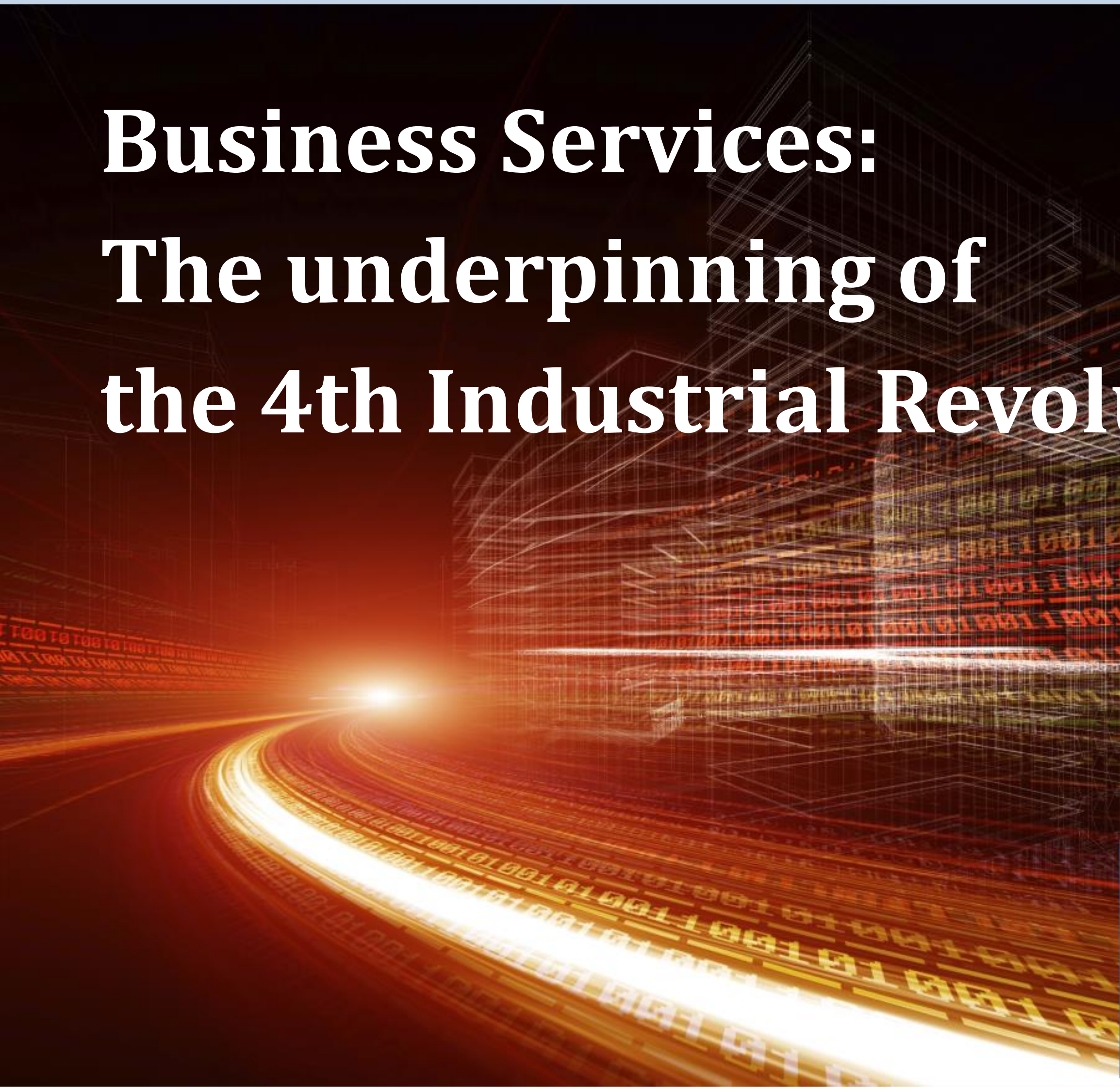
European Economic and Social Committee

Employers' Group

Newsletter January 2015



Business Services: The underpinning of the 4th Industrial Revolution

The development of Cyber-Physical Systems made possible by the Internet of Things, Data and Services gives rise to Cyber-Physical Production Systems. These are production resources equipped with Cyber-Physical systems based on an appropriate ICT architecture enabling both central and de-central control of production processes. This enables the establishment of value-added networks and new business models. This is the bedrock of the 4th Industrial Revolution.

