EUROPEAN COMMISSION

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President of the European Commission

Speech by President Barroso at BusinessEurope Day: Industry matters

BusinessEurope day
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Dear Emma, Madame President,

Dear Markus, Director-General,

Distinguished Heads of BusinessEurope, including the Heads of the national organisations of BusinessEurope,

Members of the European Parliament,

Distinguished guests,

Dear friends,

It is a privilege for me to be able to address such a distinguished audience in the Cercle de Lorraine, for the BusinessEurope day on the theme "Industry matters" - a statement I can wholeheartedly support.

Last week some of us, at the World Economic Forum in Davos, discussed what steps are needed to consolidate the way out of the crisis. I was especially happy that this year was the first time since the start of the crisis that Europe was not in the spotlight. This was rather good news!

There is, in fact, an overall sentiment that Europe was able to resist and to overcome the most difficult phase of the crisis. This does not mean that we are already out of the crisis. How could we be, when we have such a high level of unemployment and also growth, certainly, but modest growth? But indeed, we should not forget where we come from.

Some time ago experts, analysts, commentators, many of our international partners, were speaking of an implosion of the euro. What happened? Not only no member left the euro but we welcomed a new member, Latvia, who - by the way - has one of the highest growth rates in Europe.

Some more pessimistic were even predicting the disintegration of Europe. In fact, we have just added a new member, Croatia.

And some were thinking about the collapse of the periphery. The reality is that most of the countries in the periphery are now through very demanding programmes, regaining the lost competitiveness. I will come back to that in a moment.

So, my point is we can, if we continue with determination, not only get out of the crisis, but get out of the crisis stronger.

Why do I mean stronger? Because it will be with more competitiveness. Because as I said time and time again, the world after the crisis will not be the same as the world before the crisis. That was a game changer, not only for us here in Europe but for the rest of the world. So we have to adapt to a much more difficult, competitive environment.

We also have to draw the lessons of the crisis, what it means in terms of financial behaviour, financial regulation and financial supervision, in order to avoid these kind of mistakes from happening again. We have to learn the lessons of the crisis in what it means to have a very high level of public debt, to correct these public debts, to reduce them. Because, as we have seen, growth based on high levels of debt – public or private – is simply not sustainable. It's in a way *artificial* growth.

And we also have to draw the lessons from what was missing before the crisis in Europe. I mean a more articulated system of governance, namely in what concerns the euro area. And now, by and large, we have the instruments. We are almost there, not yet there but almost there, to face any crisis and also to reinforce our system of economic governance through reinforced cooperation, not only in terms of fiscal discipline – that is important, but also in terms of support to reforms.

And I believe we are in that phase. I want to be realistic with you. You are very distinguished business leaders, you know better than I do what is going on in the real economy. But from the position of observation and responsibility that I have, my full confidence is that we will overcome the crisis if we don't sit back and relax; if there is no complacency; if we continue the efforts we have started with determination.

So this is my first message. This will also be my message to the European Council members, when we meet in March to analyse issues like the ones we have been discussing here: competitiveness, growth, energy, climate matters and also what we can do to increase our competitiveness in Europe.

So the event today, and also your recommendations, are perfectly timed to be part of this debate, and I congratulate you for that.

One of the meetings in Davos I participated in – and it was not my suggestion – was called precisely the New Renaissance of Europe. I found it quite inspiring. I was myself asking if we were not exaggerating. Anyhow, I think it's better to have a high goal than to have just two modest goals.

Indeed, we also produced recently, as Emma Marcegaglia just mentioned – and thank you for your kind words – a communication on industrial renaissance in Europe. I believe it is time now to go a step further, to put emphasis in competitiveness and especially on industrial competitiveness.

As you know, the last years have been dominated by the crisis. When we have a crisis like the one we had – the biggest surprise ever since the beginning of European integration – it's only normal that the minds of leaders at European or national level are mostly focussed on the most immediate issues. Because in fact, some of our countries were very close to what could have become a real catastrophe, what would have been a completely negative scenario.

This year is likely to be the turning point in what has been the deepest, longest recession in the European Union countries. A period of pain not only for our businesses, but first and foremost for our citizens, with 26 million men and women unemployed and a particularly high level of youth unemployment.

