

"INDUSTRIAL RENAISSANCE"

The role of Europe, the contribution of Italy



FEDERMECCANICA

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1. Introduction

Since the beginning of the crisis seven years ago, in Europe, particularly in the Eurozone, a long-lasting re-launch is still struggling to take place.

On the basis of the International Monetary Fund's estimates, the GDP, after negative results in 2013 (-0.5%), is expected to reach a modest +0,8% in 2014 followed by +1.2% in 2015.

Regarding unemployment, the data is always more alarming, with a rate equal to 9.9% for the EU and 21.4% (23.0% in the Euro Area) for young people. The threat of deflation is ever more real, while economic differences and financial and competitive imbalances among the different EU countries continue to grow.

In order to stimulate the faint positive signals estimated for this year and to make sure that Europe heads towards the path of recovery and growth, a positive shock is needed which can derive from a convergent action based on a mix of monetary and fiscal structural measures.

The lack of a single voice, different opinions regarding the management of the crisis and an excessive focus on too restrictive fiscal policies that have depressed the domestic demand have dampened any prospect for recovery until today.

With the **Communication on the application of flexibility within Growth and Stability Pact rules**, the Commission led by Jean-Claude Juncker has taken the right direction, marking a turning point in European economic policy.

The Italian Presidency of the Council of the EU has indirectly contributed to these achievements. In fact, besides the re-launch of growth and employment, the flexibility of the rules contained in the European Treaties represented the most important priority of the Italian semester. Such important changes can work as stimulus for the growth of the entire Eurozone.

Also the **decisions adopted by the European Central Bank last January 22 regarding "Quantitative easing"** constitutes a positive development. The

Governing Council of the ECB has, in fact, decided to broaden the plan of bond purchasing, which already includes ABS bonds and guaranteed bonds, to State bonds of those countries belonging to the Eurozone with medium-high levels (investment-grade) and to bonds emitted by agencies and EU Institutions (such as EIB or rescue funds ESM.) The hope is that the ECB move can boost the economy and contribute to overcome the stagnation that is preventing Europe from being a global leader. The impact will be positive also for Italy, providing that it can rapidly implement the reforms that has announced several times, without which it will be harder for our country to undertake a path of growth.

Due to the difficult situation that Europe and Italy in particular are facing, it is crucial to focus the European political agenda on competitiveness of the industrial system through targeted and coordinated interventions among the different EU Institutions and Member States. Without industry, in fact, there will be no jobs, no GDP, no well-being, no revenue nor development.

Many steps have been taken during these years in this direction, as shown by the attention paid at different levels to the question of the “Industrial Renaissance”, with the recognition that **industry, especially manufacturing, represents the principal and irreplaceable motor of the real economy.**

The attention given to the specific issue of “**Mainstreaming of Industrial Competitiveness**” is undoubtedly an important step in order to reaffirm the centrality of industry strategies to support growth and to provide the basis for a **new Governance with policy-making processes that are really able to provide a central role to competitiveness.**

