POSITION PAPER

14 May 2013

BUSINESSEUROPE's proposals for an industrial compact
A pro-industrial growth framework

Executive Summary

Europe must enable industry to compete more effectively within the Single Market and global context to create jobs and generate sustainable growth. This requires a realignment of EU policies in support of industrial competitiveness.

Increasing industry's share of production to 20% by 2020 would create at least 400.000 new jobs a year, reversing the losses of recent years. Alongside those new jobs in the industrial sector, many more jobs would be created in the supporting service sector.

The strategy paper builds on the first set of horizontal policy recommendations published by BUSINESSEUROPE in "Manufacturing a prosperous Europe" (date February 2013). It puts forward a series of concrete policy proposals in nine policy fields of strategic importance where progress is needed for a pro-industrial growth environment.

BUSINESSEUROPE's 5 key recommendations to support industrial competitiveness:

- **Open global markets**

  An ambitious and competitiveness-driven internal and external trade policy agenda is a priority for growth. Fighting protectionism and opening foreign markets should be the leitmotiv of an ambitious EU free trade agenda.

- **Get the balance right in energy and climate policy**

  The EU needs to reassess its approach to energy. The high cost lessons from the current EU policy need to be fully addressed while taking game changers as the shale gas revolution in the US and the very limited progress in global climate talks into account. This requires an energy policy that addresses security of supply and climate/environmental concerns in a cost-competitive manner and that promotes significantly improved coordination of member state energy mix strategies.

- **Finance future industrial growth**

  Improving access to corporate finance is vital for industrial companies and economic growth. These actions need to be underpinned by steps towards the implementation of the banking union. European financial market reforms need to balance safeguarding financial stability and financing needs of companies without generating undue negative impacts on lending. Furthermore, the market-led development of alternatives to traditional bank finance must be supported.

- **Secure the supply of raw materials at competitive prices**

  European industry is heavily dependent on the import of critical raw materials and energy. It is essential to reduce export restrictions on raw materials applied by some resource holding countries and to ensure that EU environmental and other legislation does not inadvertedly undermine the import of primary or secondary raw materials into Europe.

- **Translate skills into employment**

  The availability of a skilled workforce, in particular people with Science, Technology, Engineering and Mathematics (STEM) skills, is an essential to improve industrial competitiveness and innovation. Europe must increase the number of students and graduates in STEM subjects. In addition, the principles of work-based learning as apprenticeships and dual learning elements must be included as well as strengthened in Member States' existing systems.

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BUSINESSEUROPE'S PROPOSALS FOR AN INDUSTRIAL COMPACT

A PRO-INDUSTRIAL GROWTH FRAMEWORK

Across the European political landscape, there are calls to strengthen Europe's industry. And rightly so, because European economic recovery will not be possible without the growth of industry and related high value added services. The Communication "A Stronger European Industry for Growth and Economic Recovery", followed by conclusions of the Competitiveness Council in December 2012, are important achievements to create a new mind set for supportive EU policies for industrial growth.

There are numerous hurdles to overcome in order make Europe an attractive destination of industrial investment. Several of Europe's largest trade partners have important competitive advantages in: labour productivity, labour markets, taxes and a growth enhancing regulatory environment as well as a high propensity towards the creation of innovative products and technologies. In addition, the high cost of energy and raw materials is putting Europe further under pressure. This is heavily affecting investment in Europe, with the rate of investment as a share of GDP dropping from 21% in the pre-crisis years (before 2008) to a current 17.5%. Over the longer term, this could marginalise Europe as a key location for industrial investment.

To compete globally, it is important to provide a stable and predictable legal framework. But, Europe is handicapped by a strong propensity to over-regulate. Smart regulation tools must be strengthened to ensure that policies are cost-effective and proportionate in their scope and nature. Comprehensive impact assessments and competitiveness proofing of new regulation must therefore be carried out to address the cumulative and sometimes contradictory impact of different policies.

Although impact assessments are part of the policy-making process in the EU, there is still a limited drive to introduce pro-industrial policy measures. Consequently, it would be useful for the Commission to regularly report on how it has integrated industrial competitiveness into its policy proposals in different fields such as environment, employment, energy and climate, trade, competition or internal market. This would ensure that industrial competitiveness is taken into account in all legislative proposals.

The strategy paper puts forward a series of concrete policy proposals in the policy field energy, climate &environment, competition, access to corporate finance, trade, raw materials, research & innovation, skills, transport and the single market.