None of this is possible without active engagement with and the integrated use of Business Services.

The Business Services sector accounts for 12% of EU value added. It provides 24 million jobs and accounts for €2.000 billion. During the first decade of the new millennium the average growth rate for Business Services was more than twice the average for all sectors of the EU economy (2.38% vs. 1.1%) while the average employment growth rate was over four times the economic average (3.54% vs. 0.77%). On top of this, the

European Year for Development

Latvian Presidency to the Council of the EU

European Competitiveness, Growth and Jobs

@employers_EESC

EmployersEESC

©iStock

impact of Business Services is twofold; they provide crucial inputs which support the activities of other companies and have the potential to increase their own productivity and innovation as well as that of their clients. These aspects are of fundamental importance to the development and continuing growth and success of this new phenomenon.

In this article I refer to the 4th Industrial Revolution rather than Industry 4.0 because this latter concept has already been through a number of iterations and in some countries, such as Japan, will probably be bypassed by the introduction of Industry 5.0. All, however, are part of the 4th Industrial Revolution.

In 1990 the General Motors production plant in Russelsheim had around 100 employees with the rest of the production controlled by computer systems developed by Electronic Data Systems, then a subsidiary of GM. By using IT systems the rejection rate of cars produced was reduced by 90% to 0.1%. This was in the era of the 3rd Industrial Revolution enabled by use of electronics and IT to achieve further automation of manufacturing. The capabilities and possibilities now are mind-blowingly greater.

Despite the developments in technology and web-based systems, these exciting developments would not have been possible without the increase of Business Service providers brought about by the economic downturn of the past seven years. This resulted in manufacturing and engineering companies making staff redundant and re-engaging them as service providers and consultants. Coupled with the major technological developments during this period these service providers were able to introduce new ideas and processes based on their specialist skills. It is estimated that around 73% of all jobs in the manufacturing sector are service jobs. Thus, Business Services underpin the success of the manufacturing and engineering sectors and are also becoming closely integrated into them.

In the light of the acknowledged importance of Business Services the European Commission established a High Level Group (HLG) in 2014 to investigate how Business Services could be assisted to provide even more input to the EU economy and what were the barriers preventing this. This group reported in 2014. Central to its recommendations were the recognition of the integration and mutual dependency between industrial and service activities and the need for active support of innovation through Commission R&D programmes, especially Horizon 2020. It recognised that Business Services were moving to a world including solutions, outcomes, relationships, network partners and ecosystems, in part manifested by the rise in the 'servitisation' of manufacturing industries.

Of equal importance was the realisation that while many Business Services are technology intensive, even those which are not are becoming increasingly technology dependent or enabled. This requires significant up-skilling as Business Services require greater levels of human-technology interaction. It called for a European Skills Strategy for the sector to match supply with demand and to support the development of an eSkills strategy promoting lifelong skills and educational developments especially in ICT and analytics.

It is encouraging to see the programme for a Deeper and Fairer Internal Market in the European Commission's work programme for 2015 which includes many of the recommendations of the HLG.

In parallel with the HLG Germany, in particular, was developing Industry 4.0, quickly followed by similar initiatives in Austria and the Netherlands. Other Member States have followed suit. The USA is already highly developed in this area with landmark initiatives driving forward these ground-breaking developments.

