CEEMET

Council of European Employers of the Metal, Engineering and Technology-based industries

AUSTRALIAN INDUSTRY GROUP

WKO DIE INDUSTRIE

AGORIA no future without technology

HRVATSKA UDRUGA POSLODAVACA

DI

Teknologia teollisuus

Union des Industries et Métiers de la Métallurgie

GESAMTMETALL Die Arbeitgeberverbände der Metall- und Elektro-Industrie

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CEEMET

Lifting the Industry.

CEEMET "2015/2016 economic snapshot of manufacturing"

Foreword

Uwe Combüchen
Director General, CEEMET

To capitalize on future growth, Europe must drive ahead with more investment, in people, in modern equipment and in innovation.

Europe has a strong industrial heritage and throughout the economic challenges of the past seven years, it has retained its ambitions to rebuild and strengthen its industrial base.

The sectors and companies represented by CEEMET and its member organisations share a determination to grow those industrial sectors that will drive innovation, secure Europe's position as an exporting powerhouse and create the skilled jobs that offer good living standards for its employees.

Our industry makes up around half of the EU's total manufacturing output and is therefore an important player in helping the EU move its 2020 of ambition of industry accounting for 20% of GDP. In terms of employment the sector is key, directly and indirectly providing over 35 million jobs in Europe. In addition, our sector is also responsible for designing, developing and producing the modern machinery and technology that will help wider industry become more efficient.

The road travelled by the MET industry since the recession has been a challenging one. Uncertain demand conditions have weighed on production growth; constrained resources have put a cap on firms' ability to raise investment levels and there are justifiable concerns across the region about whether our sectors are productive enough to rise to the fierce competition from the rest of the world.

To move our industry forward we must acknowledge the strengths and the weaknesses we see collectively across the MET sectors in Europe. This pamphlet is a starting point for that discussion – recognising that the industry contributes to a skilled and well remunerated workforce and has a long tradition of investing in technology and the ideas that will secure future success.

Our industries have a global reputation for excellence on the world stage. However, a modern 21st century industrial base must run faster if the industrial sector in Europe is to make a greater contribution to overall economic growth. The future is one in which digital technologies will transform the business models of our companies, exploitation of data will bring massive customer opportunities and significant cyber-challenges.

To get on, and stay on, the right track to capitalise on this future growth, Europe's MET sectors must drive ahead with more investment, in people, in modern equipment and in innovation. We need the right business environment to ensure that this happens and that our industry remains anchored in Europe.[1] This will ensure the MET industry makes a positive contribution to the tax base across member states and supports the social objectives across the region.

The work of the European Commission on the Digital Single Market, deepening the Single Market in goods and services, Capital Markets Union and better regulation are the right priorities for the MET sector. It is vital for CEEMET and our member organisations that these objectives deliver for Europe's industrial base.

MET stands for the Metal, Engineering and Technology-based industries covering NACE Rev.2 codes 25-30, 32 & 33

We need the right business environment to ensure that our industry remains anchored in Europe.

1 Industrial Competitiveness for a Social Europe – CEEMET Manifesto, 2014

MET sector in numbers

OVER
200 000
companies

50%
share of total R&D expenditure

TURNOVER
3000 BILLION
euros in 2013

YEARLY OVER
2 MILLION
people graduate with MET-related skills

35 MILLION
direct and indirect jobs

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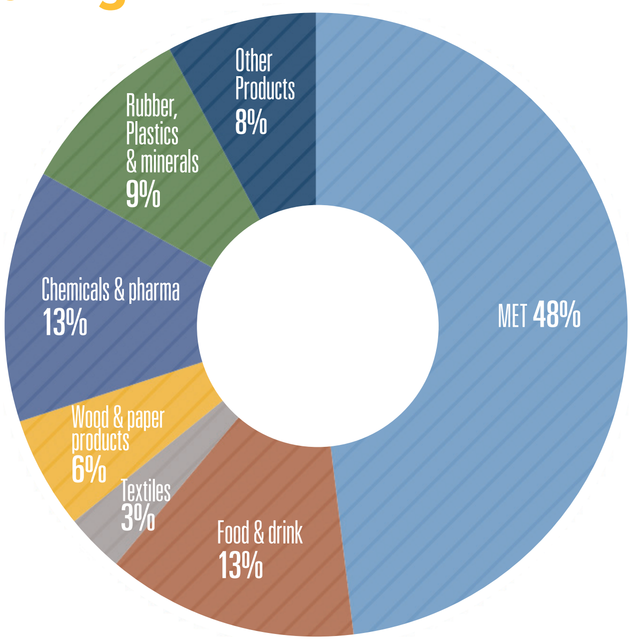
MET sector in manufacturing