But we have reason to be confident, with 0.2% growth in the third quarter of 2013 and a debt down 0.7% in the Euro area from the end of the second quarter to the end of the third quarter of 2013. And, most importantly, we have seen investor and consumer confidence coming back. We have seen the market stabilising. We have seen, in fact, and this is not sufficiently said, that Europe has a trade surplus of 3.4 billion euros. In fact, Europe has a surplus in industry, services, agriculture for several years now. We do not have a surplus in energy and raw materials, but broadly speaking Europe remains competitive. And it's important to note that during the crisis the sector that gave a great contribution to getting out of the crisis, namely to these new figures of growth, was precisely industry.

Ireland successfully closed its support programme; Ireland now has lower lending rates than some Member States that never entered a programme; and Ireland has the strongest industrial production rates with 11.7%.

Spain last week formally exited its specific programme for banks successfully and is now regaining its competitiveness with confidence coming back.

Portugal's re-found growth during the second quarter of last year, with unemployment and interest spreads going down. And Portugal is expected to exit its programme of adjustment next May.

Greece's painful efforts are starting to bear fruit with an expected primary surplus and also expected growth this year, in 2014, even if there is still a way to go until we speak about full recovery.

And as I already said, Latvia is now the newest member of the euro. Latvia – who by the way - went through one of the most demanding programs of adjustment and now has one of the highest growth levels.

I mention these countries because these were the ones that had a programme. Either a full or a partial programme, like in the case of Spain. But I could also mention others who are also engaging in a process of reforms, even if they did not need – and I hope they will never need – a programme. The case in mind is Italy. Tomorrow I will receive Prime Minister Letta and his government here in Brussels, and we will certainly speak about these matters.

And if you look at these countries I just mentioned, what was the secret of their success? Part at least was industry. Because they were able during the crisis, while the demand was going down internally, they were able to go out and build on the growth of external demand. And in fact it's amazing to see the evolution, for instance, of the external trade balance and the balance of payments of Ireland, Spain, Portugal and Greece.

It is amazing. It was in Greece, it was in Portugal, it was in Ireland and Spain that you have seen that our industries were able to find new markets with great adaptation, with great resilience, sometimes small and medium-sized companies that were able to go out from China to Brazil, from Africa to the United States. So, this proves your point, that *industry matters* and that industry is extremely important for the rebirth or the renaissance of our economy.

But of course, it is not enough, we need also to put in place the necessary reforms to complement the Monetary Union and a fully functioning Economic Union.

That is why we need to complete the Banking Union, with the adoption of the Single Resolution Mechanism. And I am urging the Council, Member States and the Parliament to finalise the legislation before the European Parliamentary elections, because it will simply not be credible after announcing that we have completed the Banking Union that we now don't have one of the pillars of this Banking Union- the Single Resolution Mechanism- in place.

It is also important to reinforce our economic governance. That is why the European Semester, now in its second year, is important to ensure that Member States have sustainable economic policies and budgets and also that they can restore confidence of the markets through the proper implementation of the Stability and Growth Pact.

Only by doing this will there be business confidence to invest, to innovate, to produce; and consumer confidence to spend. Only this way can we get sustainable jobs and growth.

Of course, our recovery needs to happen in all sectors and across Europe. We have today a very uneven situation in Europe.

I also know how much European industry has suffered during the crisis, with a lack of demand, a lack of investment and financing conditions and increasing energy costs.

Unemployment has reached an intolerable level in Europe. This is one of the reasons why we are taking action with the Youth Employment Initiative and the Youth Guarantee that the European Commission has proposed, for which we have decided to frontload 6 billion Euros from the structural funds over the period 2014-2015.

To create jobs in Europe is therefore our number one priority. We know some of the conditions are related to macro-transformations, but we believe it is important, specifically for youth unemployment now to have some targeted, voluntaristic action. Now the important issue is *implementation*.

That all goes to the heart of what we have called our Europe 2020 agenda, for smart, sustainable and inclusive growth.

And just as we have learnt the lessons from the crisis, we should now implement those lessons in terms of shaping and directing our economies and societies.

This 10- year strategy that we adopted in 2010 is still valid, with its concrete targets on employment level, the percentage of GDP on research and innovation, youth mobility, education standards and skills, social inclusion, poverty reduction, energy efficiency and others.

Within this strategy, Europe's industry does indeed matter.

Europe's industry has been a great source of prosperity for Europe and if we want it to remain prosperous in the future, we need to keep and to reinforce our full attention to industry.

