing Europe's future*, p.8.
- 26 See J. M. Rueda-Cantuche, N. Sousa, V. Andreoni, and I. Arto (2012), *The Single Market as an engine for employment growth through the external trade*, Joint Research Centre, IPTS, Seville.

- 27 More than a third of the values of a European manufacturing product is created in the services sector. See Competitiveness Report 2013, p.57.
- 28 From its current level of around 16%.
- 29 In its 2013 Communication, the European Commission says: "*With scarce natural and energy resources and ambitious social and environmental goals, EU companies cannot compete on low price and low quality products. They must turn to innovation, productivity, resource-efficiency and high value-added to compete in global markets. Europe's comparative advantage in the world economy will continue to lie in high value-added goods and services, the effective management of value chains and access to markets throughout the world. Thus innovation and technological advancement will remain the main source of competitiveness for EU industry*". See European Commission (2014), For a European industrial renaissance, COM (2014) 14/2, p.8-9.
- 30 See for instance the case of the French state aid for the PSA Peugeot Citroën group: [http://europa.eu/rapid/press-release\\_IP-13-757\\_en.htm](http://europa.eu/rapid/press-release_IP-13-757_en.htm)
- 31 As part of the Europe 2020 strategy, the EU has set itself the objective of reducing greenhouse gas emissions by 20% (from 1990 levels), to raise the share of renewables to 20% and to improve energy efficiency by 20%. The recently proposed framework for 2030 concentrates on greenhouse gas emissions that should be reduced by 40% (from 1990 levels) and the share of renewable energy which should reach at least 27% of the EU's energy consumption.
- 32 See A. Ahtonen (2014), *The 2030 framework on climate and energy - Getting Europe on the right track?*, EPC Commentary.
- 33 See 2013 country-specific recommendations:  
[http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm)
- 34 See: [www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-the-functioning-of-the-european-union-and-comments/part-3-union-policies-and-internal-actions/title-xvii-industry/461-article-173.html](http://www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-the-functioning-of-the-european-union-and-comments/part-3-union-policies-and-internal-actions/title-xvii-industry/461-article-173.html)
- 35 See the exchange of letters between Mr Montebourg and Mr Almunia:  
[www.euractiv.com/trade/war-french-minister-eu-competiti-news-533012](http://www.euractiv.com/trade/war-french-minister-eu-competiti-news-533012)
- 36 European Commission (2012), *A stronger European industry for growth and economic recovery*, COM (2012) 582 final.
- 37 Having these two countries as main initiators does not come as a surprise and reveals the importance of national concepts (mentioned earlier) in the design of industrial policy. France and Italy have historically a similar understanding of the role of the state and public authorities in the orientation of industrial policy.
- 38 This group of 17 Member States called 'Friends of the Industry' met for the second time in January 2014 and agreed upon a joint communication.  
See: [www.amblavalletta.esteri.it/NR/rdonlyres/54799E38-077A-43F4-8F36-E2FFC17699A6/73652/Final\\_Declaration\\_rev.pdf](http://www.amblavalletta.esteri.it/NR/rdonlyres/54799E38-077A-43F4-8F36-E2FFC17699A6/73652/Final_Declaration_rev.pdf)  
On this occasion, the French Minister Arnaud Montebourg declared '*avec 8 pays signataire de plus qu'en octobre dernier, et des points d'accord très solides, la réunion des amis de l'industrie est maintenant une instance politique qui va compter sur le front de la réorientation de l'Europe*'.
- 39 The last phase of the EPC Task Force will discuss the three framework scenarios and reflect on their policy implications, both at the European and national level.



**European Policy Centre  
Résidence Palace  
155 rue de la Loi, 1040 Brussels,  
Belgium  
Tel: +32 (0)2 231 03 40  
Fax: +32 (0)2 231 07 04  
email: [info@epc.eu](mailto:info@epc.eu)  
twitter: [@epc\\_eu](https://twitter.com/epc_eu)**

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