

EUROPE'S INDUSTRIAL FIGHTBACK THE KEY ROLE OF INNOVATION



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EUROPE'S INDUSTRIAL FIGHTBACK THE KEY ROLE OF INNOVATION

Report of the Café Crossfire

organised by *Friends of Europe*

in association with European Chemical Industry Council (CEFIC)

with media partner *Europe's World*

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Need for an industrial revival

The EU is trying to boost industry, aiming for 20% of gross domestic product (GDP) to come from manufacturing by 2020, from the current level of 15%. Panelists at a *Friends of Europe* Café Crossfire on 18 June said the numerical target was really just a way of saying there's an urgent need for an industrial revival and asking how to bring that about. "I applaud the idea of a numerical target," said **Jan Mischke**, Senior Fellow at McKinsey Global Institute. "That communicates well. But share of manufacturing is not a good marker. A good marker is to look at the competitiveness of manufacturing."

"I applaud the idea of a numerical target. Share of manufacturing is not a good marker. A good marker is to look at the competitiveness of manufacturing."



Jan Mischke, Senior Fellow at McKinsey Global Institute

The discussion came at a time when European leaders are trying to move beyond the sovereign debt crisis that has demanded so much of their attention. Now they are trying to figure out how to promote sluggish economic growth in the face of a number of difficult challenges: high youth unemployment; the need to finance pensions for a fast-growing population of retirees; and high levels of public and private debt which make it hard for some businesses to obtain finance.

The discussion threw up ideas for how to boost industrial competitiveness, and panelists argued over the role of government vis-à-vis industry and the correct balance between risk and regulation – especially in chemicals, a high-performance European industry that also triggers a variety of public fears.

Europe as a whole is in a very different situation from that of the early 1990s, when its productivity was envied by the United States, said moderator [Giles Merritt](#), Secretary General of *Friends of Europe*. “Then the digital revolution came, we were slow to embrace it and the situations were reversed,” he said. “Is the tide beginning to flow back to Europe? Or did we miss the bus?”

Keys to competitiveness

One problem is the member states’ insistence on maintaining national control in certain industries, so they did not commit truly to the EU single market, said [Rudolf Strohmeier](#), Deputy Director General at the European Commission for Research and Innovation. “Value chains are not pure national ones – we have to integrate them”, he said. But now there is growing recognition of the importance of competitiveness to the European economy, something reflected at recent European Council meetings. “The summit conclusions are much more positive today”, he said. “And it is not by accident that the member states have increased the research and innovation part of the budget, and cut agriculture.”

Competitiveness depends on a number of factors including wage costs, productivity, skills, R&D and innovation, integrated value chains and exports, Mischke commented referring to the example of Germany. To those should be added sustainability, said [Reinhardt Bütikofer MEP](#), Member of the European Parliament Committee on Industry, Research and Energy and author of the EP’s report on reindustrialising Europe to promote competitiveness and sustainability. While the share of manufacturing in the GDP in both Germany and Romania is above 20%, their performance in terms of sustainability is not equal.

“Two core issues for next five years mandate of the European Commission could be a real common market for computer and internet technology and for the energy sector,” he added. “It would be interesting if one of the targets of the transatlantic trade negotiations was energy and raw materials efficiency as well as a transition to low carbon economy across the board. It’s not, so far.”

“It would be interesting if one of the targets of the transatlantic trade negotiations¹ was energy and raw materials efficiency as well as a transition to low carbon.”

Reinhardt Bütikofer MEP, Member of the European Parliament
Committee on Industry, Research and Energy



¹ Transatlantic Trade and Investment Partnership (TTIP) currently being negotiated between the EU and the U.S.

Also, industrial innovation should be brought back under the control of the Directorate General for Enterprise and Industry, he concluded.

One of Europe's weak points is that industry doesn't invest as much in research and innovation as some other countries. Strohmeier cited the United States, and Mischke said that Europe spent only 1.9% of GDP on innovation – roughly half the level of South Korea and only 0.1% point more than China. Still, Strohmeier added, the “first mover” advantage has diminished since the 1990s: “It's not the tech that counts, it's the business model. We can build on that.”

"Europe's industry doesn't invest as much in research and innovation as the United States, South Korea and China."