As you have said, Madame President, over 80% of Europe’s exports are from industry; 75% of trade within the single market is industry; and 80% of private research and innovation goes into industry. In total, 1 in 4 private sector jobs are in industry. And we know, of course, what is also the impact of a job created in industry for the services sector.

It also needs attention, industry, because we need a balanced economy. Recent events have shown us that over-reliance on one sector of our economy makes us more vulnerable to shocks. Success in manufacturing spills over into the services industry.

This is why we have called for a return to 20% of industry's share in Europe's GDP by 2020 – a figure we already had in the 1990s before the housing and financial bubbles. The current figure of 15.1% is clearly below our goals.

And this is why we have called for a European Industrial Renaissance, supported by a strong and well-functioning single market and an improved business environment, a renewed energy and climate policy and, on the external dimension, an ambitious trade policy.

Indeed, we need a single industrial market, working together as one, and not separately at 28.

Our industry, our SMEs need the full implementation of our single market across the board.

From what we already have agreed and need fully in place - such as the Services Directive and Single European Sky - to new proposals, such as the fourth railway package, telecoms, roaming charges and a digital single market.

Sometimes people speak about us and the United States, some of the gaps in competitiveness.

Ladies and gentlemen,

This is one of the most important points. In the United States they have a single market; they have an integrated single market. In Europe, we have a single market for goods that is functioning, but we do not yet have, in practice, a single market for services; we don't yet have a single market for energy; we don't yet have a digital single market.

And this is one of the key difficulties we have in our competitiveness gap with our American partners. Because, in fact, our companies don't have the same access to an integrated market as they have. This is why we need to complete the work, the work that was already broadly agreed, but in fact - we have to be honest - there are some delays in implementation.

And we also need, of course, the right level of regulation, and of course, to leverage the funds we have from structural funds for competitiveness.

We are doing that. In fact, according to our estimates, by the end of 2013, our competitiveness and innovation programme had assisted financial institutions in providing about 30 billion Euros of new finance for over 315,000 SMEs and had created or maintained around 380,000 jobs.

And it is why we have to go ahead with this programme.

Before I conclude, let me say some words on climate and energy, because I understand this is one of the matters of concern to you. I am sure you all agree that climate change is a basic and very important threat to our planet and that we have to do something, ourselves and others, to safeguard the quality of life on our planet.

I believe industry and climate actions are not incompatible. In fact, if you look historically, from 1990 to the end of 2012, we were able in Europe to reduce emissions by 18%, while the GDP has grown in that same period by 45%.

This is important to mention, because some of our partners, namely emerging economies, think or tend to think that it is impossible to achieve the high levels of growth they are expecting with some commitments, binding commitments, in terms of climate change.

It is true that some adaptation has to be made, but it is not true that by definition a climate policy is against industrial competitiveness. Some of the countries which, in fact, are more developed in Europe and in the world have been extremely ambitious in terms of their targets, by way of environmental policy and climate change.

That is why last week the European Commission announced for 2030 an ambitious but realistic 40% target to reduce emissions, and at least 27% renewable target at European level.

So, we have, in fact, while keeping the ambition, much more flexibility with Member States in how to achieve it, and also with the markets. We believe this is much more sensible than continuing to focus on very, very constrictive targets at national level, because we are in a new moment of implementation, such as for our renewables policy.

At the same time, we have respected the energy mix of our Member States; that is why we did not have direct regulation on shale gas.

My last point is that we need to have, of course, mobilisation. Mobilisation of others. That's why last week, we were able to call together with Ban Ki-moon in Davos, the attention of all the other partners because I agree: we can only succeed on climate policy if we are able to mobilise our partners globally to meet those targets as well.

So, to conclude, I want to say that I am fully confident that in this new phase of our economy, we will be able, together with Member States, to get out of this crisis stronger, including through increased competitiveness in industry.

For that, your recommendations that I will certainly read, but that I have heard, are very much in line with our preoccupations, are certainly in the right direction. Now the real key issue is implementation. This is the point: basically all the analysis converges - in innovation, in skills, in competitiveness, in the internal market.

What we need now, and for that you have a key role to play with the European institutions and with the national governments, is to focus on delivery, on implementation, so that we can have a stronger industry for a stronger Europe.

I thank you for your attention.