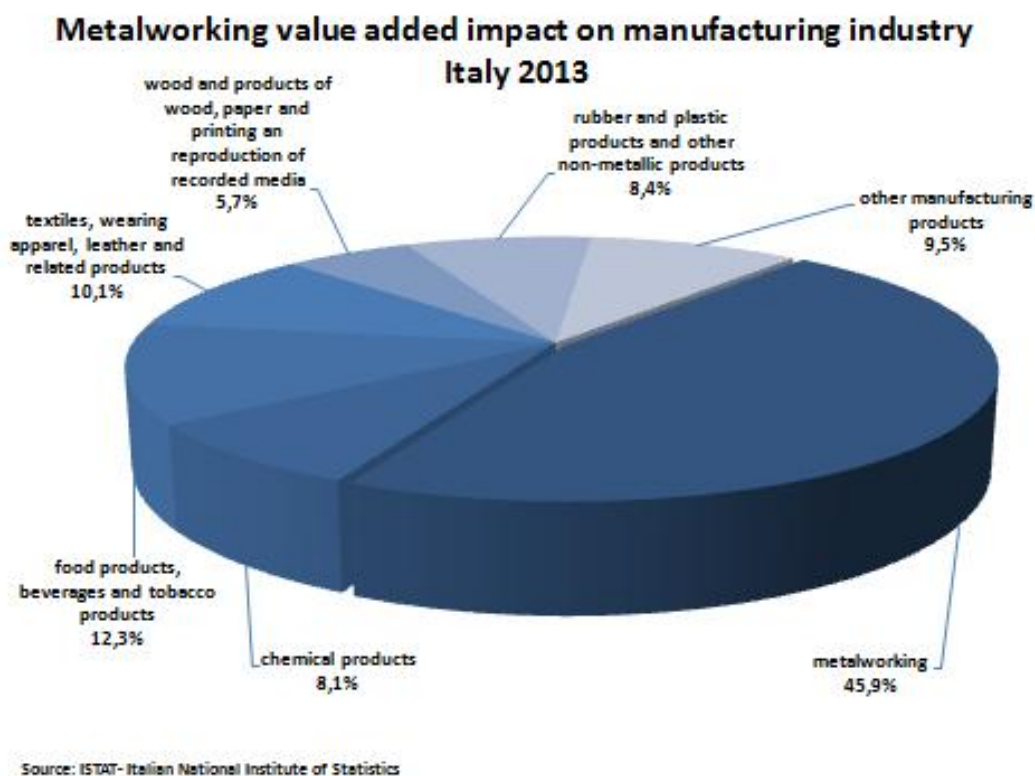
2. The Metal-working Industry, motor of Europe

The metal-working sector is the core of industry representing the most relevant sector among all of the manufacturing branches. This is also due to its high

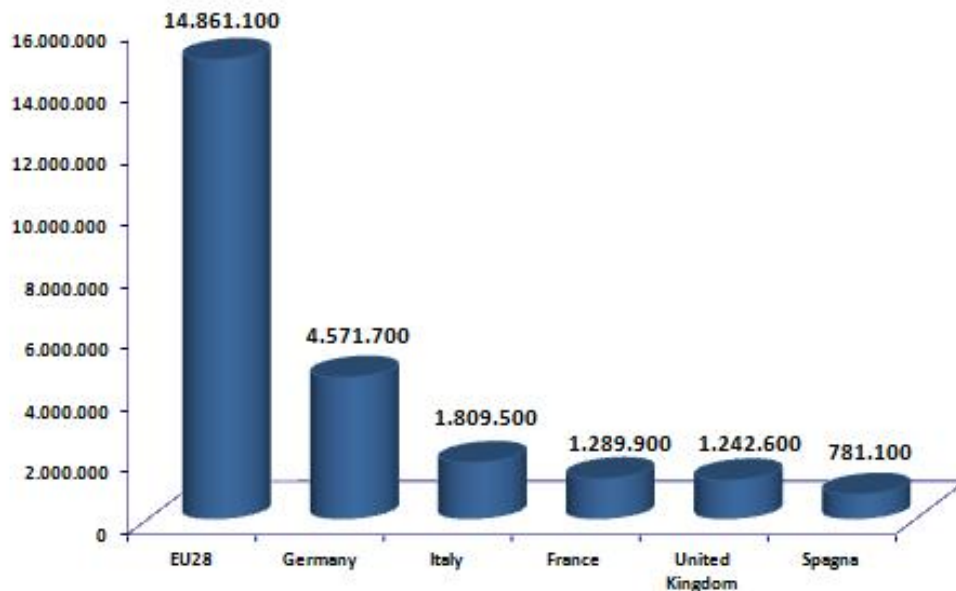
propensity towards innovation which, through its products, is spread to the entire economy.

The metalworking industry is the most important sector of industry, in a strict sense, in 17 out of 28 European countries. In Italy the metalworking value added represents 39.0% of the entire wealth produced by industry, in a strict sense, and 45.9% of manufacturing sector. In terms of employment the percentage is, respectively, 40.1% and 43.9%.

Compared to other EU countries, the Italian metal-working industry occupies with 1,809,500 employees the second place just after Germany and first among the oldest industrialized countries, such as France and England.



