



European Economic and Social Committee

INT/166
Industrial Policy

ORIGINAL ENGLISH

Brussels, 17 July 2003

OPINION

of the European Economic and Social Committee
on the

**Communication from the Commission to the Council, the European Parliament, the
Economic and Social Committee and the Committee of the Regions - Industrial Policy in an
Enlarged Europe**

COM(2002) 714 final

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On 12 December 2002, the European Commission decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the

Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions: Industrial Policy in an Enlarged Europe [COM(2002) 714 final].

The Section for the single market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 25 June 2003. The rapporteur was **Mr Simpson**.

At its 401st plenary session held on 16 and 17 July 2003 (meeting of 17 July), the European Economic and Social Committee adopted the following opinion by 113 votes in favour, no votes against and 1 abstention.

1. Summary

1.1 The EESC welcomes the initiative taken by the Commission in the preparation and publication of this Communication on industrial policy in an enlarged Europe.

1.2 There are two interdependent strands to the issues provoked by this Communication. First, this is a timely review of topics of concern to industry within the EU. Second, the preparation for enlargement makes it appropriate to integrate some thoughts on the implications of enlargement for industry (both within the existing EU and in the countries about to join the EU).

1.3 The EESC appreciates that this Communication is essentially a panoramic perspective of the range of relevant questions. It is not, itself, designed to offer detailed policy applications. However, the logical sequence is that the Commission must now follow through on the policy implications and adopt pro-active policies in support of industrial development. The EESC will then offer the benefit of its experience and opinions to the Commission.

1.4 Whilst the positive contribution of this Communication is welcome, the EESC does have concerns that the transition to an enlarged EU will be more difficult than the Commission expects. The Commission should, therefore, monitor closely the anticipated consequences of enlargement and review the measures that may be appropriate to offset any unacceptable consequences.

1.5 The Committee agrees that industrial policy tools will have to be applied taking account of the specific needs of candidate countries. The identification of these specific needs and the Commission response remain a critically important process for the years ahead.

1.6 The EESC has concerns that there may have been an insufficient appreciation of the impact of enlargement in a number of areas.

1.7 A critical feature for the extension of the single market is that the infrastructure endowment of many of the new Member States still lags behind the standards of the rest of the European Union. An appraisal of the priorities and financing mechanisms (with a defined contribution from Community sources) to modernise key parts of the infrastructure, including the modernisation of trans-European networks, is commended.

1.8 Although the statement has been made many times, one of the key elements of an improved framework for industrial policy is that, within the EU (15), many of the unfinished measures to define a single market should be implemented.

1.9 The EESC welcomes the willingness of the Commission to examine sectors facing particular economic difficulties to test the merits (if any) of further supplementary (vertically specific) policies to support sustainable growth.

1.10 Whilst the EESC acknowledges that, in border regions, localised cross-border distortions as part of the adjustment process to an enlarged Community are likely, the responses to these developments are, the EESC suggest, a shared responsibility. The Community must apply the rationale and expertise built-up by the Interreg Programmes (and other special initiatives of this type) and define the scope for action by the more local governmental institutions.

1.11 The value of the Commission Communication is that it sets a framework for a better understanding of the pressures affecting the development of industry in the Community. The essential theme of this Communication, endorsed by the EESC, is that the combined efforts of industry itself, industrial associations, local and regional government, national governments and the Community must acknowledge and respond to the need to maintain, and enhance, industrial competitiveness within a context that offers a sustainable and viable future.

1.12 The EESC welcomes the proposal outlined in this Communication for the launch of a continuing review of all EU policies that impact on industry. The Committee welcomes this positive re-orientation of policy making and commends the intention to use evaluation methods based on impact assessment analyses.

1.13 The dialogue with the EESC, including the social partners, will be a critical feature of the improved and refocused emphasis on the contribution of industrial policy.

1.14 **Commissioner Liikanen** described this Commission communication as the first step in a larger process that will place industry back on the policy agenda. That is a sentiment welcomed by the EESC.

2. Introduction

2.1 The European Union continues to depend critically on the strength and vitality of its industrial sector as a major contributor to the economic development of the Union. The strength and growth of the sector further depends on the competitiveness of the sector and that, in turn, depends on the actions of those who control and contribute to the individual firms as well as the supportive actions of official agencies, Member State Governments and the Community institutions.