I. Trade: Open global markets

Eighty per cent of EU trade consists of the export of industrial goods and the increasing servicification of manufacturing also means that manufacturing can also be a driver of services trade. Around 30 million EU jobs depend on sales to the rest of the world and each additional EUR 1 billion worth of exports supports 15.000 additional jobs across the EU. Increasing the openness of Europe's economy by 1% would lead to an increase in labour productivity by 0.6%. 90% of global economic growth will be generated outside Europe in the next 10 to 15 years which makes trade policy a high priority for industrial competitiveness.

Whilst the European industry has been able to reap the benefits of globalization and to maintain its position as an export champion and its place in global value chains, competition from emerging countries is intensifying. An effective industrial policy therefore needs to have both an internal and external dimension.

Internally, competitiveness therefore starts with the right policies at home. Cutting red tape, reducing unnecessary regulatory burdens for industry and adopting proportionate and cost-efficient legislative measures are crucial. While enforcing its rights under international agreements and fostering market openness, the EU itself must remain an open market and avoid protectionism.

Action to deliver externally focused competitiveness

An ambitious EU trade agenda should pursue all possible approaches to deliver on new market access. Although it seems that the initially ambitious goal of multilateral trade liberalization in the Doha Round has been reduced to an agreement on trade facilitation, there are still significant opportunities in the WTO to tackle trade challenges through, services liberalisation, rules on export restrictions on raw materials, freedom of investment and fair competition rules – notably to remove subsidies.

In addition, EU bilateral free trade negotiations with its largest and most dynamic trade partners across the Atlantic or in Asia offer great potential to increase trade and to create jobs. EU GDP could be increased by over 0.5% almost immediately if a comprehensive trade deal with the US is signed. To truly generate economic growth these agreements should not only tackle classical obstacles to trade and investment, but respond to today's trade realities by eliminating non-tariff barriers, establishing rules on competition, state-owned enterprises and subsidies, and opening up services and procurement markets.

Some of the EU's major trading partners are using strong industrial policies that have affected European companies. This hampers European exports or investments in these countries. Examples of these policies are distorted access to raw materials, preferential market access policies in the procurement, or lack of an effective protection of intellectual property rights, including trade secrets. EU trade policy must tackle these distortions, including through the use of fair and effective trade defence policies and other legal remedies such as WTO trade dispute settlement, and eliminate their detrimental effects on European companies in their home and on third markets.

BUSINESSEUROPE recommends:

- Implement an ambitious and competitiveness-driven internal and external trade policy agenda is a key priority for business and European growth.

- Push for the further opening of services and procurement markets, and the strengthening of IPR enforcement, including trade secrets, at a global scale.
- Fight protectionism internally and externally, in order to address increasing trade and investment barriers as well as discriminatory measures.
- Tackle unfair practices through effective trade defence measures that restore a level playing field and the enforcement of trade rules through dispute settlement.
- Maintain an open import regime (raw materials, components, intermediate goods or final products) which is necessary for the competitiveness of European industry.
- Maintain EU long term commitment to multilateral trading system, work towards conclusion on deliverables of the Doha round and build ground on addressing other pressing challenges of the system (investment, competitions, state-owned enterprises, export restrictions subsidies etc.).
- Open up foreign markets by implementing an ambitious EU free trade agenda which effectively tackles trade and investment barriers. Focus should be given to the EU's major trade partners and the regions of future economic growth. Progress to complete competitive trade agreements with the US and Japan are a priority.

II. Energy, climate and environment: getting the balance right

Current developments in energy markets have substantial impacts on the competitiveness of European industry. The large scale development of shale gas and oil in the US and other regions is significantly reshaping energy markets worldwide. Energy prices for European industry went up by 28% between 2003 and 2011, which is significantly higher than in most other industrialised countries. Key prices for oil and gas are also diverging significantly between the EU and the US to the latter's advantage. This will is making the US a significantly more attractive location than the EU for industrial investments.

In addition, the prospect of a fully-functioning internal energy market, leading to benefits as regards cost-competitiveness, energy security and climate protection, is still some way down the road. In particular a faster implementation of the Third Energy Package and stronger efforts regarding the financing and development of cross-border energy infrastructures are needed.

The current climate policy framework is increasing energy costs due to inconsistencies in EU policies, heavy handed national government intervention in energy markets and regulatory targets which fail to address the challenge of international competition. These circumstances generate uncertainty for investors to upgrade our energy systems over the long term and thus increase the risks of energy insecurity.

As a market-based instrument, the EU Emission Trading Scheme (ETS) has a key role to play and must continue to work according to market principles. The EU ETS should facilitate carbon reductions in a cost efficient way through investments in low carbon technology, renewable energy sources, energy efficiency or by other means.

