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On Industrial Policy – A follow up and some suggestions

Last year, at the EuroMemo Conference, we have presented a comprehensive paper on industrial policy. The last EuroMemorandum had a whole chapter on the topic. And therefore we simply ask now “what is new?”, “what should be added and improved?”

In raising and in pursuing these questions it will be useful to start with a stock-taking of the initiatives and activities of the EU. We shall also look at the relevant activities of

1) EU institutions

- On December 17th 2013 the *European Commission* has launched eight contractual Public Private Partnerships (cPPP) “of strategic importance for European industry” (IP/13/1261)

  These eight cPPP are:

  - Factories of the Future (FoF), to support the manufacturing industry through the development of sustainable production technologies and systems
  - Energy-efficient Buildings (EeB), to increase the competitiveness and energy efficiency of the construction industry
  - European Green Vehicles Initiative (EGVI), to develop a competitive and resource efficient transport system with significantly less CO2 emissions
  - Sustainable Process Industry (SPIRE), to make the process industry more resource- and energy-efficient
  - Advanced 5G network infrastructure for the Future Internet (5G), to stimulate the development of network internet infrastructure to ensure advanced ICT services for all sectors and users
  - High Performance Computing (HPC), which plays a pivotal role in stimulating Europe’s economic growth and advancing European science
  - Robotics, a key driver of industrial competitiveness and essential to address key societal challenges in areas such as demographic change, health and well-being, food production, transport and security
  - Photonics,, one of the key enabling technologies for our future prosperity and an essential element of many sectors, from energy efficient lighting

and health, to optical data communication, laser based manufacturing and sensing for safety and security.

Reading MEMO/13/1159 we may find: “The eight cPPPs represent millions of companies, employing directly tens of millions of people and the majority of European industrial activities. By making better use of financial, human and infrastructure resources in the addressed sectors they should make funding more efficient and help get innovative technologies faster to the market. They should also make Europe a more attractive location for international companies to invest and innovate. The partnerships contribute to meeting many EU objectives, including investing 3% of GDP in R&D and raising manufacturing's share of the economy to 20% by 2020.”

Four of the cPPPs partnerships were started under FP7. Three of them, Factories of the Future, Energy-efficient Buildings and the European Green Cars Initiative, were created as a reaction to the economic crisis and were part of the EU's Economic Recovery plan. PPP are aimed to strengthen private economic agents.

- In January 2014 the *European Commission* has published its report on “Energy Economic Development in Europe”. Here we read: “In a global context, the EU manufacturing sector exhibits low energy costs relative to both output and value added, and has so far managed to respond to energy price increases through sustained energy intensity improvements. However, high energy prices in Europe remain a concern, in particular in view of the increasing EU-US energy price gap due to the development of shale gas and oil production in the US …The EU's energy and climate policies are expected to stimulate EU competitiveness and bring other economic benefits, in particular through developing low-carbon technologies.” (MEMO/14/47)
- On the same day the *European Commission* has called “for immediate action for a European Industrial Renaissance” and adopted a communication. As a contribution to the European Council debate on industrial policy, the “communication stresses the importance of full and effective implementation of industrial policy in the EU and aims to facilitate this” (COM(2014)14/2, 3). It includes some new instruments such as the “Partnerships for Growth, Jobs and Competitiveness”. PPP are regarded as engines for innovations. At the end the commission formulated five priorities:

  • “Continue deepening the mainstreaming of industrial competitiveness in other policy areas to sustain the competitiveness of the EU economy …

  • Maximising the potential of the internal market by developing the necessary infrastructures, offering a stable, simplified and predictable regulatory framework favourable for entrepreneurship and innovation, integrating capital markets, improving the possibilities for training and mobility for citizens and completing the internal market for services as a major contributing factor to industrial competitiveness.

- Decisively implementing the instruments of regional development with national and EU instruments in support of innovation, skills, and entrepreneurship to deliver industrial change and boost the competitiveness of the EU economy.

- To encourage investment, businesses require access to critical inputs, and in particular, energy and raw materials, at affordable prices that reflect international cost conditions …

- Do the utmost to facilitate the integration of EU firms in global value chains to boost their competitiveness and ensure access to global markets on more favourable competitive conditions.