Rudolf Strohmeier, Deputy Director General at the European Commission for Research and Innovation

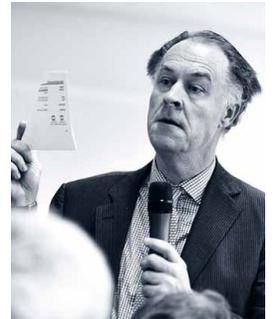
Chemicals is arguably the most successful large industry in the EU, and has continued to grow over the decades despite oft-cited competitive disadvantages such as high energy costs, said Kurt Bock, Chairman and CEO of Germany's BASF. One key to its leadership has been to maintain production in Europe. “The idea that you keep the laboratories here in Europe and production might slowly migrate to other parts of the world is not helpful,” Bock said. “Innovation will only survive if there is close proximity to production because we need to

apply whatever we invent in our laboratories to our production and then pass this to our customers.” Industry clusters are also important he said: “Germany is relatively strong because we have close collaboration with different industries. This fosters innovation.” Money is not a constraint for innovation, money is there, he added.

Innovation happens when there is threat or opportunity. The most innovative companies in Europe - aerospace, chemical and electronics – are those that receive the highest amount of public funding, said Mischke. The key for success is predictability and an innovation-friendly framework.

“Only 13% of European SMEs are active internationally, meaning they miss out on high-growth markets.”

Didier Herbert, Acting Director for Enterprise in the European Commission Directorate General for Enterprise and Industry



Smaller companies need better access to finance and to new markets, said Didier Herbert, Acting Director for Enterprise in the European Commission Directorate General for Enterprise and Industry, speaking from the floor. While small and medium enterprises (SMEs) in Greece face an 80% probability of having a loan application refused, for an equivalent German company the probability is just 10%. He said that only 13% of European SMEs are active internationally, meaning they miss out on high-growth markets. Panama, for example, has been expanding at an annual average of 8% for many years – while its construction sector has been growing at 20%. “Our SMEs are not in Panama,” he said, but “the Chinese are there and the Americans are there.” To give European SMEs a better chance, the European Commission has for the past two years been organising business missions to emerging markets, he said.

Risks versus precaution

Some industries think the European regulatory environment is overly cautious and that this puts the continent at a disadvantage compared to the United States. The chemicals industry favours regulation because it creates a level playing field, “but regulation also has to spur innovation,” said Bock. “We do accept the precautionary principle, which basically means, if something is new and you cannot be sure about the outcome if you use it, go to the safe side. The question is how to apply it, and right now we see an extreme version. If there is even a slight, very low probability that something could not work out, people become risk averse. If you want to have innovation you also have to be risk taking.”



Biotech is a good example of “the hypocrisy that we have seen when we talk about innovation in Europe” he said. Fundamental research into “green biotech” – or biotech for use in agriculture – was carried out in Europe, but it could only be used outside Europe. After failing to get permits to market certain products, BASF shut down almost all its European biotech operations in 2012. “People like innovation, but then we say in Europe that we don't want green biotech because it's dangerous,” he said. “The European Commission has ordered numerous studies and there is not a single study indicating a risk. The biotech industry in Europe is now essentially dead.”

“If you want to have innovation you also have to be risk taking.”

Kurt Bock, Chairman and CEO of Germany's BASF



Marc Van Montagu, Founder and Chairman of the Institute of Plant Biotechnology for Developing Countries and a former Professor at the University of Ghent, is one of Europe's pioneers of genetically modified organism (GMO) research. Speaking from the floor, he said that scientists were going to work overseas where there are better links between research and innovation. “We see that people leave not only for the United States but for China, Vietnam and Brazil,” he said. “Society sees big industry as the villains in our society and sees action against them on an emotional level. It would help if you could separate the political level – on salaries and social benefits – from the economy, which is much closer to science. We have lost so much time on a crucial sector where we were leading – and where in fundamental research we are still leading – and yet it is completely blocked.”

Environmentalists think such problems are exaggerated, and that caution is often well founded. “There are very few examples globally for false positives where we acting over emotionally was later proven to be stupid or unnecessary,” said

Bütikofer. There are too many examples of companies that were pursuing their own interests even if those were detrimental to consumers.

Technocratic concepts such as innovation and competitiveness might be a turnoff for the average European citizen, said Merritt. “Maybe we should talk about living standards and lifestyles,” he said, and “take the industrial debate out of industry.”