European industries are also impacted by a wide range of environmental policies and regulations as well as by the instability of the regulatory framework caused by the continuous generation of new legislation. In the environmental and safety field, the number of laws adopted in the EU has increased significantly. The cumulative effect of all these legislations and the trade-offs between different policy measures have a very significant costs impact for a wide range of industrial sectors and should therefore be thoroughly evaluated via smart regulation tools (e.g. competitiveness proofing, fitness checks, etc.).

The current environmental policy framework in the EU is mainly governed by the principle of resource efficiency. While industry is fully committed to this principle, public interventions must be carefully considered to avoid disproportionate compliance costs. The distinction between "old" and "new" industry when it comes to low carbon growth is a false one considering that energy-intensive sectors such as steel, cement and chemicals all provide the materials for low carbon power generation, energy savings and climate adaption infrastructure and products.

BUSINESSEUROPE recommends:

- Pursue a coordinated European energy policy. Fostering completion of the internal energy market through effective implementation of the Third Energy Package must be a priority, together with the financing and development of cross-border interconnection. Europe also needs a resolute strategy to enable Member States to exploit, in a safe manner, potentially highly advantageous shale gas resources.

- Re-shape Europe's climate policy to put cost-competitiveness, energy security and climate protection on an equal footing. Currently, there is insufficient attention to cost-competitiveness and security of supply.

- Reinforce the role of the Emission Trading Scheme (ETS) in climate policy and integrate support to industries at risk of carbon leakage.

- Enable business to develop innovative resource efficient products and solutions. Be careful about setting targets on resource consumption as it goes against the concept of resource efficiency and poses risks for Europe's future growth prospects. Resource efficiency is about making more with less, and not about forcing industry to do less with less.

- Refrain from over-regulation and promote a shift in European environment policy away from law-making and towards better implementation and enforcement of the regulatory *acquis*. Better implementation and enforcement in all EU Member States will avoid competitive distortions and improve the environment.

III. Access to corporate finance: financing future industrial growth

Access to finance is vital for European competitiveness and is essential for industrial companies and economic growth, which are largely dependent upon the availability of business' access to fund investment at proper terms. Nevertheless, lending to non-financial corporations continues to fall dramatically (-4.2% between February 2012 and February 2013 in the euro area).

On the supply side, interest rates charged for bank loans to businesses continue to diverge, depending on both the size of the business and the country where the business applied for bank loans. Within the Euro area, the discrepancy has never been deeper since the inception of the single currency. For example, the bank lending interest rate for short-term loans (maturity below one year) to businesses in February 2013 was at around 5.2% in Spain and 4.4% in Italy, against an average of 3.8% in the euro area. As a result, a number of businesses, particularly in peripheral economies, remain excluded from bank funds regardless of the quality of their business projects.

The terms and conditions under which banks are willing to lend remain very tight and are likely to stay so as banks will continue to withdraw from on-balance-sheet lending as a response to new financial regulations. Private-sector investment from other sources such as investment funds, insurance companies and pension funds also fell significantly during the crisis and is likely to stay subdued as a result of the uncertain economic climate and new financial regulations. In addition to the effects on corporate finance this affects trade and export finance as well as long-term investment in capital intensive infrastructure which is vital for economic growth (e.g. transport, telecommunication).

Four issues are of fundamental importance looking forward:

a) Ensure that financial market reforms strike the right balance between safeguarding financial stability and the financing needs of companies. This calls in particular for calibrating the parameters implementing new EU financial regulation in a way that does not generate undue negative impacts on lending to industry;
b) Support the market-led development of alternatives to traditional bank finance.

Improving access to capital markets

SMEs have little or no access to the capital market (corporate bonds). The barriers that prohibit direct access of SMEs to the capital market are numerous: a lack of liquidity of and high costs for issuing SME bonds (linked inter alia to the drafting of prospectus and related due diligence), high information requirements (especially the IFRS requirement on regulated market issues) and a lack of resources at the level of institutional investors to analyse the credit risk of small companies.

A number of initiatives have been taken to reverse this such as the creation of corporate bond trading platforms: the Stuttgart Bond platform, the First North Bond Market in Denmark and the Alternext market in the Netherlands.

