



EUROPEAN SEMESTER THEMATIC FICHE

INDUSTRIAL COMPETITIVENESS POLICY

Thematic fiches are supporting background documents prepared by the services of the Commission in the context of the European Semester of economic policy coordination. They do not necessarily represent the official position of the Institution.

1. Introduction

The EU economy needs a high-performing industrial base, a strong services sector, and optimal use of the synergies between the two. This should ensure that it maintains its global leadership in sectors with high-value jobs such as the automotive, aeronautics, engineering, chemicals and pharmaceutical industries. Competitiveness requires a stable, simple and predictable environment, based on principles of better regulation as enshrined in the Commission's ambitious Regulatory Fitness and Performance Programme (REFIT). Moreover, the overall framework at European and national levels should foster investment and innovation.

The Commission is monitoring competitiveness performance and progress related to the business environment on a regular basis. Recent reports show some signs of improvement as structural reforms start to have an effect, but a number of weaknesses still persist. The Commission has identified three such weaknesses as critical for the future of industry in the EU:¹

1. Investment: the level of investment remains too low, holding back the necessary modernisation of the industrial base and hampering future competitiveness.
2. Access to production inputs: EU firms face higher energy prices than most of their leading competitors and have difficulties accessing affordable raw materials, qualified labour and capital.
3. Integration: rigidities in labour markets and weak integration in the internal market continue to hold back the growth potential of firms, especially SMEs.

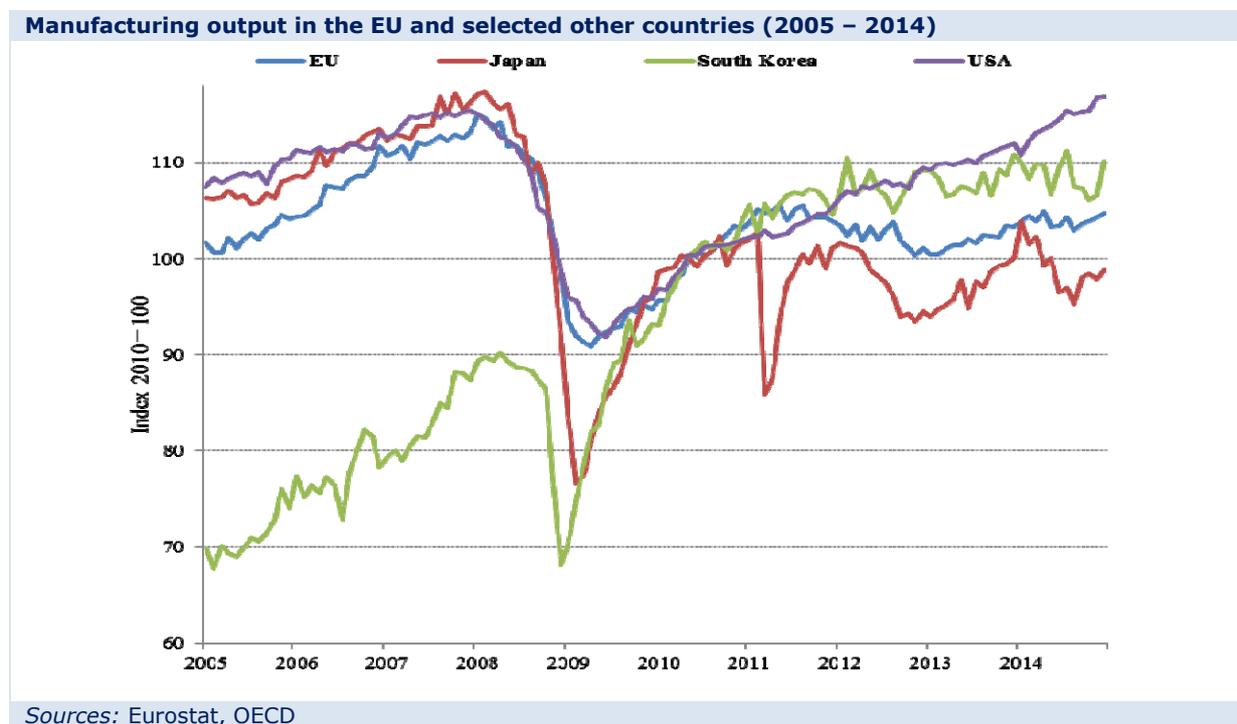
¹ For further details please consult the Commission staff working document 'Single Market Integration and Competitiveness in the EU and its Member States', SWD(2015) 203, 28 October 2015.

With scarce natural and energy resources, ambitious social and environmental goals and skilled labour forces, EU companies mainly rely on productivity, resource efficiency and high value added to compete on global markets. Policies to support industrial competitiveness need to address the entire value chain, from infrastructure and raw materials to after-sales services and recycling. Fostering market take-up of new, innovative products and services and promoting the creation and growth of SMEs is at the core of EU industrial policy, with the objectives of contributing to smart, sustainable and inclusive growth and jobs.