44%

MET sector accounts of manufacturing employment



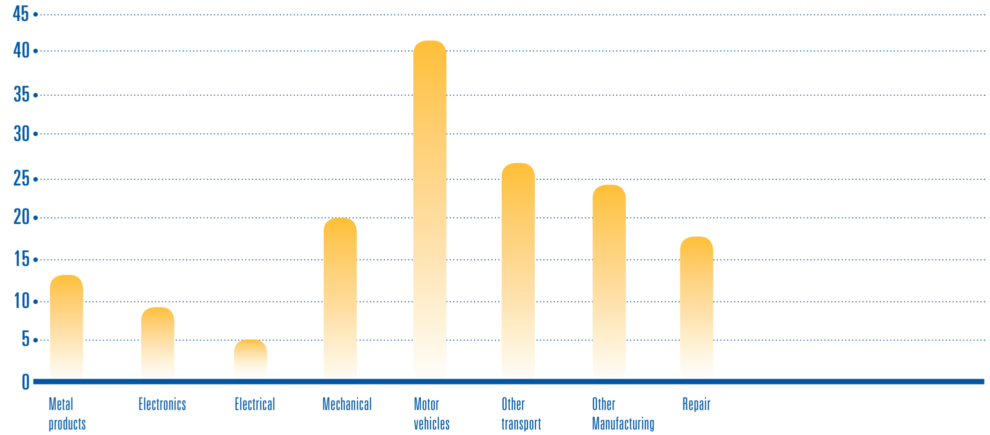
Source:
CEEMET calculations based on Eurostat

Why MET matters

The MET industry in Europe is a diverse and dynamic sector. It makes a significant contribution to the wider economy through its production levels, employment and relatively higher levels of pay. The statistics throughout cover data for all EU member states.

Production

All MET sectors have seen growth since the end of the recession in 2009
% change in output Dec 2009 – Sept 2015, volume terms

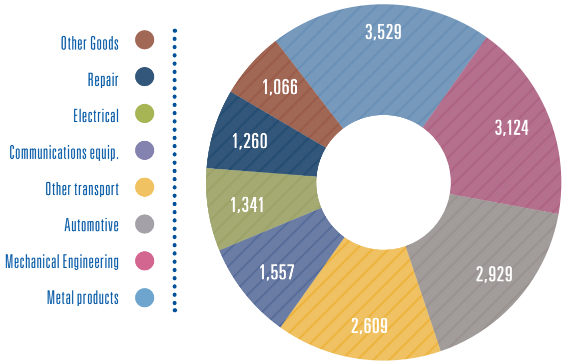


- Production levels in Europe's MET industries have increased since the end of the recession.
- The strongest recoveries have been recorded in the transport and machinery sectors.
- However, only production levels in the transport industries, other manufacturing and repair have surpassed their pre-recession peak at the start of 2008.

Source:
CEEMET calculations based on Eurostat

Employment & Wages

Jobs distributed across the MET industries in EU28
Employees by sector, thousands

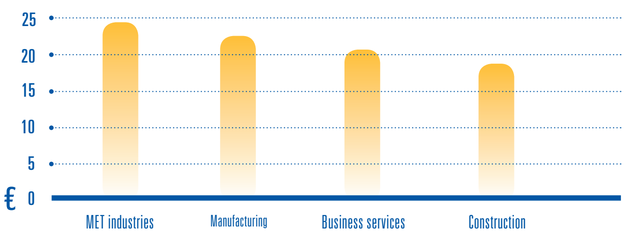


Source: CEEMET calculations based on Eurostat

Note: 'Other goods' includes furniture, jewellery, sports goods, toys and medical instruments.

- The MET sector shed jobs in the 2008/09 recession but have contributed to increased employment through the recovery.
- The sectors employing the largest number of people are fabricated metal products and mechanical engineering.
- The majority of people working in the MET sector are employed on permanent, open-ended contracts.[2]

Hourly total wages by sector (2012)
Eurozone



Source: CEEMET calculations based on Eurostat

- The average wage in the MET sector is higher than in other business sectors in Europe.
- Total labour costs across the MET industries have increased by nearly 12% between 2008 and 2012.