At policy level, the Breedon report (UK, 2012) recommended to aggregate a large number of SME loans and finance them via the corporate bond markets and proposed to create an Agency (the Agency for Business Lending – ABL) that would be instrumental for this. In Italy, a Memorandum of Understanding has been signed between Confindustria, Consob and the finance industry for developing an array of measures supporting SME access to the capital market. Market creation measures should be aimed in particular at improving transparency of SME risks as well as reducing transaction costs involved in smaller volumes of SME issuance.

The Commission should promote dissemination of best practices and of advanced policy thinking regarding the establishment of bond markets accessible to SMEs and intermediate size companies.

Securitisation

The image of securitization has suffered due to the lack of transparency of some financial products (mainly in the US) in the wake of the financial crisis, despite European assets performing very well from a credit and secondary market standpoint. The Commission should take initiatives aimed at ensuring a careful revival of securitization. This may also require changes in bank regulation that now clearly discourages securitization through higher capital cost.

Venture capital

Venture capital is a key financing tool from a macro-economic point of view. Venture capital accounts for 8% of private employment in Europe. But between 2003 and 2010, uptake of venture capital (VC) in Europe dropped from EUR 17 to EUR 3 bn. These has left VC operators with increased difficulties for accessing stable financing for their VC operations, which is a worrying development for fast growing SMEs.Today, pension funds and insurance companies play a very limited role as a source of finance for venture capital funds. This limitation should be addressed.

Other equity finance

For a particular class of small and mid-size companies, a public listing on specialized SME stock exchanges (“growth markets”) is a logical option to grow their business. Yet listing has become more difficult in the EU, in particular because its cost has increased significantly in recent years.

BUSINESSEUROPE welcomes the Commission's intention to improve access to information about listed SMEs, thereby improving their ability to obtain financing. BUSINESSEUROPE also welcomes the fact that the Commission will reduce the burden on listed companies by eliminating mandatory quarterly reporting.

EU SME-geared financial instruments

The EU financial instruments for SME and mid-caps introduced under the CIP (Competitiveness and Innovation Program) and the 7th RTD Framework Program (FP) have demonstrated a strong leverage effect for stimulating the provision of credit and equity finance. Given this positive experience, it is essential to fund properly the relevant EU successor programs. Under the 2014-2020 structural funds, there is scope for deploying EU financial instruments (debt finance instruments, equity finance instruments,…) on a broader scale. In certain countries, this should be done while improving the implementation of the EU financial instruments linked to regional policy.

The following recommendations put a particular emphasis on how to improve access to finance for SMEs and for the lower end of intermediate size companies.

BUSINESSEUROPE recommends:

- Integrate the single market for financial services further to reduce market fragmentation.
- Encourage the financial services market to create a healthy risk taking environment with reduced moral hazard that allocates savings and investment towards the financing of businesses.
- Promote the dissemination of best practices regarding the establishment of bond markets accessible to SMEs and intermediate size companies.
- Calibrate EU regulations that will implement the EU framework legislation on bank capital requirements (CRD IV-CRR) to support the contribution securitization can make to filling future finance gaps. This also applies for the implementation of the new capital requirements for insurers (Solvency II). There is a need for comprehensive cumulative impact assessments and evaluations of new EU financial regulation to address and resolve undue negative impacts on lending.
- Regulations for pension funds and insurance companies should consider their stimulating role as a source of finance for venture capital funds.
- Create positive framework conditions (including tax incentives) at national level for venture capital investors.
- Implement the innovative financing approaches developed by EIF under the current MFF further, with a view to stimulating the supply of debt finance, equity finance and mezzanine finance needed by SMEs. Also use a significant part of the recent EIB capital increase (EUR 10 billion) to improve SME access to finance.

IV. Raw Materials: securing supplies at competitive prices

The competitiveness and sustainability of European industry is highly dependent on fair, secure and uninterrupted access to raw materials. For many industries raw material costs constitute a substantial share of total production costs (e.g. chemicals industry up to 34%, steel industry up to 70%) and are putting European industry increasingly under pressure. In particular protectionist policies pursued by supply countries and further increasing demand by emerging economies resulted in significant price increases for non-energetic raw materials. The European Union has therefore to increase efforts to enhance the supply of raw materials within the European Union as well as reducing export restrictions and protectionist measures of main trading partners.

While the Commission has significantly increased its efforts for the reduction and elimination of export restrictions in raw materials both at bilateral level, via Free Trade Agreements, and at multilateral level, via the initiation of dispute settlement procedures in the WTO, a lot remains to be done in the field of resource diplomacy. In this light, the EU has to better integrate the raw materials security of supply dimension to trade, external and development policies and further reinforce the launch of partnerships and dialogues with resource-holding countries. On governance and transparency, European industry fears that the direction the EU is taking with the adoption of stringent reporting requirements will only weaken the competitive position of European companies relative to their competitors in emerging markets.

