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Lisbon Revisited: The EU's Revised Growth Strategy

- Recently the European Council adopted an updated Lisbon Action Plan. It incorporated the Lisbon programme and recommendations for actions to member states for inclusion in their national Lisbon program. The EU-Commission issued "Integrated guidelines for growth and jobs": clearly putting pressure on member states to deliver at a national level and to focus on selected areas.
- This indeed is needed, because even though the Lisbon Agenda ideas were excellent, we are still far from reaching the goals. In particular some key policy areas need to move forwards:
Ensure economic stability and sustainability, deepen an open internal market, create an attractive business environment, increase innovation and improve employment conditions.
- All of these are important to us. The Lisbon agenda is the right strategy to improve Europe's capabilities to grow, innovate and be competitive, acting successfully in a globalised world.
- With the revised Lisbon agenda, the goal for Europe to become the world's most dynamic and competitive knowledge-based economy in the world should not become less important even if the target date will move further out.
 - Europe has a rich pool of talents and needs to wake up to unleash the energy of its many excellent industries and entrepreneurs.
 - It would be wrong to ignore the original goal to become the most dynamic competitive economic zone of the world: The global environment does not allow us to do so, international investors count on this largest homogenous market of the world.
 - Europe should find its leading role in the global competition for investments, innovative talents, entrepreneurs and valuable jobs.

The Global Challenge for Europe

- We need Europe to grow faster than it did in the past ten years. We are not generating new employment opportunities fast enough. If we do not want to accept that challenge, growth elsewhere is attracting investment and jobs away from Europe.
 - The necessity to really act fast is obvious today: we have clear signs that the manufacturing industry is restructuring in Europe, adapting to fast growth in Asia, USA and Eastern Europe and to slower growth in our home countries with the consequent impact of employment shifting to growth areas.
 - Countries that recently subscribed to a free market economy are attracting vast investments because of their potential for development: Eastern Europe, China, Russia and in addition India. We all want to be part of this development.
 - These countries need to build up their infrastructures and industries and their needs are enormous. There is tremendous growth in these countries to satisfy the need of their enormous population, i.e. in China and India as well as in Russia. They need manufacturing and R&D locally close to the new customers. These are huge opportunities we have to capture.
 - The low cost of manufacturing in Eastern Europe and Asia attracts investment and therefore value added to these economies.
 - Yes, there will be new competitors emerging there and we need to fight these new competitors on their home turf, e.g. with manufacturing and R&D in China.
- European companies and politicians will therefore be challenged with contributing to the task of rebuilding lost value added. This is not new: we faced the same challenge 100 years ago and again 50 years ago, when we were helping industrializing countries to build their infrastructures and industries. Today this challenge is aggravated by the opening of the communist block to free market rules 15 years ago.
 - But every time when value added shifted to other countries, we in Europe rebuilt value added in our own more industrialized countries via innovation with Europe serving as the lead market for new applications.
 - Based on local demands, and later exports, we have always been able to develop and apply newly developed technologies in Europe.
 - Growth will come from applications of new technologies here in Europe.
 - Therefore we cannot afford to be hesitant about applying new technologies; we even forbid new technologies based on political ideology. We have to apply them before the USA, Japan, Korea and China become lead application markets with competitors that will then export from there to Europe.
 - Applying broadband and internet technologies on a large scale first in USA, Korea and Japan is costing Europe growth opportunities.
 - Korea experimenting with intelligent home concepts more widely leaves long developed European technologies unrealized.
 - Building a magnetic levitation train in China first, should be considered as a major success, but at the same time means that jobs and R&D go to China, if we do not quickly follow in Europe.

- What we should learn from the globalisation effect for Europe:
 - Value adding takes place where growth is and where innovations are applied: today often in Asia and the US.
 - A high cost Europe will transfer manufacturing of mature technologies to low-cost countries to keep products competitive in a global competition.
 - Reducing labour costs in Europe is needed but will only slightly diminish competition in the international markets. It will not secure Europe's economy in the long run.
 - We need a new basis for growth and prosperity that will allow us to keep our living and social standards in the future.
 - We can generate growth and prosperity only through innovation i.e. the creation and application of new technologies. Innovation must mean not only R&D, but also to develop lead application markets.
 - Most of the high-cost countries in Europe will provide their unique and differentiated man- and innovation-power to the world markets. Exports will only be possible for products and services that have their lead markets here.

Key Actions for a European Response

If we want to generate new value added at home, we have to do away with all obstacles to growth and push the key drivers of innovation growth: in our companies risk taking entrepreneurs, innovative talents and on the market side demanding innovation hungry customers and attractive business regulations.