In addition, efficient public administration, access to finance and capital and to human capital and skills, and a well-functioning research and innovation ecosystem, represent key success factors for industry and in particular for SMEs. These key production inputs for industrial policy are not analysed in detail here as they are examined comprehensively in additional dedicated thematic fiches.²

2. Key statistical indicators, recent trends and identification of key challenges

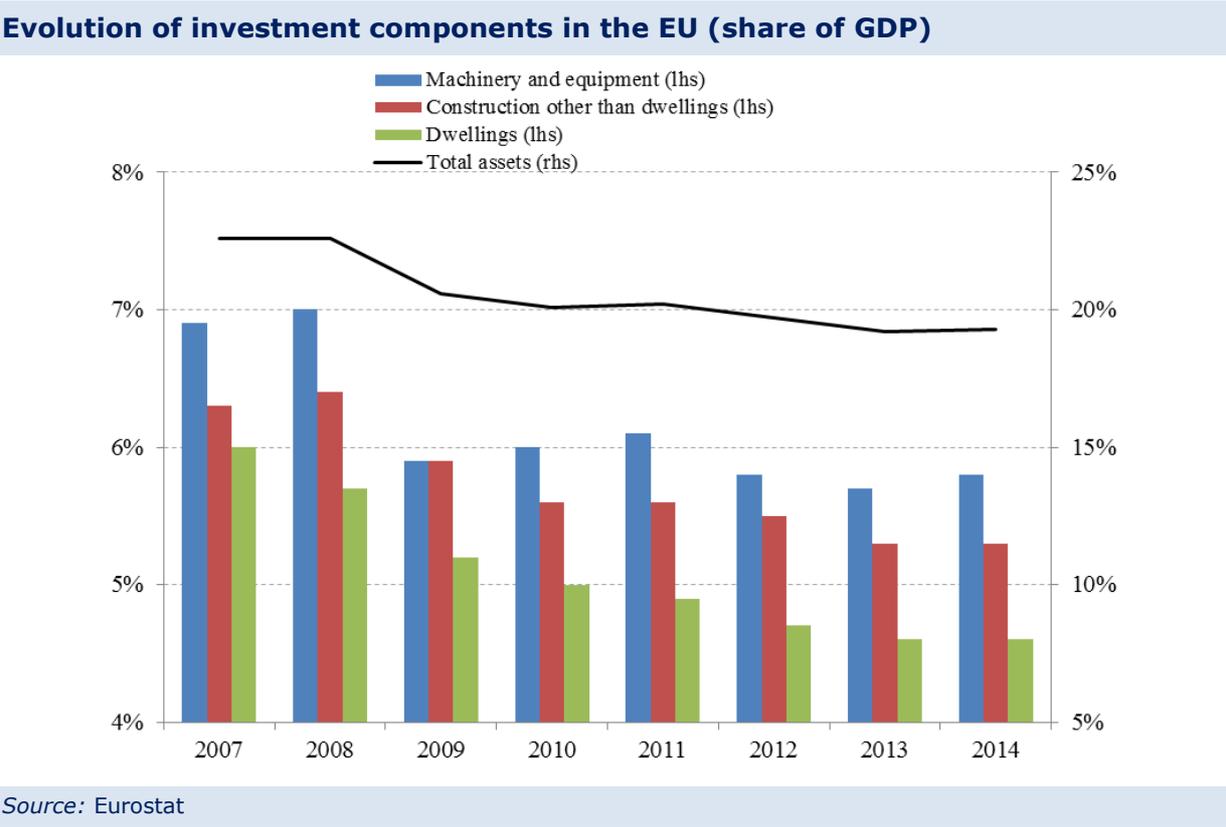
Manufacturing production grew by 2.1% in 2014, to output levels close to production in 2011 but still far from the levels prior to the start of the crisis. Growth in manufacturing outpaced GDP growth (+1.4% in 2014) as well as industry output overall (+1.1%).



² Fiches on public administration, SMEs' access to finance, skills gap and labour mobility and R&D are available through this link: http://ec.europa.eu/europe2020/making-it-happen/key-areas/index_en.htm

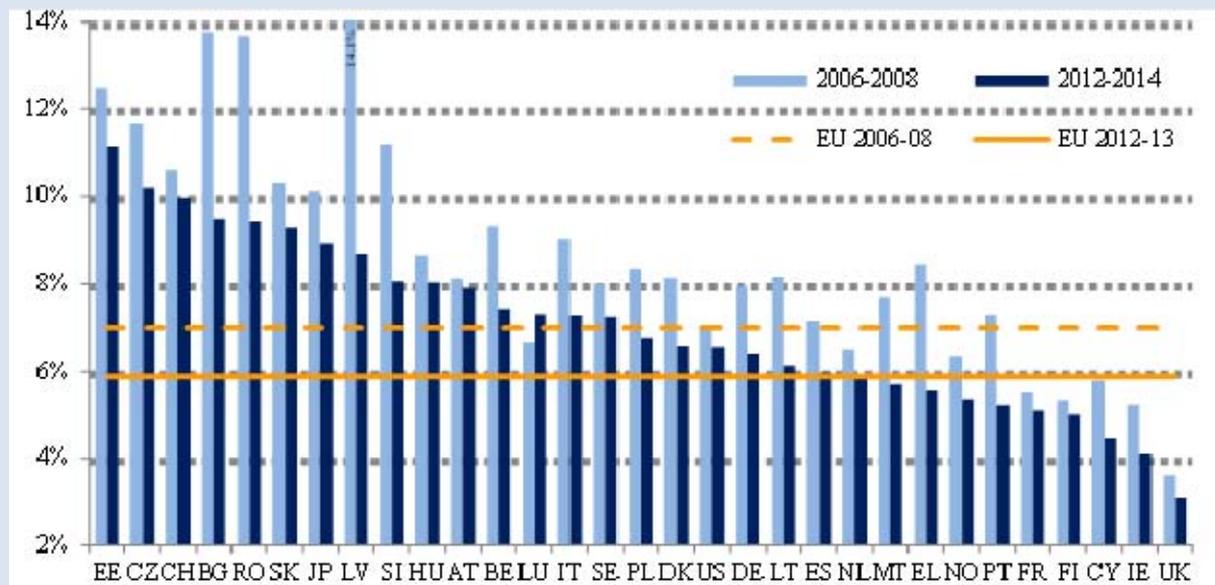
Several manufacturing sectors – pharmaceuticals, motor vehicles and other transport equipment, food products, other manufacturing – recorded their highest annual production volumes ever in 2014.