The extraction of raw materials represents a competence of EU Member States and only few countries include given deposits in spatial planning concepts and permitting procedures for extraction differ from country to country. Europe has to take advantage also of resources on the European continent. Improving the coordination of national policies and applying coherent methodologies for collecting sets of geological data across Member States is therefore urgently needed.

Furthermore, increasing recycling rate of primary raw materials and providing the supply of secondary raw materials constitute a further pillar the European Union must tackle to reduce the impact of increasing prices for primary materials on international markets. Europe has a huge potential of resources used for the production on secondary raw materials through recycling which unfortunately is currently not taken into account.

BUSINESSEUROPE recommends:

- Ensure a level playing field and pursue efforts on softening export restrictions and protectionism implied by supply countries.
- Establish an effective EU Resource Diplomacy that is used as leverage for European Industries to engage with resource-holding countries.
- Ensure that transparency requirements do not lead to competitive and commercial disadvantages for the European extractive sector. The European Commission should continue to support the Extractive Industries Transparency Initiative (EITI).
- Promote research and innovation in all stages of raw materials value-chain by making full use of the EU Innovation Partnership on Raw Materials (EIP) and the Knowledge and Innovation Communities (KIC).
- Improve regulatory harmonisation and alignment of best practices among Member States to strengthen the creation of a stimulating environment for exploration and

exploitation of raw materials within the EU.

- Ensure that environmental legislation, particularly the regulation of the exploitation of raw materials, does not undermine security of supply of raw materials.

- Secure access to secondary raw materials by reducing the administrative burden imposed on the entrance to EU markets of raw materials that could be effectively reused in the production chain.

V. Skills: translating skills into employment

The availability of a skilled workforce, notably including people with Scientific, Technology, Engineering and Mathematics (STEM) skills, will be an essential element in delivering an effective industrial strategy for Europe. Greater effort must be made, where relevant, to improve industry's perception of vocational education and training (VET) and apprenticeships which can play a vital role in providing the skills needed to boost Europe's industrial growth. Putting emphasis on the importance of life-long learning and tapping into the experience of older workers is also necessary for re-vitalising European industry.

No time to be STEM-ming the flow of skilled workers

Medium-term projections show that if the EU economy follows its current path of specialization, in the region of 15% of jobs in 2020 will be low skilled in nature, while 50% will be medium skilled and around 35% highly skilled. Ensuring that Europe's workforce has the skills to compete in the global economy includes increasing the number of people studying and graduating in science, technology, engineering and mathematics (STEM) subjects and enhancing the quality of STEM education at all levels of education.

There is the need to illustrate concrete employment opportunities associated with STEM skills and their relevance for Europe's industrial growth. Appropriate guidance and advice services also need to be put in place to help young people to make subject choices at school so that their pathway to studying STEM subjects are not restricted.

Putting labour market needs at the centre of Vocational Education and Training policy

BUSINESSEUROPE advocates the principles of work-based learning, especially apprenticeships, and the strengthening of dual-learning elements in Member States' existing systems, taking into account Member States' differing industrial structures. By combing classroom and workplace based experience apprenticeships can play a key role in helping young people to develop the skills that employers are looking for to re-energise Europe's industrial economy across a broad range of sectors.

The scope of apprenticeships is much broader now and can evolve from the traditional learning of craft-based skills to increasingly offering opportunities in more service and management oriented roles. It can also be seen that a "greening of skills" is taking place as new environmentally friendly technologies re-shape the production process and require a fresh set of competences in workers.

Developing a mindset for life-long learning

The notion of a job for life is not what it once was and there is much more emphasis placed on labour market mobility, both by employers and workers alike. In addition to initial VET in the form of apprenticeships there is also the need to foster the mindset of continuous VET and life-long learning amongst adult workers. 72% of companies assess the need for further training of their staff in a systematic way and 62% give employees time off to undertake training.

In parallel to this, people need to take responsibility for updating their skills competences and, where necessary, to re-train. This must be a crucial element of a modern and dynamic European industrial policy.

Active labour market participation of older workers

By 2050 30% of Europeans will be over 60 years old. This is a sizable proportion of Europe's working age population and losing these people from the labour market would be detrimental to the success of Europe's industrial policy. Therefore, it is important to keep older workers active in the labour market for longer. Firstly, the knowledge and experience that older workers bring makes a valuable contribution to a company's productivity. Secondly, these workers can play a central role in passing on their skills and knowledge to people, whether this is young people in the form of apprenticeships, or the up-skilling and re-training of adult workers.