2.2 A successful industrial structure has been, is, and will continue to be a critical feature of the European economy. Therefore, there is little doubt that the European Union should have an explicit analysis of the factors affecting the development of the industrial sectors to inform policy and decision making both for the Community as a whole, through the Community institutions, and within the Member States.

2.3 As the Communication from the Commission emphasises, in its introduction, "Industrial policy has a key role to play in helping the EU meet the Lisbon and Gothenburg objectives ... a review of this policy is timely, so as to ensure that the EU has the tools with which to respond to the needs of an enlarged Europe".¹

2.4 Industrial policy is multidimensional. Many aspects of economic policy at EU and national level contribute to the shaping of industrial policy. Some industrial policy issues are co-incident with, or overlap with, other policies. Key examples are the efforts to create a genuine single market, the developments to ensure an effective and equitable competition policy regime, the strengthening of appropriate external trade policies (particularly as they affect traditional sectors such as textiles, steel and shipbuilding), efforts to increase the application of enhanced research and development policies, opening the market place through enhanced public procurement opportunities, and aspects of environmental, social and employment policies.

2.5 In some respects, the argument can be made that the best basis for a successful industrial sector within the EU is that there should be an effective and expanding single market, shortly to be the world's largest internal market, that offers the advantages of scale to all producers and maintains a level playing field between competitors regardless of national boundaries.

2.6 Industrial policy is not only important and relevant to manufacturing industry. Many of the policies appropriate to success must acknowledge these implications for other sectors, including services, and should take account of the growing degree of inter-dependence of manufacturing and related services.

2.7 In order to fully harness the potential of the internal market, economic policy should, therefore, be orientated to increasing the growth of the economies in the EU so that, *inter alia*, there is an expanding market for industrial products.

¹

COM(2002) 714 final

2.8 Industrial policies should aim (1) to create a competitive European market place where distortions and disruptions that fragment the market are removed, (2) to encourage favourable conditions for enhanced productivity by strengthening and exploiting the potential for innovation and new forms of industrial organisation and (3) to enhance the competitive strength of firms in the EU.

2.9 There are a number of very diverse interfaces between the industrial policies and other actions of the EU, acting for all the Community, the actions of national governments, and the institutional arrangements within Member States. A rational and coordinated approach, resolving any tensions in and between these interfaces, is therefore vital to the effective development of industry.

2.10 Becoming the "most competitive and dynamic knowledge-based economy in the world" implies that, within the EU, there should be a single economy with the removal of the remaining barriers to the completion of the internal market and that industry must contribute to that process.

2.11 The combination of the Lisbon and Gothenburg conclusions brings together the ambition for industrial policies to contribute to sustainable economic development taking account of the impact on social cohesion and contributing to better environmental protection.

3. The Commission review

3.1 The Commission review of industrial policy explicitly acknowledges that competitiveness is central to the goals of the European Union as embodied in the conclusions, on the need for a dynamic knowledge-based economy, agreed at the Lisbon summit. Further, this is acknowledged to depend on the ability to maintain and develop the competitiveness of the manufacturing sector.

3.2 The Communication has prepared this review partly to test whether the industrial policy established and developed since 1990 is capable of responding to the changed conditions created by increased globalisation, enlargement and the objective of sustainable development.

3.3 Although the Communication does not explicitly say so, the implication of the analysis is that there is scope for a reconsideration of the main elements of industrial policy and an opportunity now to grasp a larger potential contribution arising from the enlargement of the Community.

3.4 In the search for improved industrial competitiveness, the Commission identifies four key factors that deserve particular attention: knowledge, innovation, entrepreneurship, and the orientation needed to ensure the sustainability of development. In support of the former, the Commission relates to the main developments that underpin knowledge-based investments in education, vocational training and research. In relation to innovation, the Commission underlines the need for innovative actions in all sectors of the economy and acknowledges the need for the

conditions to be in place to stimulate vigorous innovation. Examining the role of entrepreneurship, the Commission notes (what it regards as) the reluctance of too many Europeans to bear entrepreneurial risk. The Committee doubts whether the emphasis on the scope for greater entrepreneurship should be expressed as a general ambition rather than a significant option for only a small group of people, only a few of which would previously have been unemployed. To acknowledge the importance of sustainability in industrial production, the Commission encourages appropriate initiatives influencing production and consumption in ways compatible with sustainable development.