**Number of persons employed in metalworking sector
in the EU (28 Countries) - 2013**



SOURCE: Processing on Eurostat data

3. Growth, Competitiveness and Investments: an Industrial Policy for Europe

The new President of the European Commission, Jean-Claude Juncker, has clearly indicated that the re-launching of growth, the strengthening of European competitiveness and the promotion of investments finalized to the creation of employment will constitute the first priority of the new Commission.

As the Commission pointed out in the country specific recommendations for Italy, there are still many bottlenecks hindering investment and reducing the Italian firms' capacity to grow and innovate.

Firstly, an unstable and uncertain legal, administrative and regulatory framework makes business investment too costly. Furthermore, legal and administrative proceedings do not facilitate the resolution of disputes. The determination of liability and related costs, for example, is extremely long, thus increasing uncertainty. Finally, the administrative and bureaucratic structure further weighs

on companies, slowing down 'start-up' investment and the overall business activities.

Secondly, Italian firms are subject to a heavy tax burden which reduces the resources for investment and makes firms less competitive, compared to their international counterparts. **In parallel, also the tax burden on consumers is constantly increasing.** This is due to both the costs on enterprises and passed on to consumers, and direct tax increases on goods and services. These factors, combined with the lack of an appropriate compensation in real wages, lead to a further contraction of the domestic demand.

Another major constraint to investment is the access to finance. Access to bank credit remains complex, especially for SMEs, while access to alternative forms of financing is still very limited. As a result, firms' ability to invest is constrained.

Moreover, as public investments in innovation are rather limited (1% below the EU average = 2% of GDP), there is a strong need to support business investments in R&D through tax credits, or at least to strengthen the risk sharing facility within the current system of public guarantees, thus attracting private capital.

We are aware that many of these bottlenecks should be resolved at a national level, but the role that the EU institutions may play at the European level will also be crucial.

In this context, the Investment Plan for Europe, presented by President Juncker on November 26, 2014 and endorsed by the European Council on December 18, 2014, is a first important step towards the EU economic recovery.

On January 13, 2015, the legislative proposal on **the European Fund for Strategic Investments (EFSI)**, defined in close partnership with the European Investment Bank (EIB) was presented. Its aim is to mobilize at least €315 billion in private and public investments across the European Union over the next three years to support strategic investments.

It is now essential to get the proposal swiftly adopted by the European Parliament and Council, in such a way as to render the Fund operational by June 2015 and boost new investments, in particular, in those strategic sectors such as energy, transportation infrastructures, R&D and digitalization, and risk financing for SMEs.

As a necessary complement to the Investment Plan, a strong action is required both at the EU and national level, in order to remove further regulatory and administrative barriers. In fact, in the long term, investment can be increased only if we improve the attractiveness of the EU business environment. In this sense, we look forward to the definition of an ambitious **roadmap, that can help Europe to stimulate investments**, removing regulatory bottlenecks.

The **Commission's 2015 Work Program**, which put into concrete action the 10 points of the pragmatic Agenda presented by Juncker to the European Parliament last July 15, from the *Better Regulation* program to the proposals for the Energy Union and the Digital Single Market, equally represented a fundamental opportunity to maintain and strengthen the centrality of industry.

In this sense, we really hope that the Commission will also include the **roadmap of industrial policy** in its future initiatives that the Commission itself should define in order to respond to the European Council of last March, but to which no clear priority was given in the 2015 Work Program.

It seems, in fact, essential to ensure an adequate *follow-up* to the actions taken until now and lay the foundations to build a solid industrial policy strategy, defining concrete measures able to sustain the recovery of the growth processes.

In order to do this, the role of the EU Institutions will be crucial in promoting and sustaining also technological innovation as the motor of the new industrial revolution through the so-called **Industry 4.0**. "Internet of things" is changing business and employment. The virtual world will merge with the real world through the integration of increasingly advanced technological productive processes of communication and automation: intelligent systems in digital factories where

machines interact with each other, exchanging a multitude of daily information, from production to assemblage, up until the final product.

We must open up a new phase that unites “intelligences”, from training to investments in research and technology.