At the same time, re-training schemes must be more effective in helping people develop the skills to facilitate their re-introduction into working life. A prime example is the support that older workers receive through the European Social Fund (ESF). According to a March 2013 report by the European Court of Auditors neither the Member States nor the European Commission can accurately say how many older workers found employment after participating in initiatives funded by the ESF.

BUSINESSEUROPE recommends:

- Raise the awareness of, and interest in, STEM skills and particularly increase the number of women studying STEM-related subjects.

- Include principles of work-based learning, especially apprenticeships, and the strengthening of dual-learning elements in Member States' existing systems. Apprenticeship systems need to be devised at national level in a way that ensures that people are equipped with the skills required to boost Europe's industrial output, this includes evaluating the performance of apprenticeship schemes and monitoring the transition of apprentices into employment.

- A coordinated approach is needed for assessing VET quality so as to facilitate mobility and the recognition of skills and competences.

- Lifelong learning is a skill that people need to be trained for so that they adopt the mind set of continuously developing their core competences throughout their professional life.

- Introduce the continual evaluation of re-training schemes (covering all workers) to ensure that they are targeted in the right way and practically help people to find work.

VI. Research and innovation: securing the right policy framework

As pointed out in the Europe 2020 Strategy, investing in Research and Innovation (R&I) is key to sustain economic growth and employment in Europe. The EU is lagging behind other developed economies such as the US and Japan and risks being overtaken by emerging economies such as China in the medium term unless a new, holistic approach to R&I is forcefully applied.

In addition, today more than ever before innovation, economic growth and competitiveness rely on effective use and management of intellectual property (IP). Commercialising inventions, marketing brands to create a corporate identity, licensing know-how, concluding joint ventures and other contractual agreements involving IP can impact significantly the value of a company.

Companies need an “IP-friendly” environment in Europe. This requires a holistic, comprehensive and enabling framework for IP that is able to respond to the challenge of the acceleration of technological progress as well as a strategic vision from the side of European policymakers. The entry into operation of the unitary patent and unified patent court are a positive step in this direction.

In terms of funding, industry participation passed from 43% in FP4, to 29% in FP6 and 31% so far in FP7. Reversing this trend and attracting more industry to the EU funded R&I projects must be a priority. A stronger focus on promoting Key Enabling Technologies and other new technologies tackling societal challenges is needed.

A successful EU research and innovation policy is necessary to ensure a sustainable economic recovery and to strengthen the European industrial base

BUSINESSEUROPE recommends:

- Finalize the Horizon 2020 Package setting in place simplified bureaucratic procedures and a reimbursement model adapted to business needs providing an adequate level of funding for industry. A ”fast track” instrument must be set up with adequate funding under the objectives II and III of Horizon 2020. This open-call instrument must be open to all participants and should follow a bottom-up-driven logic to evaluate and fund innovative ideas and research at any time applying a fast, standardised and reliable procedure.

- Increase the funding of innovation activities including demonstration projects for manufacturing technologies, large-scale trials, pilots, test beds, proof of concept and measures to stimulate market uptake and translate knowledge into economic and societal value.

- Use Structural Funds for the development of activities and infrastructures in the field of R&I to help eligible regions to catch up and eventually be able to secure more funding from Horizon 2020. Structural Funds and governmental policies should support the existing competitive advantages of regions also through the public procurement of innovative solutions.

- Strengthen financial mechanisms and in particular the risk-sharing facilities and venture capital through the European Investment Bank to support innovative companies.

- Achieve a well-functioning European Research Area (ERA) to ensure the supply of well-qualified researchers, facilitate knowledge transfer and support researchers' mobility both between academia and industry and geographically. Businesses involvement in curriculum development and doctoral training will result in skills better matching labour market needs.

- Activate and engage all European R&I actors and other stakeholders relevant for successful innovation around Public Private Partnerships. These should identify and exploit technological opportunities that can improve the competitiveness of European industries. The European Institute of Innovation and Technology (EIT) must be supported to successfully integrate education, research and innovation activities at EU level.

- Streamline, simplify and modernise the functioning of the trade mark system in Europe via the Commission reform proposals and introduce EU legislation establishing better protection across the EU against the misappropriation of trade secrets/confidential business information.