Since the onset of the economic crisis, the dramatically reduced level of investment is a major concern for the future of industry and a reason for launching the European Investment Plan. The following figure shows that gross fixed capital formation (GFCF) fell from more than 20% of GDP in 2007 to around 17% in 2013, and that GFCF components such as machinery, equipment and construction all contributed to the drop.



The lack of investment postpones economic recovery and is detrimental to the future competitiveness of firms. It is especially alarming that investment in equipment, which is of key importance to the manufacturing industry, has dropped below the 2006–2008 level in all Member States except Luxembourg, as illustrated below.

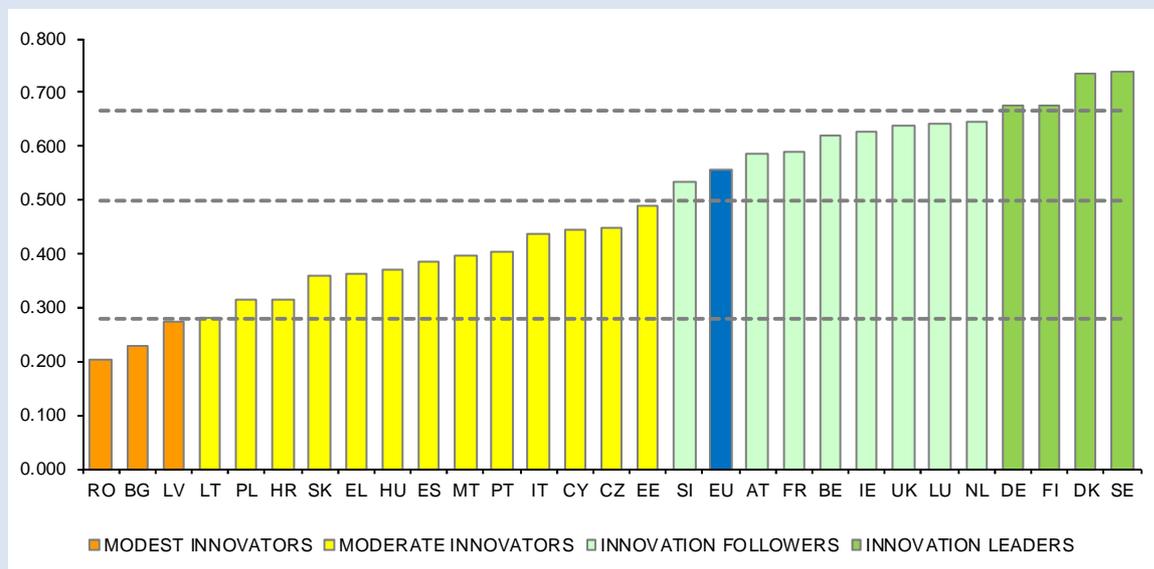
Investment in equipment in the EU, Japan, Switzerland, Norway, USA (2006-2008; 2012-2014)



Source: Eurostat

Each year the Commission releases its Innovation Union Scoreboard³ which measures the innovation performance of the Member States. It includes a composite index of more than twenty indicators. The resulting index scores of the 2015 Scoreboard are illustrated below.

Innovation Union scoreboard 2015 (index; 0 = worst possible, 1 = best possible performance)



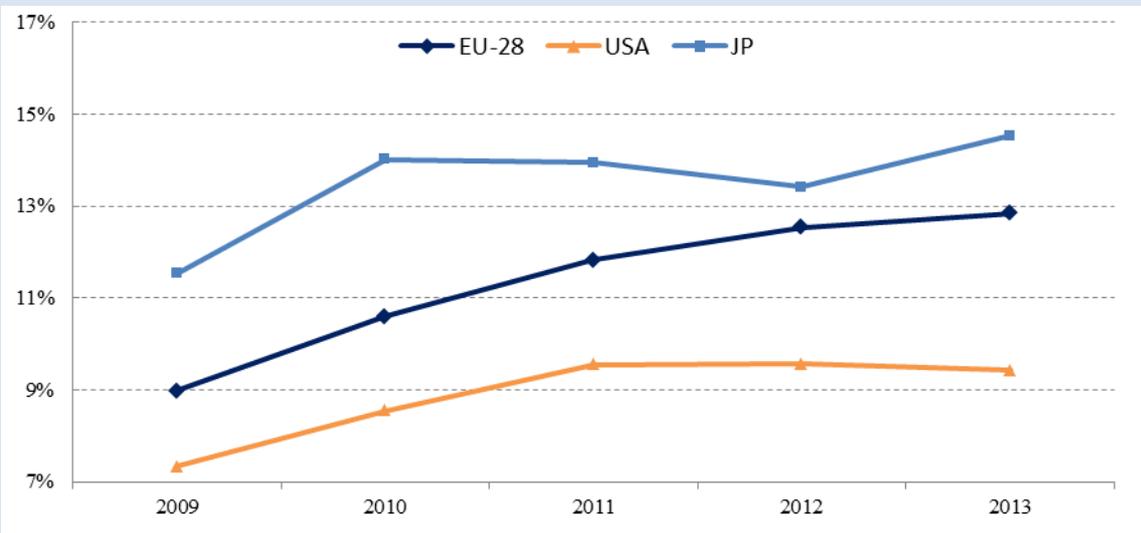
Sources: Eurostat, Innovation Union scoreboard