“Maybe we should talk about living standards and lifestyles and take the industrial debate out of industry.”



Giles Merritt, Secretary General at *Friends of Europe*

Just as oil is an absolute necessity for the American way of life, certain aspects of the European way of life too are not up for discussion, said Bütikofer. “What we see presently in the European discussion of TTIP is that young people are saying that the European way of life is non-negotiable,” he said – “meaning we want to hold on to some of the quality of life that we have invested in and that we cherish. They see that being threatened. If we can’t translate our technological or political rationale in these categories, and we can’t communicate successfully, then we might get stuck.”



Victoria Bataclan Sisante, Ambassador, Mission of the Philippines to the EU



Reinhardt Bütikofer, Green Party Member of the European Parliament



William Garcia, European Chemical Industry Council (CEPIC)

Giles Merritt, *Friends of Europe*



Participants and speakers at the Café Crossfire debate entitled “Europe’s industrial fightback: The key role of innovation”, organised by *Friends of Europe*

ANNEX I – Programme

CAFE CROSSFIRE DEBATE

Europe's industrial fightback: The key role of innovation

There is a growing consensus in Europe on the need to revive the manufacturing industry. It is now widely seen as the only way the EU could extricate itself from its current crisis and reply to pressing societal challenges. Stimulating growth in the face of fierce international competition is essential, and the European Commission is therefore urging that manufacturing output should be raised to 20% of EU GDP by 2020 from the current level of 16%. Yet, quite apart from their share of GDP, industrial products account for over 80% of EU exports and private sector research and development spending. As economic growth is increasingly driven by innovation and R&D, developing new cross-cutting technologies, ranging from key enabling technologies and new materials like graphene to advanced manufacturing processes and smart integrated energy systems, can improve the productivity of both emerging and traditional sectors. But competitors like the U.S., Japan and South Korea outspend the EU on R&D, raising major questions about the nature of Europe's relative underperformance.

Within the current economic circumstances, where should the increased R&D funding come from and how best can Europeans streamline limited resources in ways that will fuel economic prosperity? Should Europe be more determined in its effort to abandon policies that protect underperforming industries and focus instead on sustainable and future-oriented sectors? What are companies doing in Europe to adapt to existing challenges, such as high energy prices, competition in global markets, climate change or health, safety and environmental concerns? Which technologies and value chains will be the future drivers of Europe's global economic competitiveness? What policy and regulatory framework is needed to boost innovation, without however neglecting the precautionary principle? How can we better translate research into commercialisation of advanced products with added value for EU growth and jobs? Is there a recognition in Europe that innovation is also about mindset change - and what is being done to ensure this happens? How should the EU's industrial modernisation role be made complementary to those of the member states?

Kurt Bock	CEO and Chairman of the Board of Executive Directors of BASF
Reinhardt Bütikofer MEP	Member of the European Parliament Committee on Industry, Research and Energy and author of the Report on reindustrialising Europe to promote competitiveness and sustainability
Jan Mischke	Senior Fellow at McKinsey Global Institute
Rudolf Strohmeier	Deputy Director General at the European Commission Directorate General for Research and Innovation

Moderated by **Giles Merritt**, Secretary General at *Friends of Europe*

ANNEX II – List of Participants

Dries Acke, Policy Manager, European Climate Foundation

Boris Azais, Director Public Policy, Merck Sharp & Dohme (MSD)

Jan Bambas, Industrial Affairs, BUSINESSEUROPE

Victoria Bataclan Sisante, Ambassador, Mission of the Philippines to the EU

Kurt W. Bock, Chairman of the Board of Executive Directors, BASF, Germany

Gabriele Böhringer, Head of EU Cooperation, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

Reinhardt Bütikofer MEP, Member European Parliament, Committee on Industry, Research and Energy

Davide Calabresi, Assistant, European Economic and Social Committee (EESC)

Geert Cami, Co-Founder & Director, *Friends of Europe Les Amis de l'Europe*

Giorgio Clarotti, Senior Policy Officer for Joint Programming of Research, European Commission, Directorate General for Research and Innovation

Stephen Davies, Policy Analyst, European Commission, Joint Research Centre

Wouter Decoster, Economic Mission Coordinator, Belgian Foreign Trade Agency

Nilsy Desaint, Public Affairs and Communications Manager, European Association for Bioindustries (EuropaBio)