VII. Transport: enabling business to trade

Transport and transport infrastructure are fundamental for the EU economy and industry. Transport networks can be seen as the veins of the economy and without them, trade in manufactured goods would be impossible. Strong and efficient core networks heavily contribute to a competitive European industry as they determine the limits of trade. The capacity of ports, necessary interconnections and the level of interoperability of national networks affect the efficiency, costs and effectiveness of transport services in Europe and therefore the competitiveness as a whole. International accessibility is necessary to secure the European export to foreign markets and for Europe to stay competitive. Aviation and sea freights as well as well functioning ports and airports are crucial in this regard.

European industry needs more efficient and cost-effective transport networks. To achieve this, remaining regulatory, administrative and technical barriers in all modes of transport, need to be removed.

In addition, huge investments are needed to complete important trans-European transport networks and to maintain the existing infrastructure. In 2000 to 2006, the EU invested EUR 859 billion in its transport infrastructure. However, the cost of EU infrastructure development to match the demand for transport has been estimated at over EUR 1.5 trillion for 2010 to 2030.

It is essential for industry to have access to reliable transport services. Unreliability can affect the supply chain and significantly increase costs for the freight and logistics industries. Also, companies must have the flexibility to choose their preferred mode of transport. It is important that so-called ‘modal shift’ is not forced against the free market because it may lead to significant losses in cost efficiency and put the competitiveness of European companies in danger. In this context, legislators should refrain from regulating with concrete measures to promote a specific means of transport.

Industrial competitiveness also depends on using transport and infrastructure more efficiently, for instance through better use of improved traffic management and information systems and more advanced and cost-effective logistics. Logistics costs, including transport and storage, currently represent between 10 and 15% of the cost of finished goods for European companies.

BUSINESSEUROPE recommends:

- Build on market-based solutions to guarantee access to all transport markets and remove regulatory, administrative and technical barriers in all modes of transport.

- Raise awareness of the importance of transport and ensure that European initiatives incentivise and not penalise industry to take the right steps towards the development of a sustainable and competitive transport system.

- When choosing the type of initiatives to reduce transport emissions, take into account that the development of sustainable transport requires a mix of initiatives to work in combination with each other (liberalisation, connecting infrastructure networks, energy-efficient and clean transport, ICT solutions, administrative procedures...).

- Ensure a high level of public commitment in infrastructure investment, including sufficient funding at both EU and national level.

- Optimise the performance of multimodal logistic chains, including by making greater use of the most efficient mode for each particular transport task.

VIII. Competition: encourage efficiency and innovation

Competition, state aid and public procurement rules play a key role in the regulation of the single market. The strict application of competition rules, transparency and efficiency criteria in public spending are important at a time when Member States are looking for growth measures with limited budgets.

National subsidies are a second best solution. In general, recovery can only come through private investment. But companies must be supported with the right incentives. While the slow process of adjustment and reform should be accommodated it is important that state aid should not slow down necessary restructuring in Europe.

The state aid modernisation process must maintain a strong focus on stimulus and growth, particularly in the context of the current debate on the need to strengthen Europe's industrial base.

The main goal of public procurement must be to achieve efficiency in public spending and ensure the best economic value for taxpayers' money. At a time when developing a stronger partnership with the private sector in providing good public services and infrastructure is essential, the current public procurement reform process must concentrate on developing fair and transparent competition within the European internal market, not on limiting it.

BUSINESSEUROPE recommends:

- Revise regional State aid rules with a focus on attracting new investors and on enabling investment by already existing business, which can be crucial to economic regeneration. Also, the provision of regional aid should be evaluated primarily on the quality of the investment, its expected impact on the economy and on its effect on competition, not on the size of the enterprise.

- Simplify the procedures when possible in order to make them more attractive for investors (contra-factual analysis, the possibility of starting project work when a request is submitted to the member country, flexibility of approval process).

- Use the update of the state aid framework for RDI (spell out) to reflect today's concurrent and interactive industrial innovation process with constant market feedback. The criteria regarding collaboration between companies and publicly funded research organisations should lead to more collaborative RDI projects and reduce the hesitation of industry to cooperate with research organisations.

- Increase the role of innovation clusters in drawing closer SME and public research. If Europe wants to accelerate transformation through innovation, the relevant state aid rules should ensure that the costs of clusters do not deter businesses from joining them.

- Ensure that the revision of the public procurement legal framework does not lead to unnecessarily complex legislation that will be difficult for suppliers and contracting authorities to apply in practice. Above all, the revision should safeguard the important principles of transparency, market openness and competitive tendering, which are vital for a prosperous single market.

IX. The single market: a platform for industrial growth

The single market is Europe's primary tool to get out of the crisis and increase its worldwide competitiveness. The single market is an asset for European industry which should be used as a springboard to meet the challenges and seize the opportunities of the global market.