Also, it is necessary to put into action experiences already undertaken in some countries, like Germany, and to realize investments targeted to the integration between digital technology and production, so as to give a strong kick-start to the diffusion of new generation “intelligent factories” and, consequently, to the competitiveness of the European System and single countries.

This is the inevitable path in order to succeed in creating the necessary conditions so that the ambitious objective of raising the contribution of industry to the European GDP from the actual 16% to 20% within 2020 can effectively be reached.

The policies that the EU and its Member State must pursue in order to promote growth and employment will be successful only if they are able to make sure that the European enterprises can strengthen their international leadership position in the market. Thus, it is necessary that the external action priorities of the EU over the next years are defined, keeping in mind not only the geo-strategic interests of some Member States but also the necessity of safeguarding and promoting its solid and diversified industrial system that constitutes the only authentic motor of long-lasting wealth.

Concretely, the EU must integrate its actions on the international political scene with a clear and targeted agenda in the economic and commercial fields, directed to guarantee the security and stability within the continent and its borders.

Therefore, the commercial policy needs to act in harmony with the broad entirety of policies that target and sustain competitiveness in Europe on a global level. In fact, only thanks to a greater assertiveness in the international economic relations, that affirms the principle of “reciprocity”, it will be possible to ensure that the EU

remains a market open to international competition and a space of freedom and justice, guaranteeing well-being and prosperity to European citizens.

Particular attention must be dedicated to the conclusion of the main **commercial negotiations** currently being conducted, as the negotiations with the United States which is of historical proportions. In fact, they involve the two main commercial global blocks that together constitute around 50% of the GDP and almost 1/3 of commercial transactions worldwide. Even the conclusion of an agreement with Japan, Vietnam and Canada must be achieved. In this context, the elimination of tariff barriers and non-tariff barriers, a greater access to public tender markets, services and investments and the harmonization of the legislation must be the overriding objectives in order to guarantee an effective *level playing field* to our companies, also on the regulatory and normative side.

In general, the struggle against the various forms of protectionism that hamper firms' access to markets must continue to be the priority of the European commercial agenda.

In this context, the EU must continue to strongly react in order to guarantee a sustainable supply without restrictions of non-energetic raw materials and to strengthen economic diplomatic actions.

The EU must remain an open market to international competition. It must be in line with the principle of "reciprocity" but the same behavior must be expected by our main commercial partners who benefit from this opening. Our companies must continuously be monitored so that they are not discriminated abroad and can effectively defend themselves from anti-competitive practices.

A great sense of responsibility is also necessary in order to manage the geo-political crisis, for example, the Russian-Ukraine conflict. Great diplomatic efforts are needed to overcome such serious "turbulence", not only from a social perspective but also an economic one. We count on having a rapid solution to the crisis by diplomacy to restart constructive dialogues to promote an economic policy of development and growth.

Particular attention should also be reserved to SMEs, the cardinal element of our industry. The revision of the Small Business Act (SBA) must aim towards a fundamental objective: supporting growth through the creation of greater and new opportunities for the European SMEs. In general terms, it seems essential to lay the foundations for a strategy centered on the re-launching of investments and oriented to make the European SME “anti-fragile”, namely, able to take advantage of its own capacity to adapt as well as to react to the negative shocks and to respond to the unpredictability and discontinuity in a competitive, constantly and rapidly changing environment.

From this point of view, the SBA must aim **at strengthening its capacity of innovation** on the part of small and medium enterprises, interpreting the **concept of innovation in a broad sense**, in order to include all its manifold aspects. In particular, innovation must be focused not only on innovative products with a high added value, but also on innovative company management models (for example, those finalized to simplify organizational processes, eliminate useless duties, reduce costs and therefore increase the SMEs’ efficiency and growth) and on various forms of collaboration/partnerships among companies.

In order to integrate the SMEs into the chain of global value, it is necessary that the SBA **promotes the creation of business eco-systems**. In other words, it is fundamental to create open networks of firms from different sectors and sizes that share advanced information and distributive platforms able of developing, safeguarding and conquering new markets and technologies. In this way, there will be an increase in the overall productive efficiency, collaboration and sharing of the developed innovations.