³ http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards/index_en.htm

Despite the overall reduction in investment, the innovation performance of the EU as a whole has improved by 7.6% over the five-year period 2009–2014 and a large majority of Member States have improved their innovation performance in the same period. Sweden, Germany, Denmark and Finland continue to be the most innovative economies, with Denmark improving its relative positioning as well. The innovation performance is particularly low in Romania, Bulgaria and Latvia.

Despite the crisis, European manufacturing remains competitive, driven by the high quality of EU goods and services as well as the intensity of innovation. After a decrease of 15.8% between 2008 and 2009, the value of total exports (intra-EU and extra-EU) has recovered and reached a new peak of 44.9% of GDP in 2012, before stabilising in 2013. Extra-EU exports of goods grew to 12.8% of EU GDP in 2013.⁴ Comparing the EU’s performance with that of the US and Japan shows continued progress in external competitiveness, particularly in goods. EU exports experienced a fast recovery after the crisis, increasing the lead ahead of the USA and reducing the gap with Japan in recent years.

Extra-EU, Japanese and US exports of goods as a percentage of GDP (2009–2013)



Sources: The World Bank 2014, WTO 2014

The graph below shows Member States’ varying export performance, calculated as the value of exports of goods and services in relation to their GDP. In order to develop a consistent comparative analysis of export performance, three clusters of Member States are defined, depending on the size of population⁵.

Except for Sweden, all Member States increased their exports faster than their GDP. Among the six largest Member States, Italy and Spain improved more than the EU on average, while

⁴ Data from The World Bank and World Trade Organization (2015), referring to EU-27 data of 2013.

⁵ The horizontal axis measures the latest available data (2013), while the change in performance (2009-2013) is measured on the vertical axis, through the compound annual growth rate. The six countries with the largest population in the Union (above 30 million) are shown in red, countries with populations of 10–30 million are in light blue while smaller Member States are denoted in dark blue.

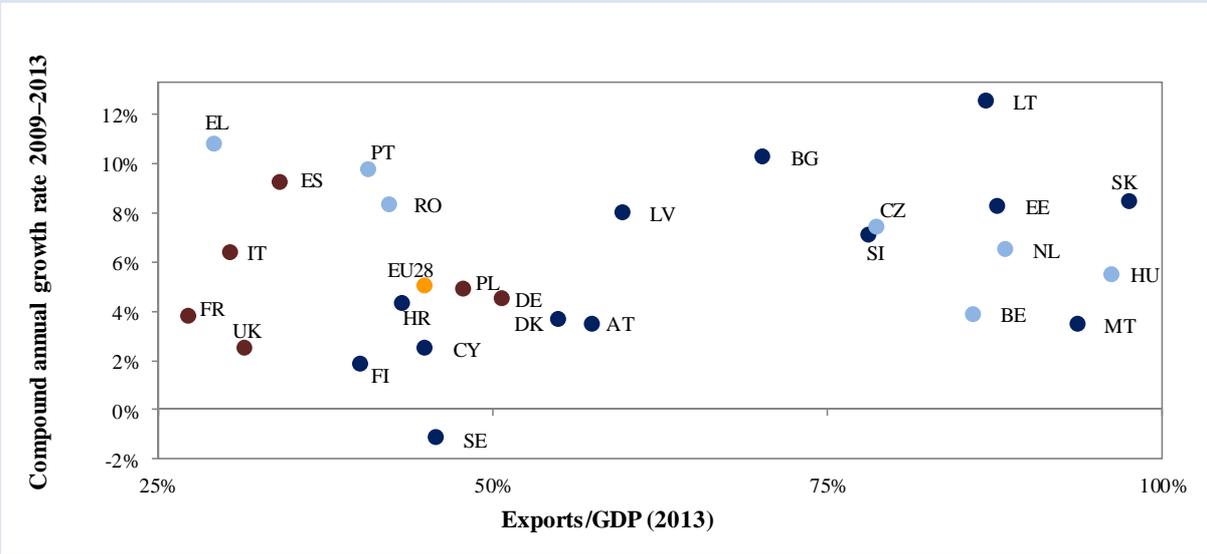
Germany, France, Poland and UK performed slightly below the average. France, Italy and the UK also have some of the least exports-oriented economies in the EU (in relation to GDP).

Among the medium-sized economies, exports rebounded after the crisis in Greece, Portugal and Romania. Exports growth in Belgium, the Czech Republic, Hungary and Netherlands was much slower in the same period, notwithstanding the much higher importance of exports to these economies.

Finally among small economies we observe large differences: exports grew particularly in the Baltic countries and eastern countries, while Finland and Sweden reported the lowest growth rates.