3.5 The EESC notes that the emphasis in the analysis appears to be that industrial policy should usually be essentially horizontal in nature and should aim at securing the framework conditions most favourable to industrial competitiveness. This rests on the instruments of enterprise policy that enable entrepreneurs and businesses to take initiatives, exploit ideas and build on the opportunities.

3.6 This horizontal classification includes all the related Community policies for competition, the development of the internal market, encouraging R&D, education and training investments, and questions of trade arrangements and of sustainable development. Hence, the EU's Lisbon agenda offers an excellent framework for implementing the concerns of a forward-looking, horizontal industrial policy both nationally and at EU level.

3.7 In a potentially significant statement, the Commission allows that industrial policy may need to be applied to meet the specific needs of particular sectors. The horizontal basis would be adapted for specific selected sectoral applications. This acceptance of occasional specific needs might be described as a vertical application of sector-specific measures. Whilst these specific measures should not be an unjustified preference for certain sectors over others (possibly because economic forces are changing in ways that are unpopular), their rationale depends on the degree to which framework conditions need, to some extent, to be sector specific and this needs to be reflected in devising policy that allows adequate support over a long enough period to facilitate necessary changes.

3.8 The Commission regards the Communication *"as the start of a process of examination of the appropriateness and balance with which its industrial policy is applied."* This is, however, linked with an invitation to Member States also to examine their own industrial policy particularly in the light of the principles set out in this Communication.

3.9 The EESC welcomes this opportunity to contribute to that examination.

4. **General comments**

4.1 The EESC supports the main principles underpinning an industry policy that builds a competitive framework where progressive businesses can compete successfully in global markets. Also, the EESC welcomes the existing degree of success in creating the framework for a Single European Market where industry has easier (but not yet completely unrestricted) access to markets

within the existing 15 Member States, shortly to be 25 and later possibly 27 (or more). This competitive framework, linked to preferential access to the internal market and enhanced global markets, also creates the opportunities and threats that may emerge when the single market is chosen as a location by foreign-owned companies.

4.1.1 Of course, the enlargement of the EU brings not just the need to consider the impact of industrial policy on 25 (or 27) Member States instead of 15. It also brings a greater range of disparities, structural differences and social and cultural variations that make the search for agreed policies more difficult. Over the past decade the accession countries have increased competition between the 25 countries, particularly through the different fiscal advantages offered to companies. There are examples of companies relocating from one member state to another for many differing reasons, some linked to unhelpful competition in state aids.

4.1.2 Building a new series of measures to assist industrial development calls for a careful analysis and evaluation of the successes and failures of measures adopted in earlier years. Such an evaluation would serve to put the Commission's future recommendations on a firmer footing.

4.2 The role of the Community is indeed to enhance the impact of the single market through the development and implementation of a series of policy measures of a horizontal nature. For the EESC there is no ambiguity in acknowledging the importance of the main categories of framework conditions.² This includes the rules that set the general market framework, (including commercial law, competition rules, fiscal and labour rules, and intellectual property rights), the rules that set standards for specific goods and services, institutions to facilitate the operations of the market place, and those conditions that set a basic macro-economic framework or ensure political stability.

4.3 Examples of the key strands of horizontal policies include:

- a) completing the single market;
- b) strengthening innovation policy generically, or as appropriate to specific sectors, and related research and development incentives;
- c) encouraging the benefits of business clusters;
- d) efforts to strengthen territorial and social cohesion;
- e) instruments to facilitate social dialogue;
- f) stronger social cohesion, particularly through enhanced skills training;
- g) supporting services of general interest;
- h) improving the physical infrastructure;
- i) efforts to increase the flow of students into scientific and technological disciplines and courses in engineering and entrepreneurship.
- j) promoting business financing.

²

As set out in section V.2.1, page 21 et seq. in the English version

4.4 Within the Community, the success of the last 50 years has been the degree to which these conditions have now been accepted across the Community. There is, of course, still more to be achieved. A substantial proportion of the measures needed to completely adopt these conditions also lie in the remit of the Member States (for example in transposing legislation) or with Member States acting through the Council of the European Union (in adopting suitable Community-wide policies).