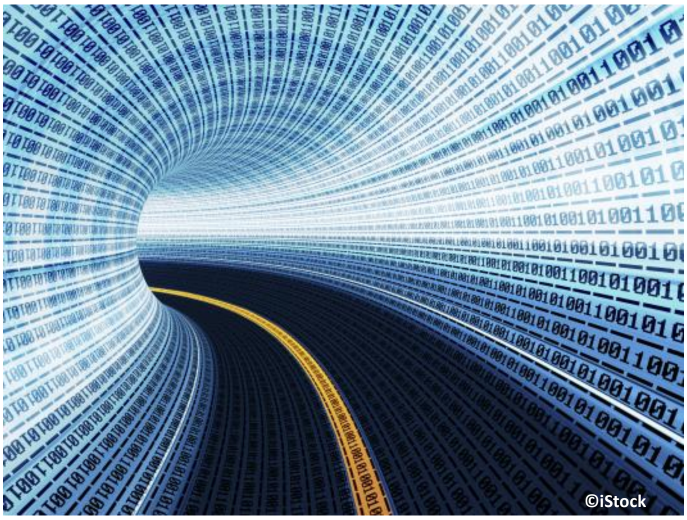
Much has been said about the internationalisation of industry and Business Services. The 4th Industrial Revolution coupled with Industry 4.0 and the new Digital Single Market proposed by the European Commission presents a golden opportunity to ensure that European companies remain at the cutting edge delivering products and services which are among the best in the world. Europe 2020 contains the goal that Manufacturing Industry (including engineering) should

©iStock

deliver 20% of EU28 GDP. This cannot be achieved unless the 4th Industrial Revolution is grasped with both hands as the 'engine room' for its delivery.

This delivery will be impaired if those delivering the services are not trained to a sufficiently high standard. It is important that existing staff have the appropriate qualifications and that new staff are sought and trained to provide continuity. The Economist recently raised the spectre of more people out of work because of these new technological developments. This remains an open question but one which must be addressed urgently by policy makers.

The advent of the Internet of Services and Things brings with it new challenges. In a recent Open Letter and Research Paper the Future of Life Institute (whose members include Professor Stephen Hawking) warns that Artificial Intelligence (AI) is marching so fast towards human-like intelligence that we have not fully contemplated its potential for both good and ill. The letter states "AI systems must do what we want them to do." The longer paper states "success in the quest for artificial intelligence has the potential to bring unprecedented benefits to humanity, and it is worthwhile to research how to maximise these benefits while avoiding potential pitfalls."



This is a timely reminder that these new technological developments need a regulatory and moral framework to ensure their beneficial use in society. AI moves at such a speed that it is very difficult for policy-makers to keep up with it. Nevertheless it is important that policy should not lag behind these developments and that the new 'rules' should be similar across international markets so that they remain open with appropriate safeguards and do not become excuses for erecting 'palisade fences' round local markets.

A recent article in the Financial Times (January 15) highlighted the timeliness of these observations. Technology companies and advertisers are putting pressure on car makers to pass on data collected by connected cars, highlighting the concerns the automotive industry faces as it treads a fine line between performance and privacy. The sensors and communication systems that send and receive data could provide insurers and advertisers with personal information about customers. Currently, these requests are being rebuffed by carmakers; but will this continue? If car owners see an advantage in having this information shared with their insurers how long can this be resisted? And, on the basis that this information is already being collected by car manufacturers what are they doing with this personal data? These are important questions awaiting answers.

In order to achieve a stable (Internal) market it is essential that the European Institutions put in place a suitable policy and regulatory structure to support this vital new industry paradigm. The current 2015 work programme for the European Commission highlights its intention to create a Connected Digital Single Market and a Deeper and Fairer Internal Market with strengthened Industrial Base. Within that programme there is no mention of supporting the 4th Industrial Revolution which seems a missed opportunity to promote actively this fundamental aspect of the EU economy. Maybe this is because of internal disagreements or disunity among Member States - or because the development is so new that officials have not yet been able to grasp all the ramifications - but it is not encouraging to note this omission at such an important juncture.