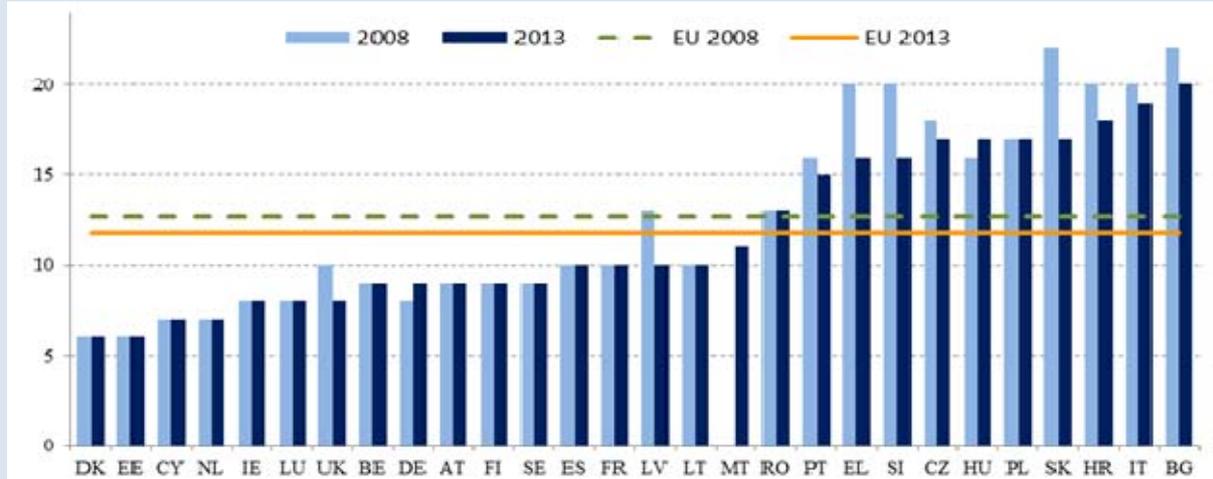
In many Member States, enterprises (in particular SMEs) experience difficulties in accessing foreign markets, both for acquiring inputs for production or complying with requirements for exporting their products or services. In 2013, the average time to export was 11.8 days, 7% less compared to 12.7 days in 2008 (see figure). The shortest export times are in Denmark and Estonia (6 days), the longest in Italy and Bulgaria (18–20 days) where the performance is comparable to the world average (21.8 days). Latvia and Slovakia recorded the biggest improvement in the period (23% reduction), followed by Greece, Slovenia and UK (20% reduction). Only Hungary recorded an increase in the number of days. Of the four components of trade covered by this indicator – document preparation, customs clearance and technical control, port and terminal handling, and inland transport – the two biggest obstacles for exporters in low-performing Member States are document preparation and ports and terminal handling because of the administrative burdens and poor infrastructure.

Exports of goods and services as a percentage of gross domestic product 2013; exports growth 2009–2013



Source: Eurostat (data for Luxembourg excluded)

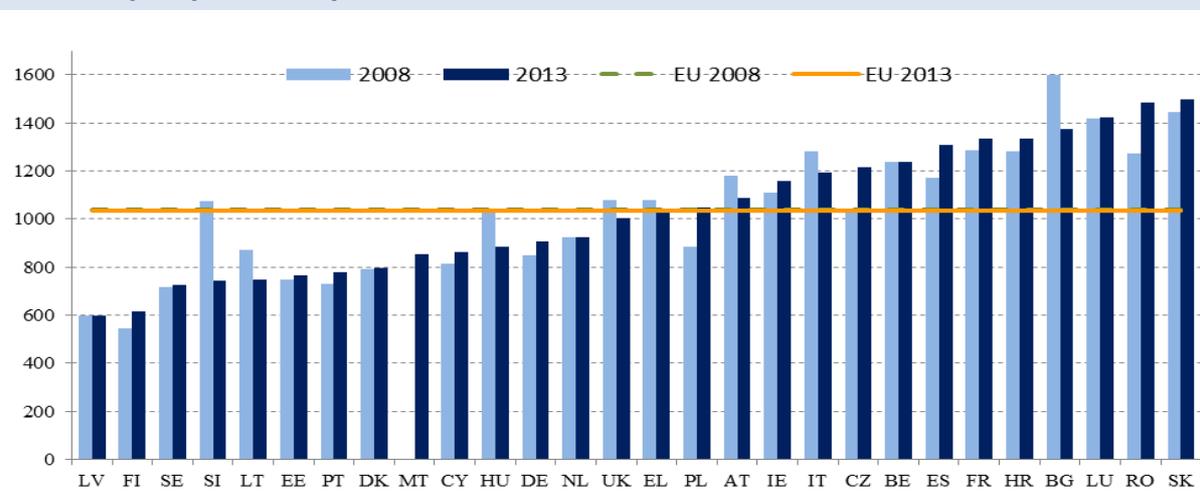
Time to export, in days (2008–2013)



Source: World Bank

The average cost to export in the EU in 2013 was slightly lower (0.5 %) than in 2008. However, the cost went down only in eight Member States – the most important reductions were recorded in Slovenia (by 30%), Bulgaria and Hungary (15%) – while it rose in fifteen Member States, in particular in Poland, Romania, the Czech Republic and Spain. The cost to export is highest in Slovakia and Romania while it is lowest in Latvia and Finland.

Cost to export (2008–2013)



Note: Cost measures the fees levied on a 20-foot container in U.S. dollars. All the costs associated with completing the procedures required to export goods are taken into account. These include the costs for documents, administrative fees for customs clearance and technical control, customs broker fees, terminal handling charges and inland transport.