4.5 The EESC notes the conclusion by the Commission that "although industry in the future Member States is broadly ready to compete in an enlarged EU, deeper integration will inevitably entail some localised problems. Further restructuring will be necessary, particularly in the steel sector ..." The EESC is concerned, however, regarding the social consequences of job losses. Additionally, the Commission acknowledges that the cost of complying with the Community acquis, especially environmental legislation, may in the short term have negative implications for the cost structure of businesses.

4.6 These risks point to the need for a carefully targeted series of EU sector specific actions that are motivated to encourage the emergence of more competitive businesses and also take account of the possibly painful adjustment processes that will affect some businesses and their employees.

4.6.1 Business financing and a functioning European capital market are particularly important given the difficulties in the European banking sector, the Basle II debate and the increasing significance generally of capital market financing for European industry. This issue therefore requires close attention and it is essential to promote business financing tools.

4.7 A critical societal feature of enlargement is the degree to which key assumptions about the nature of mature market economies should not be assumed to apply equally to the new Member States. The cultural inheritance of a mature market economy offers features such as a legislative framework for modern business, an acceptance of the role and need for a strong entrepreneurial culture and an approach to business that includes the acceptance of risk taking.

4.8 The institutions of the EU must take account of these features and the tensions that they create.

4.9 However, the EESC is not completely reassured that, for the new Member States, "enlargement is a reality for industry and has opened up new opportunities." Even if only because these new Members have not yet absorbed the full acquis, the basis for arguing that enlargement is a reality seems insecure. The Committee comes closer to agreeing with the Commission when it argues that industrial policy tools will have to be applied taking account of the specific needs of the future member states. The identification of these specific needs and the Commission response remains a critically important process for the years ahead. These specific needs include investment, adjustment and modernisation to cope with changing opportunities and go beyond purely short-term competitiveness criteria.

4.10 The EESC is particularly concerned that, for some sectors, the enlargement of the Community will mean that some less productive plants with higher cost structures will face serious market loss, or financial losses, when exposed to competition from established EU businesses. In reverse, some sectors within the existing EU may be exposed to low cost competition from within the enlarged Community. The EU institutions should work to devise policies relevant for the whole of the Union to make best use of the human resources of a community of 25, partly to counter any concerns that short-term policies may lead to exorbitant costs in terms of the need for retraining and avoidance of social decay.

4.11 Alternatively, enlargement may offer some EU companies a better chance of survival in the face of stronger (internal and external) competition if they are enabled to draw on a pool of relatively inexpensive well trained labour in the new Member States.

5. Specific comments on the communication

5.1 A number of aspects of the communication merit more critical examination.

5.2 These include:

- 1) the consequences for industry of enlargement;
- 2) the need for the completion of the single market, including the elimination of the remaining deficit in horizontal measures;
- 3) the circumstances where vertical measures can be justified as they affect specific sectors;
- 4) adjustments affecting industry in border regions;
- 5) some key challenges for industrial policy.

In this opinion, these differing aspects are examined in turn in the following paragraphs.

5.2.1 Consequences of enlargement

5.2.1.1 The Commission acknowledges that, at the institutional and framework levels, the candidate countries have made considerable efforts to prepare for accession. It also acknowledges that there are large differences in some sectors that may give rise to complaints of low cost competition or, conversely, an inability to compete when faced with the enlarged market.

5.2.1.2 In preparation for enlargement the Commission has negotiated a number of specific transitional measures appropriate to the period of change. The several accession treaties have specified these measures and the EESC believes that they offer an acceptable institutional framework.

5.2.1.3 Amongst the key issues will be the impact of differences in technology and productivity as well as differences in labour costs.

5.2.1.4 The assessment of the EESC is that the Commission has understated the degree of adjustment that will need to take place. In addition, the Commission has overstated, possibly in a too complacent manner, the potential benefits from competitive reorganisation in the enlarged Community. Whilst the synergy of an enlarged market should be positive, there may be some casualties in the early years after accession.

5.2.1.5 The EESC suggests that the Commission should acknowledge these risks and pay particular attention to the needs and problems of the future Member States in the design and the implementation of industrial policies.

5.2.1.6 The EESC has concerns that there may have been an insufficient appreciation of the impact of enlargement in some, or all, of the following areas:

- the particular needs of SMEs that become more vulnerable to competition in some sectors and regions.
- the impact of enlargement on incentives for some businesses to relocate to new areas.
- possible migration of people seeking employment opportunities.
- the new orientation needed of customs duty enforcement along the new external frontiers of the Community and associated anti-smuggling and anti-counterfeiting measures.

