June 2015

CENTRAL AND EASTERN EUROPEAN INDUSTRY FEDERATIONS
AUSTRIA, CROATIA, CZECH REPUBLIC, HUNGARY, SLOVAKIA, SLOVENIA

CEE PERSPECTIVES ON EUROPEAN INDUSTRIAL POLICY

Europe needs a strong industrial base for robust and sustainable economic growth, in order to master future challenges. **Industry in Europe is the main contributor for value creation and the largest provider of employment** (directly and indirectly 50 million people) and further responsible for 65 percent of R&D investments. Central and Eastern European (CEE) countries all have above-average levels of manufacturing per GDP. While this is a good basis for a sound economy, CEE countries thus are also more sensitive to industry-relevant legislation. The **CEE Industry and Employer Federations**[1] fully support the EU's goal to raise the share of industry from currently 15 percent of GDP to 20 percent and have identified the following key areas for a successful industrial policy.

I. REGULATORY FRAMEWORKS NEED TO STIMULATE BUSINESS & INVESTMENTS

Europe has not regained pre-crisis investment levels yet. In 2013 public and private investment was at 19.3 percent of GDP and thus 2 percentage points below pre-crisis levels. Therefore, **an investment gap of 230 to 370 Billion Euro has arisen in Europe** (in relation to long-term trends of 21-22 percent of pre-crisis investment rates).[2] **The right regulatory frameworks at EU and national level are crucial for facilitating investments.** While EU regulation is a necessity for ensuring and deepening the internal market, excessive administrative burden can create serious obstacles for companies. As World Bank studies show, for instance starting a business is costly in many EU member states and takes much longer than the EU target of three days.[3] The European Commission estimates the yearly administrative additional costs caused by EU regulation at about 124 billion Euros.[4] Other estimations see a potential to increase the gross investment rate by 0.6 percent and the EU GDP by 0.8 percent on the medium term, in case of a reduction of administrative requirements for companies by 10 percent.[5]

At national level a balanced transposition of EU Directives is crucial, in order to not undermine the internal market or cause intra-EU competitive distortions. Such happens on a regular basis due to **gold-plating** or national over-regulation, when national implementation of EU legislation exceeds the legal requirements of the legal act itself (either by adding duties above the standard requirements of the EU legislation or by not adjusting more stringent duties at the time of the transposition).[6]

- ⇨ **The new better regulation agenda of the European Commission aims at doing business easier and reducing compliance costs for companies.** It is crucial that the better regulation agenda is **implemented in a coherent manner, involving all three EU institutions.** We support the framework for a new **inter-institutional agreement** with the European Parliament and Council – the economic impact of law making has to be shared responsibility of all

[1] The CEE Industry and Employer Federations group is based on an initiative from 2005, comprising federations from Central and Eastern Europe, all Members of BUSINESSEUROPE, cooperating on European and international issues.
[2] European Commission, 2015.
[3] World Bank, Doing Business 2015.
[4] Commission Staff Working Document, Action Programme for Reducing Administrative Burdens in the EU Final Report, SWD(2012) 423 final.
[5] EU-Taskforce for Investments in Europe, 2015.
[6] A case for instance is Slovakia. According to surveys conducted by RUZ, gold-plating by Slovak authorities is a repeating phenomenon. Almost 60 percent of the entrepreneurs consider EU legislation as the main reason of decreasing of their entrepreneurial activities and competitiveness and up to 78 percent do not feel involved in the transposition of EU Directives.

legislative bodies in the EU - and the introduction of new scrutiny methods like the Regulatory Scrutiny Board. This new body shall both coordinate ex-ante impact assessments as well as assess existing EU legislation ex-post. Matters of industrial competitiveness shall be streamlined into all impact assessments, which shall be conducted in an impartial way.