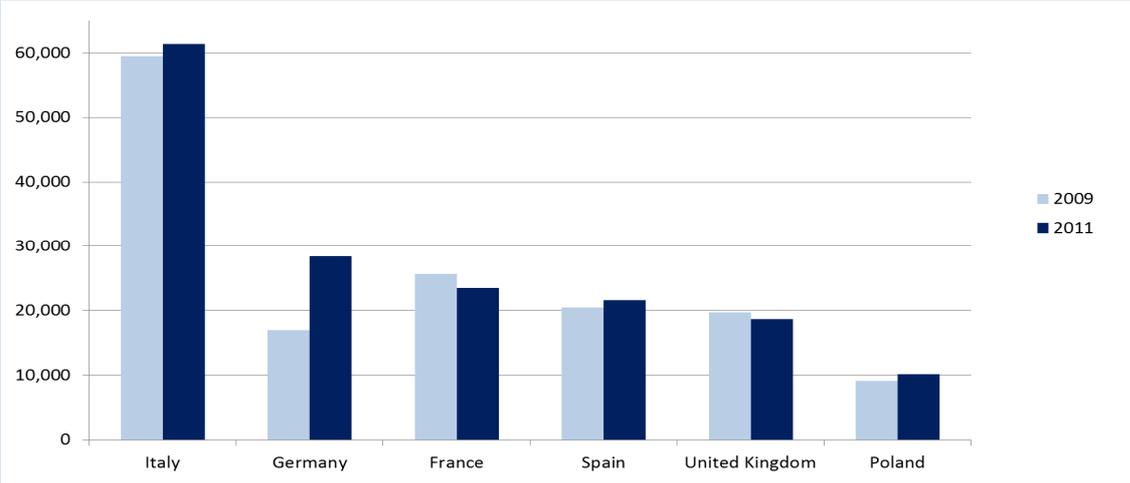
Data source: World Bank – *Doing Business Report* (2008; 2014)

The two biggest obstacles for exporters in low-performing Member States are the costs related to inland transportation and handling and document preparation. The costs stemming

from inland transportation represent only USD 150 in Latvia compared to USD 925 in Slovakia. The costs related to document preparation is USD 200 in Latvia while it is USD 410 in Romania.⁶

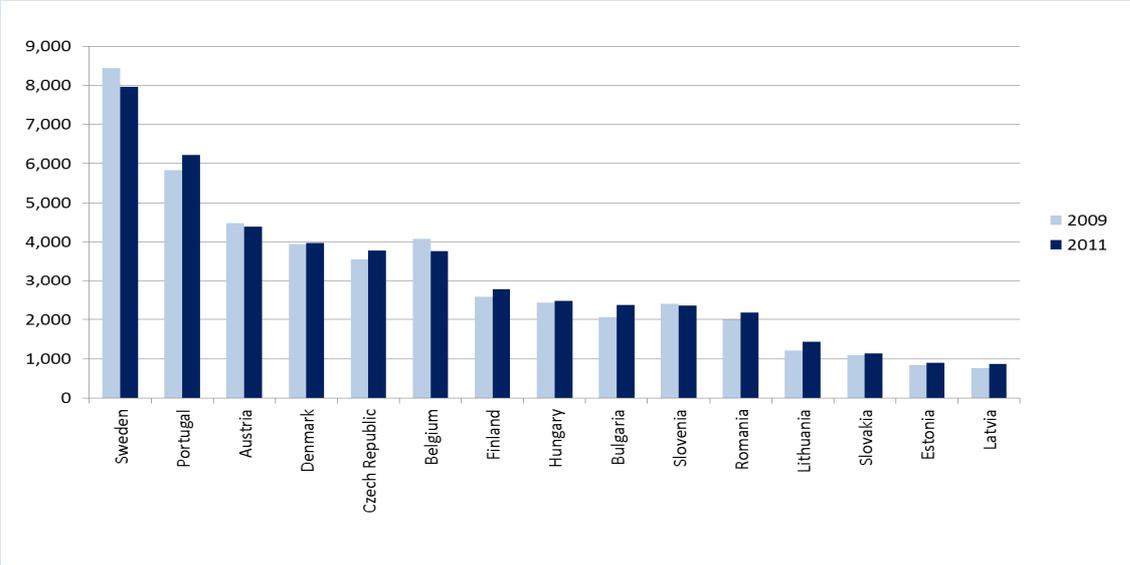
Nevertheless, as the next two figures show, the number of small and medium enterprises exporting to markets outside the EU has increased in most Member States.

Number of SMEs exporting outside the EU, six largest economies (2009–2011)



Source: Eurostat

Number of SMEs exporting outside the EU (2009–2011)



Source: Eurostat

Among the six largest economies, the number of exporting SMEs diminished only in France and the United Kingdom, while among the 15 Member States in the lower panel, eleven

⁶ A 10 % reduction in the time it takes to move cargo from production line to the ship increases exports by 4 %, all the rest being equal. (Djankov and Pharm, 2010, cited by World Bank – Doing Business Report 2014)

countries reported an increasing number of exporting SMEs while only four reported a decrease.⁷

3. Identification of policy levers and regulatory barriers

Among the key inputs for industry, the European Union is particularly committed to the creation of a competitive product market environment for services and network sectors which can help boost economic growth and living standards. The OECD Product Market Regulation index allows for an immediate assessment of the different performance in the Member States. The index is constructed in such a way that the countries with the lower score are the ones with the fewer barriers to entrepreneurship, investment and trade. The results of the Product Market Regulation index in 2013 for professional services and network sectors are reported below.⁸