5.2.1.7 A critical feature for the extension of the single market is that the infrastructure endowment of many of the new Member States still lags behind the standards of the rest of the European Union. An appraisal of the priorities and financing mechanisms (with a defined contribution from Community sources) to modernise key parts of the infrastructure, including the modernisation of trans-European networks, is commended. Equally, the major national networks are also worthy of modernisation whilst their services of general interest are retained.

5.2.1.8 As well as the possible migration of workers from the new Member States seeking employment opportunities (point 5.2.1.6), it must not be forgotten that, in some Member States, skilled labour will be in short supply as a result of demographic trends. This has wider and important implications for EU policies, impacting on education and training across the European Community.

5.2.2 The completion of the single market

5.2.2.1 Although the statement has been made many times, one of the key elements of an improved framework for industrial policy is that, within the EU (15), many of the unfinished measures to make the single market effective should be implemented.

5.2.2.2 This includes:

- i) the introduction of a Community Patent³;
- ii) an effective competition policy;
- iii) reduction, or removal, of unmerited State aids;
- iv) agreement on progress to a single market in financial services;
- v) fiscal harmonisation;
- vi) adequate policies to encourage research and development;
- vii) means of opening the market through effective public procurement policies and cooperative defence procurement policies;
- viii) agreed application of environmental policies;
- ix) improved recognition of professional qualifications;
- x) common customs administration at the external borders of the EU.

5.2.2.3 In addition, the support of an effective, open and guaranteed market place for safe energy and transport services is needed. These infrastructural needs should be supported by the creation of adequate Trans-European Networks to meet the capacity needs of the enlarged Union.

5.2.2.4 For the new Member States, the impulsion to create the framework for industrial development relies on the need to adopt and implement the *acquis* already in the Community and then to keep pace with the evolving policies and pressures.

5.2.2.5 For these States, the Commission has noted that many of them need to take action on:

- a) standards and technical regulations;
- b) property rights, including IPRs (intellectual property rights);
- c) harmonising the application of company law and respecting the plurality of different forms of enterprise;
- d) liberalisation of energy markets;
- e) building competitive conditions for privatised firms;
- f) removal of some forms of State aid;
- g) opening access to FDI (foreign direct investment);
- h) supporting the conditions that might assist the creation and development of SMEs.

5.2.2.6 The initial, short-term, costs of compliance with environmental regulations is a particular concern because of the front-loaded nature of the costs.

5.2.2.7 The Commission has acknowledged that there have been fears that there would be some dislocation of production in sectors where relocation was motivated to find lower costs and wages in some of the CEEC countries, particularly in the textiles and clothing industries. Alternatively, there may be dislocation because firms move to lower cost locations in other countries.

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The Council approved the framework for the introduction of a Community Patent on 3.3.2003

These fears are considered by the Commission not to be large since most relocations motivated by these factors may already have taken place.⁴ The EESC has a concern that this may prove an optimistic interpretation.

5.2.2.8 Nevertheless, such processes are an inherent consequence of the increasing globalisation of the market place for industrial products.

5.2.3 Vertical measures affecting specific sectors

5.2.3.1 The EESC commends the merits of the introduction of policies that will be supportive of further and faster industrial development. In this context, the EESC would support a process where the Commission introduced defined strategies for key sectors where the benefits of further investment and the application of sector specific research and training policies would be outlined.

5.2.3.2 The most difficult aspect of industrial policy is how to cope with specific conditions where simply to allow market competition to operate can lead to outcomes that are judged to be undesirable.

5.2.3.3 The justification for specific temporary measures is likely to call for judgements at national or now, more usually, Community level that are complex. Different industries must adapt continuously to changing market conditions, changes in technology and production processes, changes in the usage of key skills, and changing cost structures. Many difficult decisions, which are usually motivated by the ambition to make products available on a more competitive basis to final or intermediate customers, and which are appropriate to the conservation of resources for future generations, would be a necessary response to changed conditions. Almost as inevitably, responses to change in the status quo bring threats of loss of business and/or employment for those who cannot, or do not, adapt quickly through consultation, within a framework of social dialogue. The Commission should take account of this factor in industry-related policies to give industry a greater degree of medium-term security to plan ahead.

5.2.3.4 Critical, therefore, to the work of the Commission, Member State Governments and other industrial policy agencies, is the preparation of positive responses to enhance the benefits of change rather than help to maintain an unsustainable status quo.