Therefore I will talk about these drivers of growth in 5 steps:

- Short term growth in our view can be achieved by an all out effort to foster entrepreneurship and attractive conditions for investment.
- Short term, also faster application of technologies that are presently going into production and can generate growth and jobs in European infrastructure markets.
- Medium term growth comes from today's investment into R&D and development of new technology markets.
- Short and long term growth will be built on the better technical education of our workforce and of our youth, the talent base of the future.
- Overall, we have to continuously increase productivity and competitiveness of our industries: Make our labour market more flexible, mobile and internationally competitive and reduce avoidable cost disadvantages of European labour to slow the loss of value added.

1. The fastest and the least costly way to growth is to create European political and market conditions that foster entrepreneurship and attractive conditions for investment.

- We should insist that the Commission and national governments realize all of the Lisbon Agenda points to improve business conditions:

- First of all: Complete and deepen the integrated open European market, e.g. for financial services, infrastructure markets and by removing technical barriers (standardization)
- Secondly, to provide the right framework to allow start-ups and existing companies to flourish and to reduce administrative burdens.
Cut the red tape: Entrepreneurs must be able to start and pursue their business more easily.
 - Skilled personnel in many companies must not spend more and more time being bureaucrats.
 - The formalities for opening a new business with a minimum of bureaucracy should be an objective. This has only been attained in a few member states. It must become general practice, if we are to catch up with countries, such as the USA, where ten times more start-ups are launched every year.
 - A much simpler, cheaper and faster Community patent is a must: this is vital for our manufacturing industry to fully benefit from the economic advantages associated with being first on the market.

We need a simpler and better regulatory framework for everyone in our industry.

- Before adding any further regulation, ensure that it is really necessary.
- The Commission should always ensure that there is no better way to achieve the political objective on which any proposal is based.
- The Alliance for a Competitive European Industry of which Orgalime is a member has highlighted what the industry feels is needed in this area. We also welcome the Commission's recent Communication on Better Regulation of Growth and Jobs.
- Further reduction of corporate taxation, in particular loss offsetting would be of the greatest benefit for start-ups, small enterprises and high-risk undertakings in large companies.
- Strong and lively financial markets are useful drivers of innovation and growth: venture capital and private equity go for growth and profit opportunities, and so would pension funds in many European countries.
 - Easier exit opportunities for venture capital and private equity.
 - Foster restructuring of industries (e.g. by reducing capital gains tax) allowing dormant business units to find better owners.

2. Short term growth can also be achieved by modernizing European infrastructures and faster application of technologies there.

- Our infrastructures need modernization through application of new technologies and can open opportunities to create European lead markets:
 - We have to make sure that all obstacles to applying information technology are removed today (e.g. broad band, internet), in e-business, in e-government, in e-health, in e-schools.
 - Fast digitalization of radio and TV all over Europe (DVB-T, C, S) should be fostered, thus creating a European lead market.
 - We have a task at hand to modernize other European infrastructures, e.g. build road telematics, rail automation, new energy networks and modernized energy generation plants.
 - We need modernized health infrastructures, fully IT-networked.

Such projects of course have a positive effect throughout the whole supply chain from the smallest supplier to the major contractor.

- But talking about infrastructure we have to consider financing anew: In many European countries today, government budgets are not showing the right balance between investment and consumption.
 - We have to refocus public spending. Many of our governments' budgets are very consumption-oriented, e.g. in the German budget, investment has arrived at a historically low point: we are back to the situation of the 60s.
 - But we might also have to think about how to mobilize the private sector to take on some of those investment tasks in public-private partnerships. We should think about creating investment conditions for private capital to take on the task of modernizing infrastructures.

3. Midterm growth will come from research with fast application to develop new technology markets.

- To get the maximum out of the R&D funds that are spent by EU, national governments and industry is the challenge here. We need to develop new technology applications earlier to achieve more growth faster in new technology markets such as sensors, nanotechnology, mechatronic, MEMS, new materials, optical and optronic technologies, biotechnology, genetic engineering, fuel cells and other new energy technologies as well as software technologies.
- Closer cooperation of private companies and research institutes and the formation of science and industry clusters can help here and needs to be enhanced significantly.
 - As the President of the Electrical and Electronics Association in Germany, I made a proposal to introduce a "research cooperation incentive". A public R&D institute that is able to acquire an industrial contract should get 25 cents from the government in addition to every euro earned from its industrial customers.
 - This would make sure that there is competition among institutes for industrial contracts, i.e. competition for quality, because industry will give contracts only to the best institutes. At the same time, we would get those institutes to work more on application-oriented projects: Application-oriented project work, increasing to about 50 % will not damage long-term research.
 - As such research is more focused on early applications - the industry side being obviously interested in getting a return on their investment - we would get faster growth.