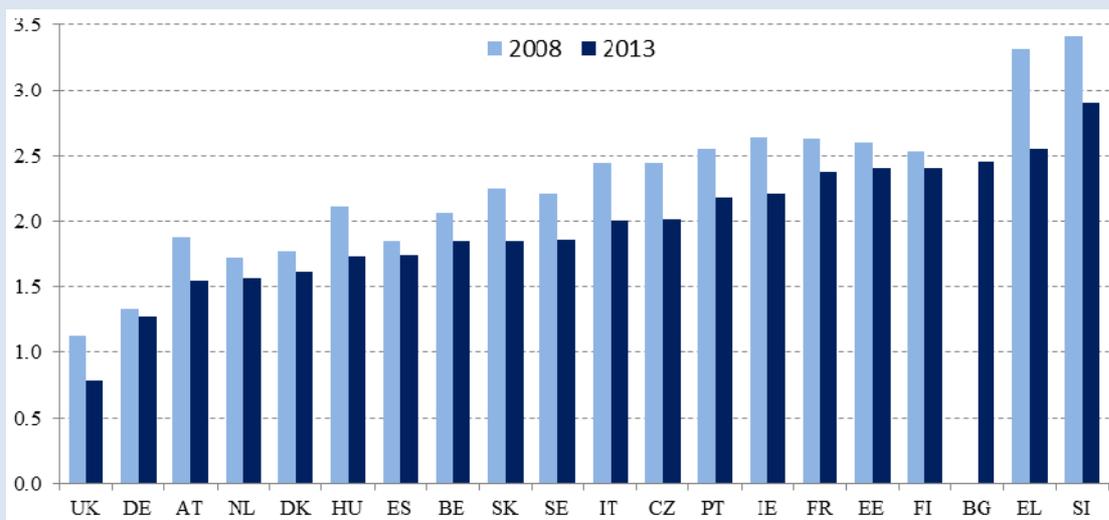


According to the index enterprises in Sweden, Finland, Denmark and the United Kingdom enjoy the most favourable market conditions for professional services. By contrast, enterprises operating in Portugal, Slovenia, Germany and Hungary have relatively higher barriers to overcome. However, Germany and Portugal are among the Member States which show significant progress with respect to the 2008 situation, along with Austria, Spain, Greece and Italy, which is the country which has improved the most.

⁷ Data for Netherlands, Ireland, Greece, Malta, Cyprus and Luxembourg not available.

⁸ Data are only available for a limited number of Member States.

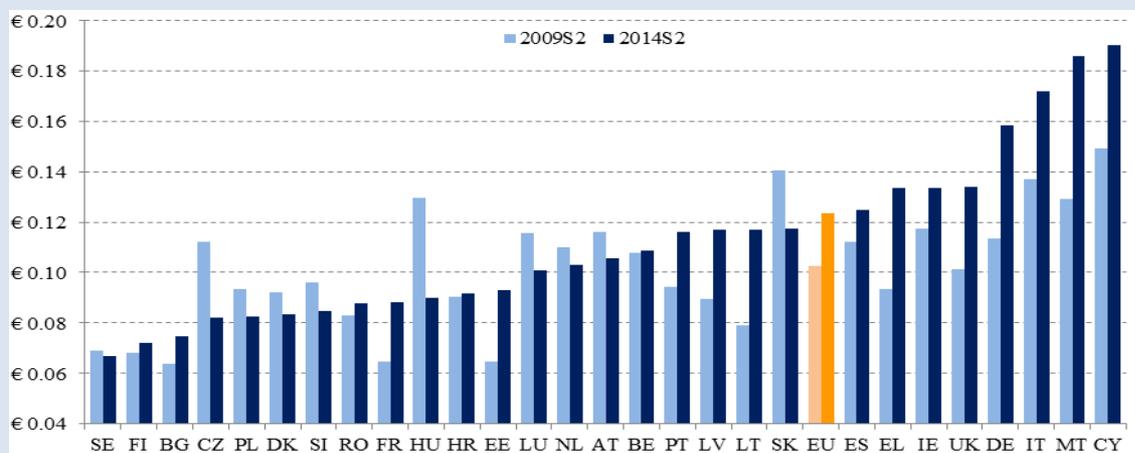
The product market regulation index for network sectors (2013)



Source: OECD 2014

The index shows a different picture in network sectors: Germany scores among the best countries alongside the United Kingdom, Austria and the Netherlands, while Finland, Bulgaria, Greece and Slovenia show the most serious obstacles. A positive development from 2008 to 2013 can be detected in all Member States, with Greece making the greatest relative improvement.

Cost of electricity, € per kWh in the 500–2 000 MWh band (2009–2014)