4. Companies and Work

The situation of unemployment in Italy is worsening: according to the last data available, relative to last November, unemployment had reached 12.9% and 42.0% regarding young people.

During these past months, Italy has been dealing with the problem through a structural reform in the labour market (for which the legislation to be implemented is in course) in an effort to find solutions to many critical points in our system, in order to make the labour market more dynamic, efficient and above all, inclusive.

The objective of the reform is, in fact, to find the right balance between the rationale of the firms, which need to improve the competitiveness level by introducing greater flexibility, and that of the workers who need to have protection in case of job loss.

Our country is trying to do its part, while all member States should act in the common interest providing their contribution to improve the general framework conditions within the EU and, above all, facing the **challenge of jobs**, which is a real obsession for our young people. In this sense, shared efforts should be finalized to reach a common objective: let the EU take the responsibility of expressing through one single voice the voice of all its member countries. To this end, conditions must be created for a **common European dimension** reducing the differences but also taking into account the specificities of each country.

It is imperative that alongside a common monetary policy, all the elements related to economic, fiscal and social policies be developed. This is why we share the comment expressed by the President of the European Central Bank, Mario Draghi, who affirmed that the economic, monetary and political Union is functional to one main objective: the construction of a renewed institutional setting, founded on the definition of rights and duties.

Alongside the financial indicators, the use of social indicators could be considered in order to measure, for example, the degree of flexibility of the labor market, the quality of education levels, training, the ability of businesses in finding skilled labor suitable to their needs, social protection.

Social indicators should become an objective of each single Government's action, while the autonomy of the choice regarding how to implement those instruments should be maintained. On the basis of the results obtained, each country would be

called upon to adopt measures allowing a gradual roadmap of “homogeneous” levels, overcoming today’s strong divergences.

Reducing the internal discordance within Europe and trying at the same time to create conditions for new opportunities that the crisis can offer, both to companies and workers, are among the principal drivers towards an improvement of competitiveness on the worldwide economic scene, avoiding the risk of marginalization of the Old Continent.

Furthermore, we hope that future European legislative activity will be characterized by **efficacy** and **simplification**, allowing rules which don’t add further restrictions and duties to those already expected from each single country.

One of the priorities of the European Commission should be giving a pragmatic approach to legislative activity.

The **Regulatory Fitness and Performance Programme (REFIT)** with which the European Commission has committed to realize a simple, certain and stable legal framework, is praiseworthy. In fact, it is necessary to rationalize the European legislative process and further strengthen the preventive evaluation systems of the impact produced by new legislation regarding company competitiveness.

“Hyper-regulation,” that often incurs the risk of legislation overlapping, is a danger that must be carefully avoided in order to safeguard companies’ activities and their development potentiality.

Among the most important current issues, attention is drawn to the working time directives, whose eventual future revision must be treated with particular prudence, especially with reference to some specific aspects.

In fact, it would be opportune to reconsider the contents of this directive. Special consideration should be given to the possibility of providing a basis of calculation of the average hours of weekly work extended over 4 to 12 months, a greater flexibility for the fruition of compensated days off and a definition of effective

work, intended as work effectively carried out that doesn't include just the mere "availability" of the worker to carry out services whenever they are requested.

Furthermore, particular attention should be addressed to the themes of **health and safety and training**.

Regarding health and safety, it is necessary to highlight the incomplete and ineffective recognition by the 28 Member States of the EU Commission's strategy **Health and Safety in the Workplace 2014-2020** (approved on June 6, 2014.)

Hence, before introducing new restrictive legislation, a greater coordination and harmonization of national judicial systems is needed.

Passing on to specific aspects, the introduction of new and stringent criteria for the evaluation of risks in some sectors (for example, electromagnetic fields) can excessively penalize companies in the manufacturing sector. Often reference values and clear elements are missing in order to carry on evaluations. Further, in order to avoid redundant courses, it would be opportune to establish simple criteria (and without added duties) for the mutual recognition of obligatory training on the subject of Health and Safety at the workplace, supplied by the companies operating in the EU.

