



**COUNCIL OF
THE EUROPEAN UNION**

**Brussels, 13 September 2013
(OR. en)**

13593/13

**IND 251
COMPET 649
MI 759**

NOTE

From: Presidency

To: Permanent Representatives Committee/Council

Subject: Industrial Policy
Framework conditions for a competitive industry in Europe
- Note from the Presidency

In view of the meeting of the Council (Competitiveness) on 26-27 September 2013, agenda item 5.a) (Industrial Policy - Framework conditions for a competitive industry in Europe), delegations will find attached a note from the Presidency.

Competitiveness Council, 26 September 2013

Framework conditions for a competitive industry in Europe

1. EU economic outlook and the call from the European Council

Despite an apparent recent improvement in the economic outlook, macroeconomic uncertainties at global scale and structural difficulties still cast a worrying prospect on European industry. Although the industrial performance of the European economy has stabilised and our external performance has been improving, we have not recovered pre-crisis conditions yet. Annual figures at the end of March indicate that the contribution of manufacturing to GDP in the EU has fallen to 15.3% from 15.5% one year before, keeping us far from the 20% objective. Internationalisation efforts have produced results visible in the very strong export performance of the European industry, but adjustment has been sluggish regarding the internal demand and investments in the Internal Market. In this context, the European Council of 27-28 June 2013 called for “a broad horizontal and coherent approach for a modern European industrial policy accompanying structural change and economic renewal. With a view to the February 2014 European Council, it looked forward to further inputs from the Commission.”

2. Building upon work already done

In 2010 a strategic framework for an integrated industrial policy that puts the economy on a dynamic growth path was set out. A long term strategy for smart, inclusive and sustainable growth was then updated in October 2012¹. Active growth policies are being implemented. While preserving the 2010 horizontal approach, the 2012 Communication focused on innovation, better market conditions, access to capital and skills as the four pillars of our strategy to reverse the declining trend in the share of manufacturing over GDP. Warning messages on energy prices and costs were also mentioned in this Communication.

¹ COM(2012)582 A Stronger European Industry for Growth and Economic Recovery

3. The Way Forward

The implementation of the industrial policy based on a horizontal and integrated approach to increase competitiveness is one of the policy flagship initiatives of the European Semester and needs to be carried on and intensified. In addition, in the run up to the February 2014 European Council the Competitiveness Council should put forward recommendations on a broad range of issues affecting industrial competitiveness such as innovation, measures to facilitate access to finance, improved market conditions (internal market, third country markets, energy markets, including a level playing-field vis-à-vis third country energy producers and access to raw materials), and human capital.

The competitiveness performance has improved in the areas of business environment, exports and sustainability. However, the situation is still very mixed in the areas of innovation and access to finance. Addressing high energy prices and inadequate competition in many sectors remain high priorities.

The EU-US productivity gap is widening again since the crisis. Stimulating R&D cooperation and developing further demand-led measures is essential, in particular to close the “commercialisation gap”. Further efforts are needed for boosting demand-side innovation policies in Europe and shifting a gear of public policy to strengthen innovation-friendly market conditions and give the foothold for innovative companies.

EU manufacturing can also reinforce its competitive advantages by increasing further the quality of its products and moving up the value chain. For instance, many EU products based on key enabling technologies (KETs) are mature and need to compete on price.

The 2012 Communication identified six priority technology areas and the Commission has established corresponding task forces to facilitate the development and commercialisation of these technologies. Process innovation such as Advanced Manufacturing Technologies and smart logistics will play an increasing role in determining competitiveness in both high and low value added sectors taking the edge out of labour cost advantages. The potential of connectivity and the industrial internet should also be used to link and diversify the different actors in the supply chain and in the logistics of delivery across the EU. Many of the issues that need to be addressed include establishing basic conditions for the commercialisation of innovations and relate to the development of standards, nomenclature and certification of new products as well as of new processes and materials. Fostering the growth of innovative SMEs will inspire the allocation of EU funds in COSME and Horizon 2020 for innovation in support of fast growing SMEs.

Access to finance will remain a crucial element of industrial policy, and new instruments and lending channels such as especially tailored credit models will be further developed, together with the EIB, to support the objectives of industrial competitiveness. This is especially true if the EU wants to boost investments to increase energy efficiency in the buildings and to modernise energy infrastructure. This is also true for the access to raw material. Our innovative capacity should be translated in the new commercial opportunities across the world (recycling technologies, etc.)

As concerns the internal market, a work needs to be pursued on improving the conditions of the business service sector, which is crucial for industrial competitiveness both as an input and as a source of innovation. The internationalisation of SMEs also deserves further concrete efforts.

Current developments in energy markets have substantial impacts on the competitiveness of European industry. Energy prices for European industry went up by 28% between 2003 and 2011, which is significantly higher than in most other industrialized countries. Key prices for oil and gas are also diverging significantly between the EU and its main trading partners to the latter's advantage. This makes some partners significantly more attractive location than the EU for industrial investments.

In addition, a fully-functioning internal energy market to be completed in 2014, which would be beneficial to cost-competitiveness, energy security and climate protection, is still some way down the road. In particular a faster implementation of the Third Energy Package, empowerment of consumers in retail markets and stronger efforts regarding the financing and development of cross-border energy infrastructures, together with balanced public intervention, are needed.

Increasing energy costs make it difficult for European companies to stand up to international competition. Uncertainty for investors to upgrade our energy systems over the long term increases the risks of energy insecurity.

In this context, regularly reporting on how industrial competitiveness dimension is integrated into policy proposals in different fields such as environment, employment, energy, climate, trade, competition or internal market could ensure that industrial competitiveness is taken into account in all legislative proposals.

Smart regulation tools must be strengthened to ensure that policies are cost-effective and proportionate in their scope and nature. Comprehensive impact assessments and competitiveness proofing of new regulation must therefore be carried out to address the cumulative and sometimes contradictory impact of different policies.

The work on upgrading skills by promoting cross-border opportunities and retraining in innovative sectors needs to be intensified. High-quality education, apprenticeships and life-long learning will be an important part of this approach and the expertise of Member States will be leverage across the EU.

4. Issues for discussion

In summary, better streamlining of policy approaches may be needed to improve the framework conditions for a competitive and thriving industry in Europe and to facilitate the necessary industrial restructuring. To achieve this, the following issues could be discussed:

- *What should be the priority recommendations from the Competitiveness Council in view of the 2014 February European Council?*
 - *How could the need to increase competitiveness of the European industry be better reflected in the European Semester including the country specific recommendations and its implementation by Member States?*
 - *What are your suggestions to make sure that industrial competitiveness is a sound component of the EU policies (e.g. targets, policy options, etc.) and of our future international negotiations on these subjects?*
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