- Finally, the objective of revitalization of the EU economy calls for the endorsement of the reindustrialisation efforts in line with the Commission´s aspiration of raising the contribution of industry to GDP to as much as 20% by 2020." (COM(2014)14/2, 23)

- The Conclusions of the *European Council* from March 2014 include a point "Industrial competitiveness and policy". It supports the Communication from the Commission: "Competitiveness requires a stable, simple and predictable environment, including better regulation and in particular an ambitious REFIT programme. The overall framework at European and national levels must be made more conducive to investment and innovation and the reshoring of manufacturing jobs. The Commission communication 'For a European Industrial Renaissance' provides important input in this respect; the Commission is invited to present a roadmap for taking work forward on this basis. … Industrial competitiveness concerns should be systematically mainstreamed across all EU policy areas and be part of impact assessments in view of getting a stronger industrial base for our economy. This should go together with competitiveness proofing. Member States are invited to match European measures to strengthen competitiveness of industry at national level." (EUCO 7/1/14 REV1, 4)

- Comparable Communication and Conclusions have again been formulated on the *Key Enabling Technologies Summit* in May. Key Enabling Technologies (KET) are: nanotechnology, micro-/nanoelectronics, industrial biotechnology, advanced materials, photonics and advanced manufacturing technologies. In February at the inaugural meeting of the High Level Group on KET, a Memorandum of Understanding was signed between the European Commission and the European Investment Bank "that will pave the way for improved access to finance for investments in key enabling technologies" (MEMO/13/150). The Summit discussed how to overcome the weakness in translating knowledge advantage (the EU has a global share of almost 30% in patent applications) into new marketable products and services. The European Strategy for KETS aims to accelerate the rate of exploitation of KET in the EU and reverse a “trend of de-manufacturing”.

- In May the *European Council* has discussed conclusions on the implementation of the roadmap for the European Strategy Forum on Research Infrastructures. It adopted three Priority Projects for implementation: the European Plate Observing System (EPOS), the European Life-Science Infrastructure for Biological Information (ELIXIR) and the European Spallation Source (ESS).

- Facing the Ukraine conflict and preparing the European Council in June in the end of May the *European Commission* has discussed how to strengthen the security of energy supply. It recommended to perform a risk assessment (energy security stress test) of the EU energy system to identify supply disruption risks in the upcoming winter and to realise back-up mechanisms. Another short term measure to decrease Europe’s energy dependence should be pooling parts of the existing energy security stocks. In the long run the strategy proposes actions on several key areas.

- A few days before the *European Council* met in June 2014, the *European Commission* has presented “a roadmap to strengthen measures to strengthen the Single Market for defence, to promote a more competitive defence industry and to foster synergies between civil and military research including details and timelines for the actions. These actions include preparing a roadmap for a comprehensive EU-wide security of supply regime; practical guidance for regional authorities and SMEs clarifying the possibility of using European funds for supporting dual-use projects; and a new 'Preparatory Action' to test the added value of an EU contribution to defence-related research for the Common Security and Defence Policy (CSDP). Taken together, these actions will contribute to making the European defence and security sector more efficient and strengthen the Union’s CSDP.” (IP/14/718) This roadmap is the follow-up to the Commission's Communication on defence from July 2013.

- In continuation of this the *European Council* has concluded: to “develop security and defence cooperation so we can live up to our commitments and responsibilities across the world: by strengthening the Common Security and Defence Policy, in full complementarity with NATO; by ensuring that member states maintain and develop the necessary civilian and military capabilities, including through pooling and sharing; with a stronger European defence industry.” (EUCO 79/14, 20). The European Council welcomed the European Energy Security Strategy (EESS) presented by the Commission and “underlined the importance of energy efficiency, further development of domestic production, further implementing and integrating the European energy market based on a regional approach, increasing transparency on the gas market, and on fostering missing infrastructure, to put an end to any isolation of Member States from European gas and electricity networks by 2015. In line with the objective of completing the European energy market by the end of 2014, interconnectivity must be increased, including through further examination of the new interconnection target proposed by the Commission." (EUCO 79/14, 10)

- In its Communication on energy efficiency from July (COM(2014), 2) the European Commission has declared: "Energy efficiency has a fundamental role to play in the transition towards a more competitive, secure and sustainable energy system with an internal energy market at its core. While energy powers our societies and economies, future growth must be driven with less energy and lower costs. The EU can deliver this new paradigm. … before the crisis hit in 2008, the EU had started to decouple economic growth from energy consumption through increased energy efficiency. An increasing decoupling of economic growth and energy consumption has continued since then, driven by price signals and by a comprehensive set of energy efficiency policies …".