5.2.3.5 The Commission has many years of experience in responding to (but not necessarily agreeing with) representatives of several sectors including shipbuilding, steel, coal, textiles and clothing.

5.2.3.6 The Commission reports, in this Communication, that aid to steel making has only been allowed in as far as it was accompanied by capacity reductions and not to maintain existing

⁴ See the discussion in the Commission Staff Working Paper on the Impact of Enlargement on Industry, SEC(2003) 234, section 2.2

capacity. Extra measures were permitted to mitigate the social impact of restructuring and also to support R&TD. The emphasis on R&TD and targeted training policies is regarded as adequate although the Commission adds that efforts will be needed to maintain competitiveness. Somewhat inconclusively, the Commission acknowledges the need to ensure all these instruments are well coordinated. No further proposals are outlined.

5.2.3.7 Whilst the EESC accepts that adjustments in industries such as steel must face the new commercial realities and cannot, or should not, rely on State aids and subsidies to offset competition, the Commission policy framework appears to lack measures to adequately ease the transition. The EESC recommends a sectoral review of vulnerable industries, particularly affected by enlargement (such as steel), to assess the restructuring process and outline transitional measures to ease the changes.

5.2.3.8 In shipbuilding, the argument, over the years, for intervention payments was tightly constrained and linked to partially offsetting the effective price subsidies offered by non-EU countries.

5.2.3.9 In each of these cases, the Commission had, necessarily and logically, to be persuaded that, in one form or another, there was "market failure".

5.2.3.10 An alternative justification for specific measures occurs where market forces operate in a way that leads to unsustainable development. Examples include the need to encourage new "clean" technologies and charges linked to environmental damage or controlling waste linked to the guaranteeing of safe energy supplies.

5.2.3.11 The merits of introducing targeted measures for specific sectors applies both to the existing Member States and the new Member States.

5.2.3.12 Interestingly, the Commission also identifies sector-specific needs for more modern sectors such as chemicals, space and aerospace, biotechnology and telecommunications.

5.2.3.13 The EESC welcomes the willingness of the Commission to examine individual sectors to test the merits (if any) of further supplementary policies to support sustainable growth sponsored by the European Union.

5.2.3.14 Sector-specific policies are not necessarily a plea for subsidies. Sector specific policies may include, inter alia, education and training policies, energy policies, trade policy and the application of ICT. In addition, such sector specific policies may need to take account of external artificial distortions affecting global trading conditions.

5.2.4 **Border regions**

5.2.4.1 The EESC agrees with the Commission that there may be particular problems or disruption of trade and industry, especially for smaller and medium-sized businesses⁵, in the regions next to the border between new and old Member States as well as in regions bordering other east European countries.

5.2.4.2 Whilst the EESC acknowledges that localised cross-border distortions or disruption as part of the adjustment process to an enlarged Community is likely, the responses to these developments are, the EESC suggest, a shared responsibility. The Community must apply the rationale and expertise built-up by the Interreg Programmes (or other special initiatives of this type). This can be most effective if a cross-border policy framework is set by the Commission and designed to facilitate acceptable local measures by the local government or regional agencies in these border regions.

5.2.4.3 The critical starting point for such responses must be to aid a transition to the new horizontal conditions rather than an attempt to enshrine longer-term protectionism.

5.2.5 **The key challenges**

5.2.5.1 The current key challenges for industrial policy affecting competitiveness are :

- the challenge of globalisation;
- technological and organisational change;
- innovation and entrepreneurship;
- sustainability and new societal demands;
- regaining full employment;
- defence procurement;
- vocational training and lifelong learning;
- minimising environmental damage (including the environmental impact of related energy and transport developments);
- the availability of adequate and appropriate financial resources for investments.

The first four of these are specifically identified by the Commission in its review of industrial policy.

