A question of policy

The contribution of manufacturing to the EU economy has been in decline. However, a framework of supportive policies can help it compete globally, the industrial minerals industry included, explains Patrick Hennessy, Director of Directorate E, DG Enterprise.

EU industrial policy

European industry makes a vital contribution to the continent’s prosperity and overall standard of living. However, it faces major challenges including: the emergence of new global competitors; rapid technological developments; skills gaps; and increasing public expectations regarding consumer, environmental and health protection.

The state of manufacturing

Analysis of the EU economy from the end of the 1950s has identified a decline in the manufacturing industry’s share of it, with reallocation of resources to the services sector.

One of the main drivers behind this has been industry’s higher productivity growth compared with services, which has led to a continuous transfer of jobs from industry to services. Therefore, despite most industrial sectors recording job losses, they have also experienced an increase in both value added and labour productivity.

This structural change in the European economy, with the reallocation of productive resources to the service sector, is considered essential if Europe is to maintain its competitiveness and achieve sustainable growth.

However, there has been increasing concern that this process is also leading to ‘de-industrialisation’. This is defined as industrial decline in absolute terms, characterised by consecutive reductions in employment and production caused by the relocation of industrial production to countries with lower costs and fewer regulatory constraints.

At the request of the European Council, the Commission carried out an analysis of the problem of de-industrialisation. The conclusion of this exercise, reported in recent communications, was that there is little evidence of widespread de-industrialisation. However, there appears to be a problem for some manufacturing sectors such as shoes and textiles, which are more workforce than capital-based and are subject to intense international competitive pressures.
More generally, however, there is evidence of an overall decline in the competitiveness of Europe’s industry relative to that of its main competitors and this, combined with increased international competition, threatens to impede the process of structural change to Europe’s economy.

The analysis highlighted problems identified previously such as: weak sectoral specialisation, slow take up of information communication and technology (ICT), skills shortages, and a regulatory environment that is perceived as not being business-friendly.

All this threatens the achievement of goals set by the European Council of Lisbon to make the EU “the most competitive and dynamic knowledge-based economy in the world” by 2010.

Seizing the initiative

Many of the measures required to improve the competitiveness of the industry need to be taken by the industry. However, European and national authorities also have a fundamental role to play.

The Commission has already launched a number of initiatives to improve the effectiveness of its competition policy, including a programme of policy reforms in antitrust, mergers and state aid. It has also adopted communications on how to maximise the advantages of an enlarged internal market, how to foster industrial competitiveness, and how to promote research, innovation and entrepreneurship.

However, it is also clear that if EU industries are to compete in the global market place, they need a more supportive policy framework. This means ensuring that policies which impact on industrial competitiveness strike an appropriate balance between economic, social and environmental objectives, in line with the principle of sustainable development.

To achieve this requires:
- the systematic monitoring of developments and a review of the state of competitiveness of individual sectors
- a thorough assessment of the economic, social and environmental impact of key legislative proposals
- a clear focus on research, innovation and entrepreneurship

The Commission’s Annual Policy Strategy for 2005 proposes an in-depth analysis of the raw materials sectors, to be followed by concrete proposals for measures to improve their competitiveness. An analysis of the competitiveness of the non-energy extractive industry has already started.

In relation to assessing the impact of new proposals the Commission, in collaboration with the Council and the European Parliament, has improved its process of undertaking integrated impact assessments by placing special emphasis on strengthening the competitiveness aspect and, in co-operation with the Council, is devising a method for measuring the administrative burden on business. Stakeholder consultation is also an important aspect of this process.

On the question of research, the creation of the European Research Area in 2000 sought to provide an internal market for research and technology to counter fragmentation. An action plan is in place to increase investment in research and to achieve the objective agreed at the Barcelona European Council to increase R&D spending in Europe to 3% of GDP by 2010, while improving the quality of research and its appropriateness to the needs of the market.

An action plan on ‘Innovation for Europe’s competitiveness’ will be presented by the Commission this summer. This will aim to put business at the heart of European innovation policy.

The March 2004 European Council invited the Commission to establish a high level group, headed by former Prime Minister of the Netherlands Wim Kok, to carry out an independent review to identify measures which together form a consistent strategy for the EU economies to achieve the Lisbon objectives and targets. The group is to report to the Commission by November, to enable the review to contribute to the spring 2005 European Council.

Challenges for industry

Concerning the non-energy extractive industry, Europe has a particularly diverse geology and a long history of mineral production. The extraction of sand and gravel or hard rock for use by the construction industry to build houses, schools and roads, or industrial minerals such as kaolin, fluoride, silica and talc, as well as metals such as lead, zinc and copper for use by the manufacturing industries provides jobs and adds value to the European economy.

It has been estimated that collectively, the non-energy extractive industry within the EU25 generates approximately €13,000m. of added value and provides about 270,000 jobs. Figures provided by IMA-Europe indicate that its members operate more than 650 mines and quarries throughout Europe, process annually around 100m. tonnes of industrial minerals and provide some 40,000 jobs.

Without an active and successful extractive industry capable of providing an adequate supply of high quality raw materials, the much larger manufacturing and construction sectors – which generate between them almost 40% of the total EU added value (or €1,800,000m.) – would be less able to compete in an ever-growing global economy. The importance of the extractive industry, therefore, far exceeds its direct contribution to the EU economy.