- In the beginning of September 2014 the NATO Summit in Wales has laid down: "We agree to reverse the trend of declining defence budgets, to make the most effective use of our funds and to further a more balanced sharing of costs and responsibilities. … A strong defence industry across the Alliance, including a stronger defence industry in Europe and greater defence industrial cooperation within Europe and across the Atlantic, remains essential for delivering the required capabilities. NATO and EU efforts to strengthen defence capabilities are complementary. Taking current commitments into account, we are guided by the following considerations:

  - Allies currently meeting the NATO guideline to spend a minimum of 2% of their Gross Domestic Product (GDP) on defence will aim to continue to do so. Likewise, Allies spending more than 20% of their defence budgets on major equipment, including related Research & Development, will continue to do so.

  - Allies whose current proportion of GDP spent on defence is below this level will: halt any decline in defence expenditure; aim to increase defence expenditure in real terms as GDP grows; aim to move towards the 2% guideline within a decade with a view to meeting their NATO Capability Targets and filling NATO's capability shortfalls.

  - Allies who currently spend less than 20% of their annual defence spending on major new equipment, including related Research & Development, will aim, within a decade, to increase their annual investments to 20% or more of total defence expenditures." (NATO Press Release (2014) 120)

In this very context the EU countries Germany and United Kingdom have been given special responsibilities in improving the NATO structures.

- In September 2014 the Commission has released two reports on industrial competitiveness[1]. These reports should show that

  a) a high level of firm's debt is an important handicap while long-term-credit is a strong engine for firm's investment and growth

  b) policies targeting the business environment are important for SME increase exports

  c) the overall impacts of productivity-enhancing innovations are positive and crucial

  d) energy costs have grown and may be "a key impediment to competitiveness and growth for some energy-intensive sectors". (SWD(2014)6319 final, 6)

  These reports classify Member States into four groups:

  - High and improving competitiveness – the Netherlands, Germany, Denmark and Ireland.
  - High but stagnating or declining competitiveness – Belgium, the United Kingdom, Austria, France, Italy, Luxembourg, Sweden and Finland.
  - Modest but improving competitiveness – Estonia, Lithuania, Spain, Latvia, Czech Republic, Hungary, Poland, Portugal, Romania, Slovakia and Greece.
  - Modest and stagnating or declining competitiveness – Slovenia, Bulgaria, Croatia, Malta and Cyprus.

  in this regard, it may be helpful to have a look at the differences between sectors: "Industries producing consumer staples such as food and beverages, and pharmaceuticals, have fared relatively better than others since the outbreak of the crisis. High-technology manufacturing industries have in general not been impacted to the same extent as other industries. Overall, services have been hit less badly than the construction, manufacturing and mining industries. There are also differences across service industries, however: EU-27 market service industries, information & communication, and real estate activities have not suffered from the financial crisis to the same extent as other service sectors. … EU manufacturing declined further to around 15% of overall gross value added in 2012. On average, market services have grown by 1.7 percentage points in the EU overall from between

[1] "The 2014 European Competitiveness Report 'Helping Firms Grow' gives a quantitative assessment of the competitive performance of EU industries and provides empirical answers to important questions in the industrial policy debate. The 2014 Member States' Competitiveness Report "Reindustrialising Europe", provides an indicator-based assessment of the implementation of industrial policy at EU and national level, with a country by country breakdown." See: http://europa.eu/rapid/press-release_IP-14-989_en.htm

2000 and 2012 and now make up half of EU GDP. The share of non-market services has also increased, reaching 23% in 2012. Pharmaceuticals are the only manufacturing sector which has increased its share of output since 2000. The growing share of services in GDP is explained by higher income elasticities of demand for services, which tend to shift final demand towards services, as incomes grow over time."[2] (EU-Industrial Structure Report 2013, 7)

The competitiveness report 2014 identifies four "common areas for improvement":

- "Additional investment is needed across all sectors to ensure that European industry can maintain its competitiveness. This would be supported by more efficient innovation and commercialisation of research, and access to highly-skilled labour.
- It is essential that the lack of credit available to companies in many Member States does not stifle the recovery.
- Volatile prices and supply risks make increased energy and raw material efficiency essential. Efficient markets for electricity and diversified energy sources are also needed to ensure that energy is available at a competitive price across Europe.
- Competitiveness also requires reducing costs and uncertainties for businesses when dealing with public administration. Most Member States need to better take into account the effects of rules and legislation in other fields on competitiveness." (MEMO/14/526, 3)

2) "Voices of industry"