What is required to assist manufacturing industry and Business Service providers to be able to take forward this agenda with help from the European Institutions? An 'honest broker'. This is where the European Economic and Social Committee (EESC) can play a central role. It already brings together industry, services employees and trades unions. It has already started to investigate this topic, producing its 'own initiative' opinion in September 2014 and hosting a major, international conference on this topic in November of that year. At this stage it alone can harness all the interested parties and talent to examine how best to take advantage of what is happening, to support further development of the 4th Industrial Revolution and to make timely recommendations to the European Commission and Parliament on what support is required and what safeguards need to be put in place. Throughout its history EESC has been at the forefront of creative thinking and coalition building. This is its latest opportunity and challenge. I am sure that it will not fail to pick up the baton.

About the author:
Norman Rose
Chair of the European Business Services Round Table

The Latvian presidency: a challenge and an opportunity for the business world

During the first half of 2015, Latvia will assume the presidency of the Council of the European Union for the first time in its history. The Latvian presidency's priorities are a competitive Europe, a digital Europe, a committed Europe, a secure Europe and a greater role for Europe on the international stage, particularly in view of the fact that 2015 is the European Year for Development.

The social partners and employers in particular are playing an active role in the work of the presidency. They are putting forward their own priorities and pointing out that the only way to facilitate development in Europe is through business; the business environment and protection of investors should therefore be improved, and convergence between less developed and more developed Member States and regions facilitated. Specifically, the priorities of business organisations are thorough development and rolling out the recently announced Juncker investment plan which should promote renewed economic activity and growth in Europe and encourage investment in Europe.

In parallel, one of the key business events organised under the Latvian presidency will be the Eastern Partnership Business Forum which aims to boost cooperation across borders. The objective is to promote direct business cooperation, trade and investment between the EU and the Eastern Partnership countries as well as other countries, by creating a more favourable environment for business and supporting the strengthening of existing business links and the creation of new ones. The Employers' Confederation of Latvia which is in charge of the event has emphasised that it is crucial to use this discussion platform to re-establish pragmatic business-to-business cooperation between the European Union, its partner countries, Russia and the Central Asia region. Given its historical development and geographical proximity, Latvian business is well equipped and ready to share its experiences with European partners with a view to establishing long-lasting and mutually beneficial relationships with these regions. Latvian employers believe that economic cooperation can be a bridge bringing the EU, Russia, Ukraine and other countries and regions involved together.

This will definitely be one of the main topics on the agenda of the BUSINESSEUROPE Council of Presidents meeting hosted by the Employers' Confederation of Latvia this spring and attended by business leaders from all EU and EEA countries.

EUROCHAMBRES will hold a General Assembly and a forum in Latvia in cooperation with its member organisation, the Latvian Chamber of Commerce and Industry. Guests will include dignitaries from five Central Asian states: Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan and Kyrgyzstan.

One of the priorities of the presidency is digital agenda. Latvia is one of the EU's leaders when it comes to digital development, therefore presidency is an ideal opportunity to encourage other Member States to follow its example. The priority for Latvian business is further development of the digital single market, which can significantly contribute to Europe's growth. One of the events geared towards this goal will be the European Digital Agenda Assembly.

Another important topic is regional economic development, therefore, the Employers' Confederation of Latvia is also organising a top-level presidency-related conference to discuss opportunities to facilitate entrepreneurship in regions – meaning regions of the EU, as well as regions of individual

Gundars Strautmanis
Member of the Employers' Group
President of the Latvian Chamber of Commerce and Industry

Vitālijs Gavrilovs
Member of the Employers' Group
President of the Employers' Confederation of Latvia

Member States. The event is deliberately being held in two regional cities of Latvia in order to showcase the best examples of development that concise social dialogue and pragmatic usage of the EU Structural Funds can create. Social dialogue will also be discussed in detail in a separate presidency event in March where employer and employee organisations will discuss and showcase social dialogue best practices for facilitating new workplaces and efficient employment throughout the EU at national, regional and industry levels.