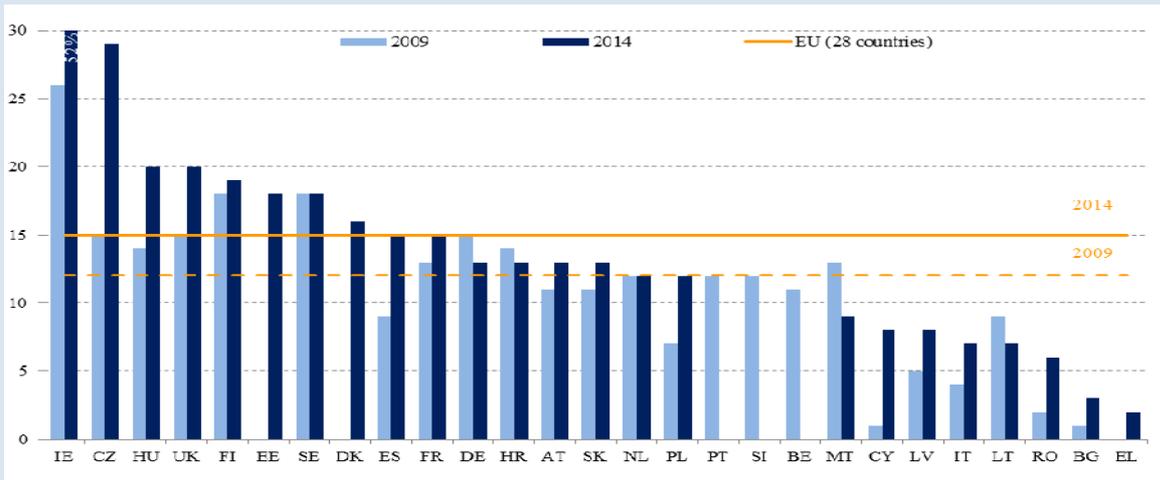


Source: Eurostat 2014

In addition to investment and innovation, access to finance and markets already discussed above, other inputs that may seriously hamper industrial competitiveness on international markets are the cost and accessibility of energy and raw materials. In most Member States, the cost of electricity increased from 2009 to 2014, especially for SMEs. Exceptions include the Netherlands, Hungary, Slovakia, Luxembourg, Slovenia, Czech Republic, Austria and Poland. However, in a number of countries the rise in electricity prices is related to the efforts towards decarbonisation and a more efficient use of energy.

Moreover, a fully functional Digital Single Market would bring many benefits to European enterprises, as digitalization pervades business models across sectors and value chains. As shown below, in a large majority of Member States the share of enterprises' turnover generated digitally increased considerably in the last five years, and the trend for the European Union as a whole has been consistently positive, rising from 9% in 2004 to 15% in 2014.

Share of enterprises' turnover on e-commerce (%) (2009–2014)



Source: Eurostat 2015

4. Assessment and cross-examination of main trends in the Member States

The Commission fosters the modernization of EU industry, shifting to higher value added production through regulatory and financial levers at the disposal of Member States, regions and industry. In the framework of the European Semester, a number of country-specific recommendations (CSRs) have been addressed to Member States on issues related to competitiveness, openness, resource efficiency and business environments. The Commission has also reinforced its instruments to support industrial competitiveness, such as the COSME (Competitiveness of Enterprises and SMEs) and Horizon 2020 programmes. The former is improving access to finance for SMEs through financial instruments facilitating loans and venture capital to SMEs and support measures to improve the framework conditions for entrepreneurship, while the latter provides close to EUR 80 billion for research and innovation through its industrial leadership pillar, including support for key enabling technologies, commercialization of research results and financial instruments supporting innovation. In addition, the Commission has launched the Investment Plan for Europe which will unlock public and private investments with impact on the real economy of at least € 315 billion in 2015, 2016 and 2017. The plan targets viable investment projects in strategic infrastructure and research and innovation in particular. The investment into relevant projects

and the increase in SME finance under the Investment Plan provide a significant boost to industrial competitiveness in times of low investment levels in Member States. The new multiannual financial framework 2014–2020 makes available at least EUR 100 billion of European Structural and Investment Funds (ESIF) to Member States to finance investment in innovation, in line with the industrial policy priorities for 2014-2020, guided by the concept of smart specialisation. Moreover, an ambitious strategy to develop a Digital Single Market has been adopted and 16 initiatives have been set out, which could contribute €415 billion to the EU economy each year, promote innovation and create hundreds of thousands of new jobs. Cooperation of national public administrations and coordinated EU action will be crucial to achieve these objectives.

In addition, the Commission has recently modernized the State Aid framework for R&D&I, the State Aid guidelines on risk finance, and instigated a reform by the European Parliament and the Council of the public procurement rules from 2016. The Commission proposed to Member States to combine regional and industrial policy tools to create smart specialization platforms, in order to help regions roll out smart specialization strategies by facilitating contacts between firms and clusters, enabling access to the innovative technologies and market opportunities.

Through a comparative analysis of Member States' industrial policies, a certain convergence can be observed, in particular concerning specific areas of interest such as sector policies, access to finance, and value chains. In the meantime, increasingly closer connections can be observed at governmental level between the ministries of industry and ministries of energy. All Member States take actions to foster innovation and the large majority foster sustainability. About three in four Member States use public procurement as a demand-side instrument for innovative and green products. Twenty-three countries are either adopting specific sector policies or assigning thematic priorities to horizontal policies that can be associated to specific sectors.

Through the Banking Union and with Member States in the European Semester, the Commission promotes the diversification of sources for business finance and a majority of Member States develop alternative funding mechanisms for SMEs (venture capital, business angel networks, private equity and crowd-funding) in order to reduce companies' dependence on bank finance. A number of Member States have recently created “one-stop shops” for public support to SMEs' access to finance. Only a limited number of Member States systematically aim at reducing administrative burdens. A large majority of Member States are pursuing reforms to improve vocational education and training (including apprenticeships) to better match educational outcomes with business needs, and a few have taken action to foster entrepreneurial attitudes. Action on value chains through clusters was identified in only half of the Member States.

Industrial competitiveness policy is focused on innovation and sustainability in most Member States, indicating a longer term strategy for non-price competitiveness and reflecting the EU-level priorities on innovation, high value added and energy/climate.

Date: 26.11.2015