5.2.5.2 These reflect the key factors underpinning and influencing the current processes of economic change. The EESC acknowledges that the first of these is driven by the opening-up of world markets and the advance of technology and science. For the others, the EESC agrees with the

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This issue is discussed in more detail in the Commission Staff Working Paper "Impact of Enlargement on Industry", SEC(2003) 234, section 2.2

Commission that, whilst there is no single prescription for their development, "industrial policy will have to pay particular attention to nurturing these strengths."⁶

5.2.5.3 The value of the Commission communication is that it sets a framework for a better understanding of the pressures affecting the development of industry in the Community. The essential theme of this communication, endorsed by the EESC, is that the combined efforts of industry itself, industrial associations, local and regional government, national governments and the Community must acknowledge and respond to the need to maintain, and enhance, industrial competitiveness within a context that offers a sustainable future. European-level policy must ensure that industrial competitiveness is strengthened by reducing costs and bureaucracy, in line with the Lisbon strategy.

5.2.5.4 The impact of increasing globalisation means that different industrial sectors will need to adjust to a more competitive-trading environment in which cooperation and interdependence should increase involving employees, sub-contractors, universities and research institutes.

5.2.5.5 Critical to the adaptation process will be the incorporation of new technologies and the acceptance of organisational change. This has major implications for the upgrading of employees' skills and points to a need for an increase in public spending on education and training, reversing the apparent fall in the last decade. Employers have a crucial role to play in the workplace in making lifelong learning a reality for all their employees. Sufficient skills also make changes more easily acceptable and may even be seen as opportunities, as well as threats.

5.2.5.6 The European Commission should continue to improve vocational training and lifelong learning programmes to support understanding and knowledge among the civil services of the new member states not only of European law but, in particular, also the effects of legislation on the economy. Similarly, coherent training programmes are needed among entrepreneurs and the social partners. Well functioning employers associations and trade unions should be encouraged in the new member states together with improved institutional frameworks to meet the needs of the market-based economy.

6. Policy revisited

6.1 The basis for Community industrial policy can be seen in Article 157 of the Treaties. The evolution of industrial policy in the Community in the years ahead will, according to the Communication, be based on the following linked approaches:

- ensuring the most appropriate framework conditions;
- a more systematic EU approach for improving framework conditions;
- improving the integration of EU policies with an impact on industrial competitiveness;
- responding to the specific needs of industry in the accession States;
- striving for improved global governance;

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As set out in section V.1, page 18 in the English version

– testing the sectoral relevance of this approach.

6.2 The EESC accepts the logic of this approach but notes that this will call for detailed policy developments at Community and, sometimes, Member State level. Nevertheless, this might be a useful approach if it assists the identification of appropriate measures.

6.3 This communication is not the vehicle to devise detailed proposals for the improvement of policy for industry. It is, however, a critical overview that, when endorsed, can set the principles for the actions that should follow. The next steps, which are now a pressing priority, must focus on the themes outlined above, in paragraph 8 .1.

6.4 The EESC welcomes the proposal outlined in this Communication for a continuing review of all EU policies that impact on industry. This will, of necessity, cover a wide spectrum of policies and policy-making.

6.5 The continuing review will also be enhanced by the application of the new measures adopted by the Commission to simplify the governance mechanisms of the Commission, and the introduction of well-defined consultation commitments and related impact assessments of policy proposals that will include assessments of the economic, social and environmental implications. This review will need to incorporate a systematic surveillance of the cost impact on industry of any new draft regulations. In addition to the specific impact assessment of individual measures, the Commission should be asked to publish on a periodic basis its assessment of the cumulative effects of any EU decisions on the costs and performance of industry both in total and for specific vulnerable sectors.

6.6 A more systematic impact-assessment process would offer a more transparent process and also offer a basis for wider dialogue with stakeholders on the acceptance of the policies and debate about their impact. This will be of particular value in assisting the further work of the EESC.

6.7 Lest the conclusion might be drawn that industry policy turns narrowly on official actions, the EESC also commends the role of industry, industry sectoral associations and industrial associations, in cooperation with the social partners, in taking an active role in ensuring that industry continues to build its contribution to the economies of the EU.

6.8 In his presentation to the Committee of the European Parliament,⁷ **Commissioner Liikanen** described this Commission communication as the first step in a larger process that will place industry back on the policy agenda. It would also open an exploration of how different EU policies interface with the performance of European industry and allow an examination of what should be done to reinforce competitiveness of EU companies.

7

Speech on 22.1.2003

6.9 v The EESC welcomes this re-visitation of critically important aspects of EU policy-making and will welcome the opportunity to contribute further to the debate as it evolves.

6.10 The EESC also welcomes the reshaping of the Council of the European Union so that a new formation brings together, in an appropriately named format, a Competitiveness Council with many of the main responsibilities relevant to industrial policy.