Like in our paper from last year we can also have a look at the "voices of industry"[3], as they have been articulated since last year. In March, shortly before European Council has taken place, the German BDI and the Italian CONFINDUSTRIA have declared to their governments that "the EU has to set economic framework conditions which … enable private companies to engage on international values chains. Industrial competitiveness has not been the priority of European policy making so far." They have demanded "a new industrial governance capable of delivering real prioritization and mainstreaming of competitiveness in all policy areas". Consequently they also have demanded to "put industrial competitiveness at the core of the new 2030 energy and climate package." And they called the governments to "support the commission's ambitious free trade agenda. In particular, European leaders together with their US counterparts should make sure that work on a Transatlantic Trade and Investment Partnership (TTIP) is substantially intensified …"[4] Before this BDI/ CONFINDUSTRIA meeting, the BDI and the French MEDEF have jointly called for an

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[2] http://ec.europa.eu/enterprise/policies/industrial-competitiveness/competitiveness-analysis/eu-industrialstructure/index_en.htm

[3] „Industry" is here officially restricted to the capiatal side of industry, while ist labour side is not considered.

[4] http://www.bdi.eu/BDI_english/download_content/BDI_Confindustria_Joint_Declaration_EN.pdf

"industrial and technological compact to integrate European companies in international value creation chains" in an even stronger resp. more aggressive way. They have asked for a "comprehensive competitiveness agenda, focused on strengthening price competitiveness by reducing the cost of labour, the cost of energy, the cost of finance and the costs resulting from administrative requirements, as well as on strengthening non-price competitiveness by improving the environment of enterprises." With these openly declared aims, they have formulated eight recommendations which are specifically elaborated and connected to some even more concrete demands, i.e.:

1. to "reduce or at least contain the cost of labour in order to secure appropriate competitiveness conditions reduce or at least contain the cost of labour in order to secure appropriate competitiveness conditions
2. a common energy transition policy needs to be elaborated that will allow energy suppliers and industry to contribute to a competitive and sustainable industrial value chain
3. simplify the European regulatory environment
4. facilitate access to finance for enterprises
5. make the labour market more flexible and extend working lives
6. complete the internal market
7. boost research and innovation in Europe
8. work towards open global markets for trade and investment[5].

In July 2014 both organizations have reaffirmed and further elaborated their demands and positions: "Priority should be given to establishing a strong economic policy cluster which would have to embrace not least industrial and energy policy. The Commission must ensure that internal and external competiveness is taken into account in its proposals.
Therefore, all new legislative proposals must be subject to exante impact assessments with a special focus on systematic and transparent competitiveness proofing involving all relevant stakeholders at an early stage." Most characteristically they have added the following demand: "The project of establishing a Financial Transaction Tax (FTT) in 11 countries of the Union should dropped, as soon as possible, as such a tax would have devastating effects on the
Financial markets and the conditions of access to finance and risk management within these 11 countries posing a serious threat to the economies concerned. EIB's lending activities should focus on supporting long-term investment that strengthens Europe's economic recovery and global competitiveness."[6]

3) The EU 2020 Bonds Initiative

We furthermore have to look at the progress of the EU2020 Bonds Initiative we had highlighted in our 2013 paper. The Greater Gabbard offshore transmission link has become the first UK based infrastructure project to attract finance from institutional investors using the Project Bond Credit Enhancement initiative. Bonds with a value of GBP 305 million have been issued to finance the new transmission link to connect the 140 turbine wind farm off the Suffolk coast with the UK mainland electricity and have been successfully placed with a broad range of investors. Proceeds from the bond issue have been released, the bonds have started trading on the Irish Stock

[5] http://www.medef.com/fileadmin/www.medef.fr/documents/BDI-MEDEF/20140205/BDI-MEDEF-Declaration-EN-201402005.pdf
[6] http://www.bdi.eu/BDI_english/download_content/MEDEF_BDI_proposals_commission.pdf

Exchange and technicalities have been concluded to allow financial close. The European Investment Bank has provided a GBP 45.8 million guarantee, representing 15% of the bond issued, as a credit support under the Project Bond Credit Enhancement model that allows a one notch upgrade in the project's rating provided by Moody's[7].
In March 2014 he European Investment Bank has agreed to support construction of the new 12km long A11 motorway link between Brugge and Westkapelle in Belgium. A11 will provide a direct motorway connection between the port of Zeebrugge and the European motorway network. The A11 is both the first transport project and the first greenfield PPP in Europe to benefit from the EC-EIB Project Bond Initiative. A letter of credit representing 20% of senior debt, enhanced the rating from Baa3 to A3. A public-private consortium of Via Brugge and Via Invest will finance the design-build-finance-maintain project through the project company Via A11. Via Invest is a joint-venture between Belgian government owned investment company PMV and the Community of Flanders[8].