To conclude, business wants to direct the attention of European Union and Member State leaders to the importance of creating a political, economic and financial environment that will boost investment, growth and jobs. We also hope that the presidency will launch a debate on a new European global strategy instead of one focusing on individual regions. Europe should step up the role of business in this process and decision -makers should realise that their decisions need to promote stability, social peace and investment.

European Year for Development and the role of the private sector

2015 European Year for Development

our world
our dignity
our future

Two years ago, the European Economic and Social Committee and the European NGO confederation (CONCORD) floated the idea of making 2015 the European Year for Development. 2015 is the year in which the Millennium Development Goals adopted in 2005 will expire. The UN is currently discussing new worldwide sustainable development targets, to be implemented from 2016. Since the European Union is the world's largest aid donor to developing countries, development will be one of its priorities throughout the year.

Recent years have seen a re-examination of the private sector's role in development based on an awareness that real development was impossible without greater involvement of entrepreneurs, the main drivers of growth and jobs and contributors to public budgets. There are two ways in which the sector can play a crucial role. Firstly, companies from EU Member States could be involved in schemes helping to reach development targets in beneficiary countries. Secondly, the local private sector in developing countries could be helped to become a real catalyst for growth and poverty reduction.

There are many platforms and international standards – such as the Global Compact, the Equator Principles, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for multinational enterprises – that set out the criteria by which the private sector can be involved in reaching the development goals.

Development cannot be just the responsibility of public administrations and NGOs. The reluctance of most private companies to participate in the development programme has to be overcome. The European Year for Development could be an opportunity to show that the commercial interests of the private sector and development objectives are perfectly compatible. Not many people are aware of the useful work carried out by associations of large multinational companies such as Private Investors for Africa or of the aid provided to developing countries by Microsoft and other international undertakings. Hundreds and thousands of small and medium-sized enterprises also play a part in improving the lot of developing countries, not only through their products but also in transmitting the necessary know-how, training local staff and drawing their local partners into the supply and value chains.

The European Year for Development should offer an opportunity to flesh out many innovative ideas, such as putting the year's logo on products, staging campaigns to raise public awareness of the importance of development aid, promoting voluntary activities to coach local SMEs, combining public and private investment, collaboration of businesses with non-governmental organisations operating in developing countries, and so on.

The EU has hundreds of civil society organisations dedicated to cooperation in development, including a growing number representing business. However, public authorities should give them more attention and support so that they can make more firms aware of the development programme and that it need not be at odds with business objectives. Finally, it is in everyone's direct interest that all developing countries make economic progress, since this will not only improve stability and peace in the world, but also open up new opportunities for trade and bilateral cooperation, from which Europe's businesses will also benefit.

About the author:
Ivan Voleš
Member of the Employers' Group
Czech Chamber of Commerce

European Competitiveness, Growth and Jobs

The table below is taken from the current OECD economic report. The European ex-Eurozone line comprises Denmark, Norway, Sweden, Poland, Hungary, the Czech Republic and the UK. It shows that this group is doing well on the world stage, especially taking into account the fact that the underperforming Eurozone is its main market. Why is the Eurozone so out of line?

OECD GDP growth forecasts	2013	2014	2015	2016
World	3.1	3.3	3.7	3.9
USA	2.2	2.2	3.1	3.0
Eurozone	-0.4	0.7	1.1	1.7
EU excluding Eurozone	2.0	2.8	2.7	3.0
BRICS countries	5.5	5.1	3.4	5.6

It is not meant to be like this. The Commission has consistently forecast a recovery that has not materialized. For instance, in autumn 2011, the Commission said the Eurozone would grow 1.3% in 2013. A year later, in 2012, it cut its outlook to 0.1%. By the end of 2013, the outcome was negative, at -0.4%. The 2014 forecast deteriorated in the same way, except that it did finish in positive territory.