EU countries currently trade twice as much with each other as they would do in the absence of the single market. In addition, the single market adds EUR 600 billion a year to our economy and helped to create almost 3 million new jobs in Europe since 1992 but is still incomplete. Its completion is a key element in any EU pro-competitiveness strategy.

Framework conditions must allow European industry to exploit the investment and business opportunities that the Single Market offers by creating a better regulatory environment for industry and by using all the relevant instruments, including standardisation, harmonisation as well as mutual recognition, while limiting *gold plating* (member states implementing EU legislation in an excessive way that creates barriers to the single market) and market fragmentation by Member States.

Complete the digital economy

The impact of the digital single market on the European industrial policy must be taken into account as well. The digital economy can increase the competitiveness of many "traditional" sectors. Between 2010 and 2016 the digital economy contribution to EU GDP will increase by roughly 2 percentage points (from 3.8% to 5.7%), which corresponds to 11 hundred billion EUR in 4 years from now.

Connecting infrastructure with IT creates new opportunities and efficient interaction of the single infrastructure components. The transformation of existing as well as the building of new infrastructure into smart grids is one of the biggest infrastructure projects for Europe. The aim of a digital infrastructure policy is to master the huge societal challenges and utilize the inherent opportunities within society, the economy and the environment equally. The digitalisation of Europe's infrastructure entails many technological and financial challenges. Nevertheless, the installation of smart grids holds first and foremost opportunities for the European economy and job market.

The importance of the free movement of goods for industry

Approximately 75% of intra-EU trade is in goods. Although it is the most developed of the four 'freedoms' that make up the single market, there is still untapped potential that must be fully realised in order to support industrial competitiveness.

A coherent legislative framework is needed for goods. It is important when new legislation is introduced – or changes to existing legislation are made – that they are well thought through and impact assessments are carried out. In this context, the Commission's recently adopted 'Product Safety and Market Surveillance Package' can be broadly welcomed as it aims to simplify the current legal framework on product safety and to strengthen market surveillance to catch unsafe products.

The importance of services for industry

Services are an essential part of the EU industry, be it as inputs or as outputs. Services appear at any stage in value chain and across all sectors of the economy, including manufacturing. In fact, based on recent figures from the World Input-Output Database, 15% to 30% of the inputs in European manufacturing come from the services sector, making it the most important "raw material" of the manufacturing process. In addition, 75% of trade in services concerns the supply to other businesses (B2B), hence their importance for the overall competitiveness of the EU economy.

Moreover, we see that manufacturing companies are providing more and more additional services related to their product(s), a so-called process of "*servicification*". For many manufacturing companies "service" is the area where the biggest competitive advantages can be gained, in particular in industries with homogeneous competitors and tough competition.

Yet, despite the existence of the single market, since 2004 trade in services between the EU and the rest of the world has been growing faster than inside Europe. This is because European companies that provide services are still faced with many administrative, regulatory and linguistic barriers when operating across borders.

To create a true single market for services, where competitive services can support industry, these remaining barriers need to be tackled.

BUSINESSEUROPE recommends:

- Better enforce the principle of mutual recognition (when a good or service can be sold legally in one EU country, it should be allowed in other EU countries). In particular, national technical regulations where member states' impose their own national requirements and testing methods continue to limit the free movement of goods.

- Fully implement, apply and enforce the Services Directive in all Member States, which alone can bring additional gains up to 1.8% of EU GDP (about EUR 330 billion).

- Remove all remaining burdensome, discriminatory and unjustified national requirements applicable to service providers, such as residence or economic needs tests, and avoid the introduction of new ones.

- Modernise and further simplify administrative procedures for service companies through better functioning Points of Single Contact, which positively affects the creation of new business and can provide gains up to 0.21% of EU GDP.

- Reduce the number of regulated professions, prioritising professions and sectors which have the largest growth potential and are most regulated or only regulated in one country, and ensure easier and faster recognition of professional qualifications.

- Boost the productivity of "*business services*", such as accountancy, legal and consultancy services, but also IT and software services, industrial cleaning and security services as these are mostly provided to other companies, hence their importance for the competitiveness of EU industry. But productivity levels in many EU services sectors remains below leading international comparisons, with the very limited productivity growth observed in business services sectors as particularly concern.

- Complete quickly the digital single market, addressing fragmentation within the Member States. It is also fundamental to create favorable conditions for the development of broadband, the necessary pre condition for the achievement of the digital single market.

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