The link between the extractive industry and downstream industries is an important one. For some manufacturing sectors such as those producing glass and ceramics, the availability of virgin raw materials such as sand and clays is a major concern for future sustainability. It is important that the competitiveness of the downstream industries is not compromised unnecessarily by an inability to provide it with the basic raw materials it requires, in appropriate quantities, of suitable quality, and at reasonable prices.

The recent accession into the European Union of ten new Member States brings with it both challenges and opportunities for the extractive industry and the downstream sectors it serves. The internal market has been extended by 75m. people. It also brings into the Union a number of countries with significant reserves of industrial and other minerals and a very active extractive industry.
Looking only at industrial minerals, Poland is an important producer of gypsum and feldspar; the Czech Republic of kaolin, bentonite and feldspar; while Slovakia is now the largest producer of magnesite in the EU and the fifth largest globally.

Issues such as the effects of globalisation and trade policies; the future availability of energy and raw materials; the impact of environmental policies; human resource issues such as the retention and development of skills; and employment and the impact of technology, are as relevant to the non-energy extractive industry as they are to other industrial sectors.

An additional determinant of the success of the extractive industry is its ability to gain access to new resources. It is an unavoidable characteristic of the sector that unlike almost all other forms of industry the choice of location is largely set by geology, as minerals can only be worked where they are found. This can bring the industry into conflict with the other uses of land, such as urban development, high quality agricultural land and biodiversity.

DG Enterprise has commissioned research to assess the land use and mineral planning policies of the 25 EU Member States in order to examine the different legal frameworks within which the industry operates, and to determine the extent to which provision is made for the long-term availability of minerals in the different countries. The study seeks to identify good practice and the results will feed into the sectoral competitiveness assessment.

It is increasingly recognised that globalisation, and the related issue of trade and investment flows, demands rapid reaction to changing market conditions and a far-seeing view of future developments in order to ensure the best possible marketing strategies and sound investment policies which will ensure long-term viability. The particular significance of this for the extractive industry is clearly recognised where the upfront investment required to find viable new resources and to bring a site on-stream can be in the order of many millions of Euros, while the time required to recoup the initial outlay and make a profit can be many years.

Regulation can bring with it added costs and administrative burdens. For the extractive industry, this relates in particular to regulations dealing with environmental protection and health and safety. However, while there are costs to the industry for meeting the requirements of such legislation it also has to be recognised that much of this legislation also directly benefits the industry.

For example, it helps to provide the public and public authorities with confidence that site operations can be safe and properly controlled and that the land will be rehabilitated to a beneficial use once extraction has ceased. This helps to reduce the scale of opposition to proposals to open new sites or extend existing ones.

Policies requiring more efficient uses of natural resources such as energy and water also force companies to look in on themselves to identify means of improving efficiency. This can reduce both the environmental effects of the industry and in many cases save money.

Health and safety regulation is also essential to minimise the risk of injury or death, both to the workforce and to those living in the vicinity of the site. It is not possible to prevent all accidents, and the industry remains one of the more hazardous industrial sectors. However, one has only to compare the number of fatalities now with those a few decades ago, or to look at the continuing situation in some non-EU countries, to clearly understand the importance of the regulatory framework. If the industry is to obtain and keep new recruits it is vital that companies develop and maintain a safe image.

However, as previously mentioned, it is vital for the competitiveness of the industry that the level of regulation is proportional to the risks posed. The Commission, Member States and industry all have a role to play here. Through consultation on new proposals and the preparation of an impact assessment it is possible to better understand the impacts of a proposal.

We look to the active involvement of the extractive industry in this process. The current Proposal for a Directive for the Management of Waste from the Extractive Industry, which is with Parliament and Council, underwent three rounds of public consultation and meetings with experts from Member States, the industry and other interested stakeholders before being adopted by the Commission. The proposal was better for this process.

The use of voluntary initiatives as an alternative to regulation has many benefits. It can be a more flexible approach to achieving real public policy goals and it also helps to improve the industry’s public image.

The European trade associations and their members have taken forward some important initiatives. One such initiative involving the Commission, the non-energy extractive industry and other stakeholders resulted in the publication, for the first time, of a set of sustainable development indicators for this sector. These provide a basis for improved dialogue between stakeholders and improve the transparency of the industry.

It is hoped that by continuing this exercise it will be possible to identify trends and where action is required. IMA-Europe, together with other European federations, is a key contributor to this work and we are grateful for its involvement. However, there is more that industry can do in the way of voluntary initiatives and it is encouraged to look for further opportunities.

**Spirit of co-operation**

The competitiveness of the EU manufacturing industry has come to the forefront of EU politics. It is recognised that industry needs a more supportive policy framework to help it compete on a global scale. Therefore, European policies which impact an industrial competitiveness must contribute actively to that goal. The challenge is to ensure that the right balance is struck between the economic, social and environmental objectives, in line with sustainable development principles.

The Commission is committed to ensuring that unnecessary burdens are not placed on European industry, and that the full effects of measures which impact on the industry are assessed and taken into account before decisions are made.

Through an improved process of consultation and co-operation, we will continue to work closely with industry on all issues concerning its competitiveness. This applies as much to the non-energy extractive industry as it does to the down stream industries it supplies.

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