The failure of the Eurozone to recover is caused by the euro-trap that has caught so many Eurozone States. Some which had previously been long term members of the ERM have fared better because they had developed the necessary disciplines. The jaws of the trap closed when the sovereign debt crisis erupted. Unsustainable debt levels, partly amplified by the banking bail out, pushed many Member States to the brink of insolvency. Furthermore, following a decade of fixed exchange rates within EMU, prices and wages had become uncompetitive in States which were used to maintain competitiveness by gradual and progressive devaluation.

©iStock

Before EMU, countries in difficulty would have turned to the IMF which would have resolved the situation through a program of debt default, devaluation, IMF loans and a programme of austerity and structural reform. After EMU, the Commission refused to countenance default and devaluation, so austerity and reform are taking place in adverse circumstances and creating levels of unemployment that make a mockery of the European social model. This regime of internal devaluation is affecting all Eurozone States to a greater or lesser extent with France and Italy now in the firing line. Without devaluation, it will take years to restore the competitiveness of these economies.

Furthermore, a question remains over the long-term outcome for the sovereign debt of many States. The EMU norm for sovereign debt is 60% of GDP and the norm for fiscal balance is +/– 3%, leveling out over the cycle. The 60% norm is important because the debt needs to be serviced and repaid. High service costs mean higher taxes or restricted public spending. High debt levels raise the cost of debt as questions arise about the ability of the sovereign to repay its debt. Reducing the debt requires a period of aggregate fiscal surpluses which, at even 3% per annum, can take a long time and can be very difficult to sustain, especially for economies that are not competitive. Banks are the majority holders of sovereign debt and so they are vulnerable to sovereign default. Stress testing of this vulnerability is severely restricting banks' appetite for lending, especially to SMEs. This is holding back the recovery. Furthermore, the inadequate banking union arrangements leave both banks and Stares still vulnerable, eroding confidence in the Eurozone generally.

According to 2013 estimates, the debt/GDP ratios for key Eurozone members are Greece 175%, Italy 133%, Portugal 127%, Ireland 124%, Cyprus 113%, Belgium 102%, Spain 93% and France 93%. The crisis latent in these numbers was averted in 2012 by the ECB pledge 'to do whatever it takes', but that pledge does not resolve the problem of debt reduction, leaving the prospect of decades of austerity and misery. Inflation would devalue the debt, making it easier to handle, but with the Eurozone on the verge of deflation, the debt burden may be further increased. The economy of the Eurozone cannot be restored to health until the debt burden issues are resolved.

In reality, there is no easy way out of the euro trap: the consequences of devaluation and default are too difficult to contemplate. Yet the debt levels are unsustainable, so perhaps the debt should be mutualized, but for many Eurozone States, that is too difficult to contemplate. This Catch-22 situation provides the backdrop for 2015 elections in many Member States, starting with Greece.

According to the OECD analysis, growth in the Eurozone is being held back by a lack of investment and by low levels of domestic demand. Five years have passed since Greece triggered the sovereign debt crisis. The time has surely come to stimulate demand, before new political parties take matters into their own hands. The conclusions of the December meeting of the European Council said "Member States' commitment to intensifying structural reforms and to pursuing growth-friendly fiscal consolidation will provide the foundation for growth and jobs in Europe". This conclusion conveys neither the scale, nor the urgency, of the actions needed to stimulate demand.

The main economic conclusion was the establishment of a European Fund for Strategic Investments to address what is referred to as 'market failure'. It is well known that in 'Brussels speak', market failure occurs whenever the fundamental economics of a proposition do not support the political ambition. In a recent study, Deloitte has found that companies based in Europe hold nearly one trillion euros in cash. In part, this is to protect them against any future credit crisis. The political and economic uncertainties in the Eurozone are constraining investment of the balance. The market is not failing; it is doing its job. It is up to the politicians to stimulate demand and create a more favourable investment climate. A European strategic fund can help, although there is already plenty of private finance available for European infrastructure. What is missing is a well-defined portfolio of projects with appropriate rates of return and performance guarantees. Hopefully, this new initiative will deliver appropriately scoped projects. What private finance is not doing is providing credit for SMEs, especially for those in the Periphery. A Eurozone Council will be convened in the spring. Perhaps it could address this point.

