Policy framework to strengthen the European Union manufacturing: towards a more integrated approach for industrial policy

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PURPOSE: to develop an EU policy framework aimed at strengthening manufacturing in the EU.

CONTENT: in preparing this report the Commission has made use of a number of recent EU initiatives directly impacting on Europe's manufacturing base. Firstly, the renewed *Action Programme for Growth and Employment* as secondly the *Lisbon Strategy on Growth and Employment*. Preparation for the Communication was announced under the Community Lisbon Programme in July 2005. It is based on the assumption that a strong, stable and competitive manufacturing sector is crucial to Europe's ability to grow, innovate and create jobs.

The starting point for the EU's industrial policy is to create the right conditions in which enterprises can flourish, to encourage innovation and to make the EU an attractive place for industrial investment and job creation. Several industrial challenges need to be addressed at the European level since individual Member States acting in isolation cannot succeed in tackling issues such as the threat from global competition, competition cases, the regulation of the single market and/or social and economic criteria.

To put it in perspective, industrial manufacturing currently provides around a fifth of EU output and employs some 34 million people in the EU, over 80% of the EU's private sector R&D expenditure is spent on manufacturing, manufacturing generates the new and innovative products that provide some three quarters of EU exports and over 99% of companies and some 58% of manufacturing employment are related to SME's. The challenges to industrial manufacturing across the EU originate mostly from foreign competition either in the form of location for investment, production and R&D spending. The EU is becoming increasingly exposed to producers in emerging economies that are upgrading the skill intensity of their exports and catching up in terms of the non-price factors that underlie the EU's competitive edge on world markets. It is therefore becoming increasingly relevant that the EU adapts itself to a more robust comparative advantage so that it is well placed to face up to the challenges from China, India and other fast developing countries.

As well as the skills based sector, the Commission remarks on the on-going international competition for R&D spending. Evidence indicates that the EU is simply not competitive enough as a location for research, with the US and Japan attracting more international R&D expenditure that the EU. Further, the US has been more successful than the EU in attracting researchers and highly skilled staff.

In preparing this report, the Commission services undertook a detailed screening of twenty seven individual industrial sectors. The policy areas chosen for screening reflected their importance in terms of productivity growth and international competitiveness. The individual sectors were then grouped into four broad categories: the food and life sciences industries; the machinery and systems industries; the fashion and design industries and the basic and intermediate product industries. Of these groupings it was found that the food and life sciences industries, the machine and systems industries (such as mechanical engineering) have experienced medium to high growth rates. The fashion and design industries experience low or negative output growth and very low R&D spending, whilst the basic and intermediate industries (chemicals, steel, pulp and paper) experienced a medium to low growth. The only exception being the chemicals and rubber industries. For this latter grouping the proposed REACH legislation will play a significant role.

In order for the EU to be best placed to meet the manufacturing needs of the future the Commission report states that forthcoming initiatives will seek to achieve relevant, integrated and consensual policies. To address this aim the Commission proposes the creation of seven cross-sectoral policy initiatives:

- An Intellectual Property Rights and Counterfeiting initiative (2006)
- The establishment of a High level Group on competitiveness, energy and the environment (end 2005)
- Addressing external aspects of competitiveness and market access (spring 2006)
- A new legislative simplification programme (October 2005)
- Improving secotral skills (2006)
- Managing structural change in manufacturing (end 2005); and
- An integrated European approach to industrial research and innovation (2005)

In addition to these over-arching initiatives, the Commission will also look into sector-specific initiatives. They are:

- A pharmaceutical forum (first meeting 2006)
- A mid-term review of life sciences and biotechnology (2006-2007)
- A new high-level group on the chemical and defence industry (2007)
- A European Space Programme
- A taskforce on ICT competitiveness (2005-2006)
- A mechanical engineering policy dialogue (2005-2006) and
- A commissioning a series of studies into the ICT, food, fashion and design industries.

In its conclusion, the Commission reiterates that the purpose of the report is to set out a series of EU initiatives in the industrial manufacturing sector for the coming years. To achieve this objective it will help facilitate and improve upon the conditions for the EU's manufacturing base. A mid-term review of work undertaken is scheduled for 2007. This review will report on progress and consider whether any revisions to the measures outlined above are necessary.