- ⇨ Moreover, the Better Regulation package will increase the Commission's consultation with stakeholders throughout the full legislative cycle. While a stronger involvement of the society and an increase of transparency of legislative procedures are welcome, all three institutions shall be careful to **avoid ad-hoc legislation**.
- ⇨ **Corporate governance regulation must be designed in a balanced manner to avoid cumulative burdensome rules for business leaders causing too much risk aversion** (see for instance the current revision of the shareholders directive).
- ⇨ For reaching the full leverage effect of the **proposed EU Investment Plan** (estimated to reach 315 Billion Euro via 15-fold leverage), the selection of projects shall be based on realistic criteria, in particular when the lack of risk capital hinders project realisation. Yet it is crucial that crowding out of bank financing is being avoided. Finally for the Investment Plan to succeed, it is key that overall investment conditions are improved and administrative procedures with regards to permissions needed and co-financing are speeded up.
- ⇨ Introduce the right regulatory frameworks in order to **attract private equity and venture capital investments**. Private equity investments in Europe are only 0.28 percent of EU GDP, with even lower figures in the CEE region. Total private equity in Europe amounts to 44.6 billion euro, of which only 1-3 percent are attributable to the CEE region (margin depending on source). Venture capital on the other hand amounts to 3.6 billion euro in the EU, yet the CEE region stands for only 0.1 billion euro.[7] Alternative financing sources such as insurance and pension capital need to be further mobilised for the real economy.
- ⇨ All EU funding instruments (Horizon 2020, Cohesion and Structural Funds, EFSI etc.) shall be based on a **value-chain approach**, taking into account interlinkages of SME, mid-cap companies and larger enterprises.
- ⇨ National governments shall **avoid gold-plating as duly as possible** and EU institutions shall take causes for potential gold-plating into account when legislating, i.a. by making use of the "copy-out" principle in transposition of the EU legislation, by avoiding unnecessary early implementation and by reviewing transposition of EU legislation every five years according to the Regulatory Impact Assessment principles. Best-case examples form other Member States – such as the "one-in, one-out" principle of the UK Government – shall be considered.

II. ENERGY AND CLIMATE POLICIES MUST ALLOW INDUSTRIAL GROWTH - BASED ON FUNCTIONING ENERGY MARKETS

The CEE Industry and Employer federations welcome that the European Commission has defined affordable costs for energy consumers as the main goal of its Energy Union strategy. Energy intensive industries face a multitude of energy and climate policy related challenges. Industry in Europe continues to bear strikingly higher costs for energy compared to international competitors (gas prices are 3-4 times higher and electricity prices twice as high compared to the US), to some extent due to ineffective energy polices (design of renewable support schemes, energy taxation etc.). At the same time European Heads of State and Government have decided in October 2014 to further increase the EU's ambition to reduce long-term greenhouse gas (GHG) emission by at least 40 percent by 2030 (from 2020 onwards the yearly cap for GHG emissions by industry will be raised from 1.74 to 2.2).

[7] European Private Equity and Venture Capital Association, 2015.

We strongly call for a global solution to tackle climate change. Yet preparations for the COP21 meeting in Paris in December 2015 raise serious doubts that the summit will achieve a real global level playing field. Simultaneously, measures are about to be introduced to the **ETS European Emission Trading Scheme** ("Market Stability Reserve"), which will trigger a surge of CO2 price levels after 2020. As a result of these cumulative costs of EU's energy and climate policies, Europe witnesses increasing "investment leakage", with investments by energy intensive sectors declining in the EU, while increasing in other regions of the world (average annual investments in energy intensive sectors are in Europe 15 percent below pre-crisis years, while they are 13 percent above in the US and 11% above in Japan).[8] Yet a strong industrial base is the fundament for successfully achieving green growth and for the development of low-carbon and energy efficient technologies.

- ⇨ **Sectors at risk of carbon leakage shall not face additional carbon costs under the EU ETS when meeting the benchmarks for carbon efficient production.** The EU ETS shall be reformed in line with the decisions taken by the European Council in October 2014. From 2020 onwards free allocation shall be based on realistic production levels while removing the ETS correction factor and covering both direct and indirect carbon costs in an EU-wide harmonised manner.
- ⇨ **Energy and climate policies shall work for all sectors, for both energy intensive industries as well as the power sector.** This requires that market interventions such as support for renewable energy are being designed in the most cost-efficient, market-based manner with phasing out of support for maturing technologies on the medium term. Hence the guidance of the European Commission on the design of renewable support schemes shall be fully introduced by Member States. Likewise the Commission shall ensure that state aid rules with regards to renewable support are respected.
- ⇨ **Political elements of high energy costs must be tackled actively by policymakers**. The Commission shall combine regular monitoring of energy prices (as envisaged as part of the energy union), with concrete policy recommendations to Member States.

III. MATERIALISING GROWTH POTENTIALS IN EUROPE AS WELL AS ABROAD

Despite recent signs of economic recovery - EU GDP growth is expected to only reach around two percent in 2016 - **other industrialised regions show considerable stronger growth rates than Europe.** This is a clear indication for a lack of competitiveness of the EU. In particular the US has already passed pre-crisis production levels. As other world regions grow faster, they become more important export destinations for EU companies. **Across the EU 31 million jobs are supported by exports to third countries** (32 percent of jobs in manufacturing industries and 61 percent of jobs related to services).[9] Recent EU trade deals have led to considerable expansion of EU exports (since its entry into force in 2011 the EU-Korea FTA has led to an overall 35 percent increase of EU exports with up to 90 percent for the automobile sector). Estimations in case of an ambitious trade and investment agreement with the US also see potentials for relevant economic benefits for Europe (the European Commission estimates annual EU GDP gains of 199 Billion Euro, other estimations see a 28 percent increase of European exports to the US).[10]

- ⇨ European Member States must continue their **economic reform programmes and consolidation efforts** in order to enhance competitiveness (recent reports clearly show that national reform programmes are still implemented too reluctantly[11]). Recommendations to the Member States as part of the European Semester process must become more binding.