6.11 Nevertheless, the EESC does not need to remind the Council, or the Commission, that, whilst industrial policy must place a key focus on factors directly influencing competitiveness, the successful and legitimate encouragement of industrial development calls for the better understanding of how industry is influenced by, and itself influences, many other Community actions.

Brussels, 17 July 2003.

The President
of the
European Economic and Social Committee

The Secretary-General
of the
European Economic and Social Committee

Roger Briesch

Patrick Venturini

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N.B. Appendix overleaf.

APPENDIX I – BACKGROUND NOTE

I. Early beginnings

I.1 Arguably, the creation of the institutions that, later, became the EU was a decision based on the setting up of a European market and influenced by considerations of industrial policy. Whether the roots lie in the specific issues that lead to the establishment of the European Coal and Steel Community or in the more generic factors underpinning the Treaty of Rome, industrial policy considerations were critical to the rationale.

I.2 Put formally, the European Commission dates the more recent setting of the broad principles for "industrial policy in an open and competitive environment" in the Commission document published in 1990.⁸ In the intervening years the general principles have been confirmed, notably in the Delors White Paper on growth, competitiveness and employment (1993), whilst the particular sectoral challenges have varied.

I.3 The Commission, then, commended measures to improve the functioning of the internal market, the functioning of the world market, and a series of "positive adjustment policies" aimed at building a more favourable economic environment for private initiatives and investment in the Community.

I.4 The ESC, in an Opinion on the 1990 Communication noted the conclusions adopted by the Council of Ministers with satisfaction and welcomed the approval of a *"Community industrial policy that allowed a more balanced development and a greater economic and social cohesion within the Community."*⁹

I.5 Then, in 1994, the Commission revisited these issues in a communication outlining "an industrial competitiveness policy for the European Union."¹⁰ The ESC offered its support for the Commission plan for a policy setting clear and predictable conditions for the optimum allocation of resources via the market, accelerating the process of structural adaptation and boosting the competitiveness of European firms.¹¹

I.6 Much of the analysis and many of the aspirations expressed in these earlier documents continue to be reflected in the more recent Communication. One feature that is

⁸ COM(90) 556 final Industrial Policy in a competitive and open environment: guidelines for a Community approach. There were earlier Commission papers, notably including a comprehensive memorandum on Community industrial policy in 1970 [COM(70) 100 final]

⁹ ESC Opinion OJ C 40 of 17.2.1992, Rapporteur **Mr Petersen**

¹⁰ COM(94) 319 final

¹¹ ESC Opinion OJ C 39 of 12.2.1996, Rapporteur: **Mr Petersen**

conspicuous is the increasing emphasis on international competitiveness and the references to what would now be termed globalisation.

I.7 Another feature that has significance is the degree to which the Community has, in more recent years, already advanced a number of issues that were, in earlier documents, relatively imprecise and more aspirational than shaped as clear policy-implementation mechanisms. Of particular significance for the future evolution of industrial policies is the acknowledgement of the need not just to focus on competition and competitiveness but also to consider the social, environmental and sustainability implications of the processes of change.

I.8 However, during the past decade there has been no overall evaluation of the impact of the evolving industrial policies.

II. Industry in the economy

II.1 Employment in manufacturing industry has fallen significantly in the past decade. Different sectors have faced very different conditions but, on average, more than one in every ten jobs has disappeared. Nevertheless, nearly 45 million people in the EU (of 15) still find their employment in manufacturing industry.

II.2 In total, reduced employment has not meant reduced total output. Output from industry has, after year on year fluctuations, risen by nearly 20 percent.

II.3 The explanation is clear. Productivity has risen faster than demand for the products of industry. Output per employee has risen in the last decade by over 30 percent.

II.4 At least two main processes are at work. First, industrial productivity has improved. Second, competition from producers outside the EU has restrained the expansion of export markets and has generated competition from imports in the domestic EU market place.

II.5 Within the EU, the ambition is to encourage a growing and competitive industrial structure that further contributes to growth, stability, and sustainability. Whilst many of the determinants of success lie within the organisation and management of individual businesses, the Community and Member State Governments have responsibilities for supportive actions in creating a "level playing field" and providing an infrastructure that facilitates development.

II.6 These ambitions now extend to the preparations for the enlarged Community and need to take account of the implementation of the *acquis* by the new Member States.