2 Approximately 85% of employees in the MET sector in Europe are employed on open-ended contracts.

CEEMET 'Flexible forms of Employment' survey 2015

Introduction to the challenges that lie ahead

A strong economy needs all sectors to be contributing to growth. The MET sector is as important as any other and collectively the high-value sectors that make up the MET industry can drive growth through exports, investment in innovation and improved productivity. It can power the engine of wealth creation, better living standards and job creation.

Achieving this matters because in an uncertain and fast-changing global environment, Europe must be more resilient to economic shocks, more competitive and less vulnerable to a reliance on any one market or sector.

Strengthening and expanding our MET industries is key to delivering long-term sustainable growth. These sectors export, invest in cutting-edge research and innovation and enjoy productivity growth rates in excess of the economy as a whole.

But we have not repaired the damage done to the sector earlier in the decade and if our industries do not start to close the gap on pre-recession investment levels, turbo-charge our productivity growth and raise our export performance, the dominance of our industry on the world stage will continue to be eroded.

Companies and policy makers agree that Europe needs an industrial revival. We will know this is happening when we have sustained growth in output and production levels; companies' confidence about the EU as a place for manufacturing is reflected in higher levels of investment; EU exports increase their global market share; productivity growth reverts to at least pre-crisis trends and innovation expenditure moves to a sustained recovery path. The rest of this document looks at some of these indicators in more detail.

In addition, European business will face some macro-economic and business environment hurdles that must be overcome if these ambitions are to be translated into growth. These include:

- Uncompetitive business costs, including industrial energy prices.
- Weakening growth in emerging markets.
- Continuing fiscal consolidation in some Eurozone economies.
- An ageing workforce and a shortage of skilled employees.
- Weak commodity prices, exacerbated by over-capacity in some industries.

Europe needs a strong MET industry, and it needs to work in partnership with European and national governments to move through these challenges and drive the European growth agenda forward. The next sections delves into the performance indicators of the MET industry in more detail.

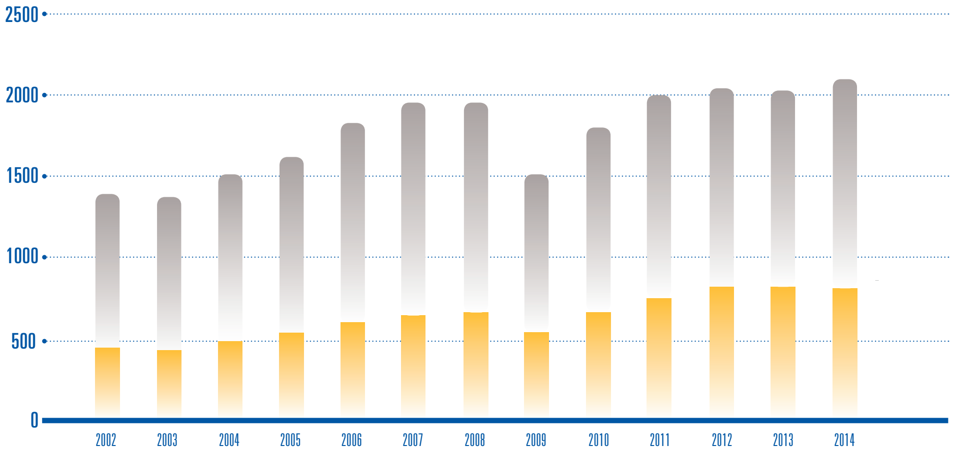
Lee Hopley
Chair of CEEMET's Chief Economists' Group

Strengthening and expanding our MET industries is key to delivering long-term sustainable growth.

In focus: Exports

Exports have plateaued since the recession ended

Value of exports for markets inside and outside the EU (€bn)



Exports outside EU28

Exports inside EU28

Source:
CEEMET calculations based on Eurostat

Headlines:

- MET sector exports have increased by an average 7% per year since the low point in 2009.
- Total MET exports amount to over €2,000 billion in 2014.
- Industry remains disproportionately reliant on intra-EU trade and despite stronger growth in the rest of the world since 2009, intra-EU trade has risen faster.
- However, as the MET industry is increasingly global in its operations, trade flows outside the EU could be impacted by company decisions to establish production facilities closer to their final demand.