Finally, another important theme is safety management in public procurements: the prevision of a common system of inspection/control of the requirements of technical and professional qualifications for contracting companies that operate in the EU would help to reduce the criticism linked to the chain of subcontracts and to face the problem of inadequate qualification of actors who, in the name of freedom of movement, create unfair competition in countries which respect EU law.

As far as **training** is concerned, first of all it is important to remember that human capital is one of the factors that the Europe 2020 Strategy indicated as essential for growth and innovation, as underlined also in the previous Lisbon Strategy. In the

global context, characterized by the transition to a new technological paradigm oriented towards the “digital factory,” such emphasis finds further justification.

At the same time, the lengthening of the working life represents a challenge for employees’ professional development and for guaranteeing adequate levels of company productivity.

Furthermore, what we’re seeing is an “international specialization of work” that specifically focuses on more innovative production and a higher intensity of human capital.

The factors described above, in conjunction with the *drivers* of industrial-economic development identified by Europe 2020, must inevitably lead to redesigning human capital strategies, both in terms of more innovative primary and secondary education systems and of measures to consolidate *life-long learning* schemes.

In such a perspective, it’s necessary to promote and implement specific human capital programs covering the entire cycle of education and training in order to renovate European economic growth. This will help to guarantee either the availability of human resources able to support competitive challenges and the opportunity for young people and workers of greater employment and easier management of labor market’s transitions.

The high rates of unemployment among young NEET people (Not in Education, Employment or Training) are part of phenomenon which is contradictory only in appearance: the difficulty that companies face in finding employees with suitable skills and competences.

At the base of such phenomenon is the consistent lack of alignment between the competences made available in the scholastic and training system and the opportunities generated by industry.

It’s therefore necessary to increase the number of educational and training courses in school-work alternance, that must not be reduced only to experiences of

internships and apprenticeships, but characterized by a true and real combination of scholastic preparation and on-the-job training, planned together by companies and schools.

The choice of “alternance” models must be an integral part of the European educational policy that, through ESF programs, can contribute to structuring and spreading this education system.

It would be beneficial if, at European level, a specific program was activated to give incentives to companies intending to commit themselves as trainers alongside the school but also to support these companies for the structural investments required and the responsibility which must be assumed.

Developing mobility within the Union of the students enrolled in VET (Vocational Education Training) paths is also of fundamental importance, providing a specific program, for example, an “Industrial Erasmus” that gives to young students of High school the possibility of having a school-work “alternance” experience in European companies.

Training should address not only employees but also employers. In fact, the growing complexity of the markets’ dynamics in a well-established global competition and the increasing impact of new ICT technologies on productive processes, require the creation of new competences also for employers. In this context, it is necessary to sustain small and medium companies, that represent the largest part of the Italian productive system (and not only) to express their needs, also through dedicated surveys, in terms of development of managerial competences.

Beside the FSE, which represents the main channel to support training of entrepreneurs in our country, it would be desirable to identify at EU level a specific program focusing on the development of managerial competences in order to help SMEs to implement their operational processes and growth strategies, through training models addressed to their apical profiles (and to entrepreneurs *in primis*.)

5. Conclusions

The long-lasting period of economic and political uncertainty has severely undermined the confidence of citizens and businesses and led to a situation of low growth.

After the conclusion of the Italian Presidency of the EU, whose action has been primarily oriented to give new political priorities to the EU, focussing on employment, growth and competitiveness and exploiting the flexibility foreseen by the Stability and Growth Pact, a new year has now begun where a situation of deep uncertainty still remains, making more urgent creating the right framework conditions in which companies could prosper and create jobs.

The new Commission is doing its first steps, translating the programmatic agenda of President Jean-Claude Juncker in concrete proposals, among which stands the Investment Plan. A step has been made, but the road to recovery and growth is still long and more must be done.

The EU must continue to work for its renewal and face with determination the challenges of stimulating growth and employment, building upon what has been achieved until now.

In conclusion, to regain companies' and investors' trust, European and national policy-makers should work on the following levers: restore competitiveness, create a growth-enhancing fiscal policy, boost investments in the context of the Juncker plan, reduce the burden weighing on companies and increase labour market flexibility.

Europe has a unique opportunity to grasp without delay in order to regain confidence of companies and investors. It is imperative to catch it.