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[8] European Commission, Competitiveness Report, 2014
[9] European Commission, EU Exports to the World: Effects on employment and income, 2015.
[10] Center for Economic Policy Research.
[11] BUSINESSEUROPE, Reform Barometer 2015.

- ⇨ **Potentials in overseas export markets must be tapped** and trade deals of strategic importance, such as the envisaged Trade and Investment Partnership (TTIP) with the US, shall be concluded, under the condition that the right negotiation terms are achieved. Besides the removal of tariffs and non-tariff barriers, TTIP must i.a. provide real access to the American public procurement markets and shall include sound investment protection via a reformed ISDS mechanism.
- ⇨ While the increasing public interest in trade policy is a positive trend, **policymakers shall ensure that the core purpose of trade policy** - the removal of barriers to international trade and the support for European exports abroad - **is not being marginalised by other policy considerations**. The announced update of the Commission’s trade policy strategy shall take this into account. Likewise policymakers shall communicate more actively the benefits of fair and open trade for the society based both on bilateral and multilateral approaches and cooperation.
- ⇨ **The EU Raw Material Initiative (RMI) needs new political impetus.** Supplies from domestic resources must be facilitated (e.g. many national raw material policies still lack modern spatial planning concepts). Furthermore, a true European raw materials diplomacy is needed and potential export barriers by third countries must be tackled.

IV. SUPPORTING INNOVATION AND THE DIGITAL TRANSFORMATION

It must be avoided that Europe further falls behind its global competitors in research and innovation (R&I). The recent Innovation Union scoreboard re-stated that the EU continues to be outperformed by the US, South Korea and Japan with regards to innovation performance. Furthermore, the economic crisis has increased also the risk of a widening innovation gap within Europe (innovation leaders expand their R&I efforts, innovation followers tend to cut down public financing).

In addition dramatic changes are currently taking place with regards to the **digital transformation of the whole economy and industrial processes**, providing both opportunities and challenges. Estimates see potential losses of up to 605 billion euros by 2025, equivalent to the loss of well over 10 percent of the continent's industrial base, if Europe does not succeed in turning the digitalisation to its own advantage. On the other hand if Europe is able to harness the opportunities arising from digitalised production (industry 4.0) and new business models, manufacturing industries could gain extra gross value added worth 1.25 trillion euros by 2025.[12]

- ⇨ The **Digital Single Market Strategy (DSM) by the European Commission** plays a key role for harnessing the potentials of the digital transformation. It shall focus on **better access for consumer and business to online goods and services across Europe** (this requires i.a. a balanced approach towards geo-blocking).
- ⇨ The DSM shall further **create the right conditions for digital networks and services** to flourish. For instance through greater regulatory simplification and proportionate regulation in the Telecom sector, e.g. via a consistent and harmonized European approach to spectrum policies. Besides a solid legal framework, state-of-the-art digital infrastructure, and the commitment to continuously improving it, is of crucial importance.
- ⇨ **The EU’s R&I policy shall be oriented towards the support of the digital transformation.** It must further be complemented by coherent national R&I strategies as to avoid fragmentation and overlaps of existing programmes.

[12] Roland Berger, The digital transformation of industry, 2015.

V. LABOUR MARKETS THAT SUPPORT INDUSTRY POLICIES & TACKLE UNEMPLOYMENT

European labour markets recently started to show signs of recovery, yet **unemployment is decreasing from high levels**. In March 2015 23.8 million people were unemployed in the EU with 4.8 million among the younger ones. At the same time industrial and technological changes increasingly call for a workforce with high and intermediate levels of skills in engineering and science. On the other hand additional labour costs for companies are currently twice as high as in the US, thus creating high labour factor costs for industry without increasing real wages of workers.[13]

- ⇨ **Introduce / improve work-based learning systems such as apprenticeship models with active industry participation** (also referred to as "dual learning systems"), to tackle the mismatch between available and required skills while creating a win-win situation for both the industry and younger generations.
- ⇨ Introduce **flexicurity principles** based on variety of contract arrangements in domestic labour markets to avoid rigidity while guaranteeing security. Implement wage setting mechanisms **in line with economic & productivity growth potentials**, while decreasing additional labour costs for companies.

[13] IW Cologne, 2014.