In summary, the Eurozone challenges are profound. They were not really addressed by the European Council in December. The growth forecasts are now very modest, yet

About the author:
Peter Morgan
Member of the Employers' Group

"From transformation to globalisation" 25 years of the Employers of Poland

History of the Polish economic transformation is intrinsically linked to the history of the Employers of Poland - the organisation celebrating its 25th anniversary in 2014. In November, in connection with this jubilee an international conference entitled "*From transformation to globalisation*" took place in Warsaw. The President of the International Labour Organisation Guy Ryder and Vice-President of the International Organisation of Employers Jørgen Rønnest were among the guests. The delegation of the Employers' Group of the European Economic and Social Committee had an honour to participate in the conference.

Mr Jacek Krawczyk, President of the Employers' Group, Mr Andrzej Malinowski, President of the Employers of Poland and Mr Olgierd Dziekoński, the Secretary of State of the Chancellery of the President of the Republic of Poland

The aim of the conference was to summarise the achievements of Poland during the last 25 years - so successful for Polish economy - and to define the key challenges for the future. The participants were also trying to identify main solutions crucial for future development and were seeking answers for questions such as: What can be done to boost growth in Europe? How can we use the experience of Poland's transformation to the benefit of Europe as a whole? Where and how the Polish and European entrepreneurs should seek opportunities for development and expansion of global opportunities? What should be the role of the leaders of the future?

"Polish entrepreneurs and employers are real heroes of our transformation. They became agents for the new social group which — as has occurred in the following years — after 1989 took on themselves the burden of building a true market economy in our country", stated Andrzej Malinowski, President of the Employers of Poland. In this context, he also recalled the words of the Polish President Bronisław Komorowski, who stated that it had been business and employers who made a good use of newly created economic freedom.

During the debates the economists, entrepreneurs, former Prime Ministers of the Polish Government and representatives of international organisations focussed on, inter alia, economic challenges linked to globalisation as well as on the place of the European Union in the global economy and the role of

Members of the Employers' Group delegation at the evening gala

employers in creating jobs and creating added value for the society. One of the main conclusions arising from the debate was that challenges for Poland in the next 25 years should be more ambitious than those in the past. Previously, the transformation was about adapting the economy to the Western standards. Now, Poland wants to be one of the leaders in growth creation in the EU by further development of the main foundation of the integration project - a competitive economy.

New member of the Employers' Group

We would like to welcome a new member of the Employers' Group, Gerhard Handke.

Mr Handke is a Director-General of the Federation of German Wholesale, Foreign Trade and Services (BGA). He has worked for the organisation since 1996, serving as Managing Director of the department for tariff and social policy and Deputy Director-General.

From 1992 to 1996, he was head of the department for political contacts in the German Federation of the Construction Industry. Between 1990 and 1992 he was head of office of a member of the Bundestag (German parliament). He has also worked for the German Chemical Industry Association and was a fellow at the Representative of German Industry and Trade in Washington.

He studied law in Bonn and later in Johannesburg with a scholarship from the South Africa Foundation. Mr Handke was born in 1957 and is married with 3 children.

Address:
European Economic and Social Committee
Employers' Group
Rue Belliard 99
1040 Brussels
Belgium

Telephone: +32 (0) 2 546 82 07
Fax: +32 (0) 2 2 546 97 54
E-mail: gr1@eesc.europa.eu
www.eesc.europa.eu/employers-group

Newsletter of the Employers' Group
Editors: Leszek Jarosz: leszek.jarosz@eesc.europa.eu; Valérie Paesmans: valerie.paesmans@eesc.europa.eu