4. The fourth and longest shot, but also one of the key growth levers is education.
- Today we not only have less students than 30 years ago, we also have less students that have decided to start engineering studies.
 - If we look at the number of engineers who are being trained in China, in the US and in Europe. You will find that there is a factor of almost 5, not only between China and the US, but even worse also between the US and Europe.
 - That means we have to cope with a shortage of technical talent soon:
 - Create an EU based on excellence in education. Excellence cannot be dictated by governments, but will more effectively be achieved by competition in the educational sector: for finance, for the best professors and for talented students.
 - Again get more young people - especially more women - attracted into technical studies, so that we can build our future growth on innovation.
 - Employ scarce talent more effectively by lifelong learning and extended work life.
 - Attract talents from outside the EU: foster talent immigration and attract foreign students.
 - Already today education makes a major difference for a person confronted with unemployment:
 - In Germany, for example, with an average level of unemployment of around 10%, only 3.9%¹ of people with tertiary education are unemployed.
 - On the other hand the unemployment rate rises to about 18%² for the less educated.
5. Innovation can only flourish with a flexible and mobile labour market. We have to make sure that we are able to redeploy our labour force from old technologies to new ones, since Innovation means continuously old products and business will be phased out and new ones will be built.
- We have to help companies and individuals to move into new areas. We have to do away with laws and regulations that so far have forced companies to keep people in their old jobs.
 - Instead, companies need more open options for restructuring and employees need help for retraining.
 - In addition, of course, we need to lower labour costs, i.e. work longer for same amount of compensation and reduce extra cost burden on labour.

¹ OECD „Education at a glance“, 2004: 25-64-years old men in 2002 (ISCED-97, Type B)

² Pre-primary and primary education

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- Today Orgalime is focusing on business in the pipeline. This is not surprising, as there is so much in the regulatory pipeline. At the same time we must develop a strategy for the future.
 - Some areas, such as the longer term role of our industry in R&D and the formation of open competitive internal markets are already being worked on here in Brussels. Others, such as investing in education will require investment back at home; labour markets will need our engagement in both areas.
 - We also need to develop a vision for the future that we can communicate to policy makers. We must tell them our ideas of how to generate growth, innovation and how to increase Europe's competitiveness and we must include them into our ORGALIME programme.
- The French Blue book developed by FIEEC and its partners, and the German political messages and growth initiatives compiled under the title "The Courage to Change" were a good starting point to develop our Orgalime Manifesto. "Engineering the Future", the title of this conference and also the title of this conference's manifesto presented to Commission Vice President Verheugen is a solid base with the following core areas.
 - Achieving an innovation and entrepreneur friendly regulatory environment.
 - Research and innovation, the key to our future in Europe.
 - Fiscal framework: investment climate and taxation.
 - Equipping our workforce for engineering the future.
- What we need now is "best practice" and our own industry contribution to this process. One of my first priorities as ORGALIME President will therefore be to listen to my colleagues from the other European countries. For example there might be activities in Sweden we are not yet aware of. There might be initiatives in France. There might be a successful cooperation in Slovenia.
- We need partners and we need to share the workload. Therefore I aim to continue developing ORGALIME's work into the direction of becoming the "lobbying organization No 1 on selected items".
 - On the core horizontal political issues which Orgalime decides to follow and to lobby, we want to be successful. Put the right structure and resources behind them.
 - On issues with implications beyond our industry, we need to cooperate with partners such as UNICE, and the major manufacturing industry sectors, such as the automotive industry, the chemicals industries, and others within the framework of the Alliance for a Competitive European industry. This has been launched and now needs to be developed.
 - Within our industry we need to establish an even better working relationship with the sector committees such as CECED, CECIMO, CEMA, EICTA, FEM and others and find ways of ensuring that our cooperation is mutually beneficial and strengthens our industry's input into the political process.

- A crucial factor for success in the long run will be our future way of integrating company knowledge and expertise into ORGALIME's work. We know that some companies would be ready to participate directly in the work of ORGALIME and provide resources for lobbying activities. We should work with them. I will also understand the needs of the vast majority of Orgalime members which are SME's.

Outlook

- While thinking about growth in Europe, we must not forget that one of the characteristics of our industry is that many of the smallest of companies are global players: they export, they source, they manufacture, they outsource throughout the world. It is extremely important that we are able to continue developing our activities worldwide:
 - If our international competitors obtain more favourable trading conditions than we do, we will be at a disadvantage.
 - WTO negotiation on opening agricultural and service markets globally are in our industry's interest to create more purchasing power in developing countries and in Europe.
 - At the same time, we must also pay increasing attention to the protection of IPR, particularly in the context of counterfeiting: this will be one of our main challenges in the coming years.
- On the other hand, Europe must be able to face up to the internal challenges of generating growth from entrepreneurship and new technology application.
 - Create an excellent field for entrepreneurs and investors.
 - Create a new value added and new lead markets also as base for export.
 - Create an excellent technical talent pool and a mobile and flexible labour force.
- We are going to face up to a much greater challenge of acting in a globalised world while preserving and developing the social and environmental standards to which we aspire. We as Orgalime have to think about the political initiatives, we want to start to drive this process forward in the interest of our industries and of the entire European Community.