4) The European Long-Term Investment Funds (ELTIFs)

Additionally, we now also have to address the new issue of the European Long-Term Investment Funds (ELTIFs). In March2014, the Commission has adopted the Communication on Long-Term Financing of the European Economy (COM(2014) 168 final). While the economic and financial crisis has affected the ability of the financial sector to channel funds to the economy, the Commission proposed to focus on "(i) mobilising private sources of long-term financing, (ii) making better use of public finance, (iii) developing capital markets, (iv) improving SMEs' access to financing, (v) attracting private finance to infrastructure, and (vi) enhancing the overall environment for "sustainable finance" (COM(2014) 168 final, 3).
Together with this Communication the Commission has proposed to revise the Institutions for Occupational Retirement Provisions (IORP) Directive in order to give support to a further development of occupational pensions, as an important type of long-term institutional investment in the EU. The Commission has also presented a Communication on crowdfunding as a source of financing for SMEs. This means, that the trends towards the use of private social security systems for financing the private economy, not at least relying on the use of PPP, continues and rises, while creating new demands for privatization, especially with regard to the social security systems. So financialisation is provided with fresh fuel.

In summary, we have to conclude that the text on industrial policy in the last EuroMemorandum is still valid. Because of that we can understand very well, why Mario Pianta also has repeated a number of points from his 2013 paper as well as from the EuroMemorandum 2013.
From our point of view, however, it will be worth-while to add and to focus specifically on the following pointing:

[7] http://www.eib.europa.eu/infocentre/press/releases/all/2013/2013-204-institutional-investor-support-for-greater-gabbard-offshore-transmission-link-encouraged-by-first-use-of-project-bond-credit-enhancement-scheme-in-uk.htm
[8] http://www.eib.europa.eu/infocentre/press/releases/all/2014/2014-066-eib-backs-a11-belgian-motorway-link.htm

- The trend to strengthen the focus on competitiveness in industrial policy is not only continuing, but has reached a new level by getting more and more complex and comprehensive.

- The trend to focus on the military dimension has also received a new impetus. The last one is connected to a stronger integration of EU members and of EU institutions into NATO structures.

- The trend towards financialisation has, likewise, received a new impetus by new rounds of privatization, also and especially in the form of PPP, by the ELTIFs and new forms of SME finance. These developments have increased the pressures to privatize public services.

- In regard to these three trends referred it will be necessary to also bring out clearly the three increasing tendencies of destruction linked to them,: the socially and ecologically destructive production structures – as we have explained it concerning the "4+2 connection"[9] in our2013 paper– are further developing and their main agents, the capital oligarchies, are growing even stronger (1). Because the main companies of this destructive "4+2 connection" are located in specific countries and regions, the contradictions and inequalities are in fact deepening, also in the framework of the EU (2). Because of the role of US American agencies within globalized financialisation processes and within NATO, the position of the US in the global arena is being strengthened again, where it had been on the decline before the outbreak of the global financial crisis (3).

Coming to think about our recommendations to the alternative political forces and, accordingly, for the EuroMemorandum, we should like to propose the following main points for further debate

- Taking the "Ukraine conflict" as a starting point to discuss the economic aspects of international security systems, the underlying interests of the economic agencies involved, and attempt to develop a constructive approach to the issues energy security and industrial conversion, especially under ecological and peace requirements;

- Addressing the issues of Energy Sufficiency and of Renewable Energy Sources more systematically as a first step to broader conversion processes, with a special urgency due to the on-going changes of strategy in preparation by the new European Commission;

- Analyzing the results of the 4th. International De-growth Conference in Leipzig and meeting some of the most interesting participants in the emerging debate for discussions on how to fight the globally destructive tendencies implicit in the actually prevailing trends;

[9] the mutually penetrating energy, transport and agriculture/agri-business, the military-industrial-complex/the security sphere, finance and high-tech industry

- Re-discussing our findings on industrial policy (and beyond) together with interested trade unionists and activists in social movements in order to develop concrete strategies for fighting poverty and social exclusion, as well as violence against people, climate change and vanishing biodiversity at the same time. "Concrete strategies" here will have to mean strategies capable of starting on local and regional levels, continuing on the national budget and decision-making level and, in parallel, mobilizing against destructive EU policies asking for concrete alternatives to the prevail in policies.
  In this connection we would like to propose to critically use also the website http://www.neujobs.eu/team-members/marina-fischer-kowalski

- Continuing to initiate and support resistance against megaprojects and privatisations, especially of social security systems. Privatisations, financialisation and new megaprojects are interconnected and drivers of the destructive production and consumption structures.