Kalman Dezseri, Policy Officer, European Commission, Directorate General for Communications Networks, Content and Technology

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Nicholas Edwards, Associate Director, EU Public Affairs, Shire

Adel El Gammal, Partner, Low Carbon Facts

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Jan Krzysztof Frackowiak, Director, Polish Science Contact Agency

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William Garcia, Executive Director Energy HSE & Logistics, European Chemical Industry Council (CEFIC)

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Nikolas Gervais, Senior Advisor, European Affairs, Electricité de France (EDF)

Periklis Giannopoulos, Economic and Trade Counsellor, Permanent Representation of Greece to the EU

Simon Godwin, Director, European Council for Automotive Research & Development (EUCAR)

Richard Gruber, Counsellor, Military Affairs, Mission of Austria to NATO

Gökalp Gümüşdere, European Policy Advisor, European Committee for the Co-operation of the Machine Tools Industries (CECIMO)

Luc Haustermans, Innovation Manager, Yara International

Didier Herbert, Director, Enterprise Competitiveness, Industry and Growth Policies, European Commission, Directorate General for Enterprise and Industry

Ian Hudson, President, EMEA, DuPont

Cedric Isaac, Junior Manager Government Affairs, Goodyear Dunlop Tires Europe

Johannes Jung, Director, Representation of Baden-Württemberg to the EU

Gunnar Jungk, Head of Office, ThyssenKrupp

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Roderick Kefferputz, Head of Office of Reinhard Bütikofer MEP, European Parliament

Nico Keppens, Knowledge and Communication Officer, European Commission, Directorate General for Development and Cooperation - EuropeAid (DEVCO)

Ben Knapen, Permanent Representative in Brussels, European Investment Bank (EIB)

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Geneviève Lallemand-Kirche, Case Handler, European Commission

Dessa Langevoort, Senior Manager Government Relations, Innovation & Technology, BASF, EU Liaison Office

Liviu Lazar, Industry Relations Officer, North Atlantic Treaty Organization (NATO)

Pablo López, Junior Analyst, Mission of Mexico to the EU

Nicolas Listl, Assistant, European Commission

Utimia Madaleno, Advisor to the Ambassador, Permanent Representation of Portugal to the EU

Erika Mazzucato, Junior Policy Officer, Unioncamere del Veneto

Giles Merritt, Secretary General, *Friends of Europe Les Amis de l'Europe*

Jan Mischke, Senior Fellow, McKinsey Global Institute

Jessica Mitchell, Country Analyst, European Commission, Joint Research Centre

Jessica Mitchell, Policy Analyst, European Commission, Joint Research Centre

Elisa Molino, Governmental Programs Executive, IBM Corporation

Katerina Novotna, Assistant, European Parliament Information Office in Prague

Renata Osmanova, Strategic Communications, FTI Consulting Belgium

Nikos Pantalos, Policy Officer, Clusters and Emerging Industries, European Commission, Directorate General for Enterprise and Industry

Eric Peeters, Vice President Emulsions, Blends and Powders, Dow Corning Europe

Pablo Perez-Illana, Project and Programme Officer, European Commission, Directorate General for Research and Innovation

Nicola Pesaresi, Head of Unit, European Commission, Directorate General for Competition

James Pieper, Manager, Media Relations, European Chemical Industry Council (CEFIC)

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Joanne Scobie, Senior Consultant, Cambre Associates

Teodora Serafimova, Policy Assistant, Bellona Europa

Jorrit Sterk, Researcher, Vrije Universiteit Brussel (VUB)

Liviu Stirbat, Policy Officer, European Commission, Directorate General for Research and Innovation

Rudolf Strohmeier, Deputy Director General for Research and Innovation, European Commission

Maris Stulgis, Policy Officer, Conservation and Control Baltic and North sea, European Commission, Directorate General for Fisheries & Maritime Affairs

Maciej Surowiec, Manager, EU Institutional Relations, Microsoft

Valeriy Tarasenko, First Secretary, Mission of Ukraine to the EU

Sam Van Den Plas, Policy Officer Climate & Energy Programme, WWF, European Policy Office

Guy Van Haeverbeke, Honorary Secretary General & Member of the Board, Trans European Policy Studies Association (TEPSA)

Marc Van Montagu, Founder & Chairman, Institute Plant Biotechnology for Developing Countries (IPBO)

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