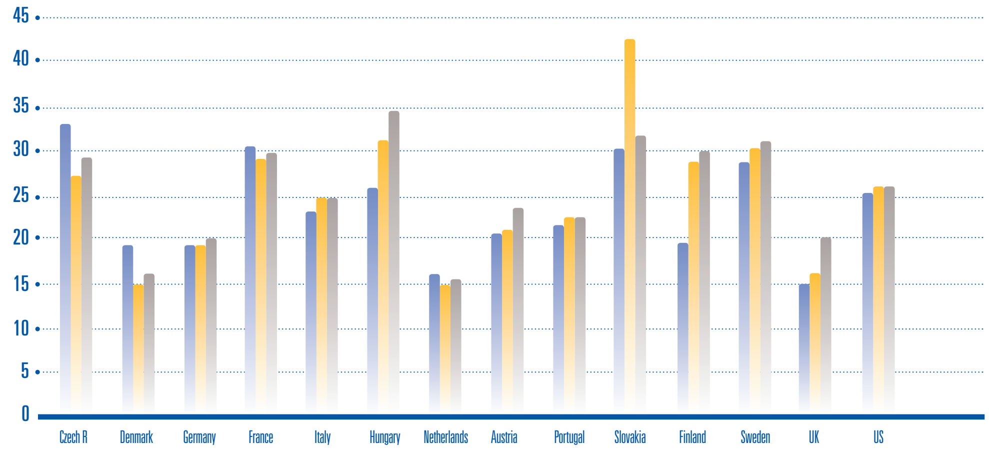
Companies in the MET sector are reliant on customers beyond national borders. The level playing field created by the EU's Single Market has primed significant expansion of exports over the past decade.

However, there is a clear disconnect between the geographical concentration of global growth and the destination of EU MET sector exports. In the decade leading up to the 2008 recession, around 70% of growth in the global economy occurred in emerging markets, yet, EU MET companies have been slow to make significant in-roads in these economies with their goods and services.

In focus: Investment

Some improvement in investment levels

Gross fixed capital formation as % of Gross Value Added



2007

2011

2012

Source:
CEEMET calculations based on Eurostat

Headlines:

- Investment intensity shows a high degree of variation in the MET industries across member states.
- Retrenchment of investment plans peaked in 2010.
- But still few EU countries are investing at the same rate as in the US.

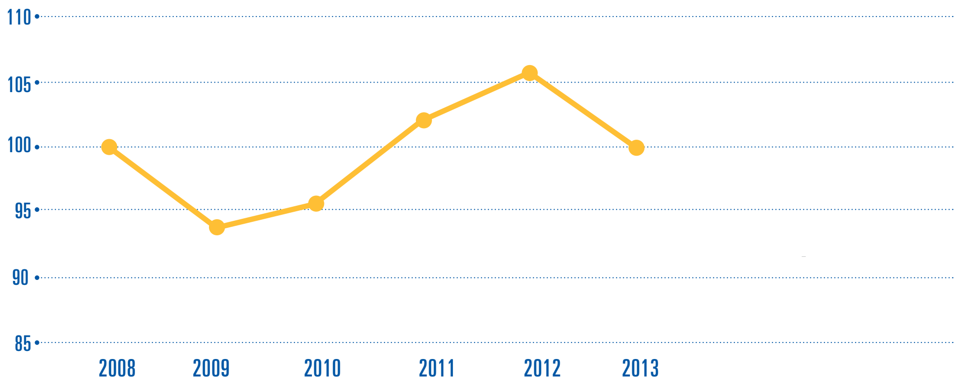
The European Commission has made their concerns about the EU's recent investment track record known – if business investment had recovered to pre-recession trends there would be at least €230bn more investment in the EU every year.

While the MET sectors invest more than their output share, they have also been playing their part in Europe's investment shortfall. There has been only small gains in investment across the MET industries as a share of gro ss value added relative to the peak pre-recession period. This indicates that many economies have been slow to make up the shortfall in business investment during the 2008/09 crisis years.

In focus: R&D&I

Recovery in Research, Development and Innovation investment fails to maintain momentum

2008=100



Source: OECD

Headlines:

- The EU MET sector invests more in R&D&I than China, Japan and South Korea, but lags behind the US.
- Business investment in research and development has experienced a bumpy ride since the end of the recession, three years of rising expenditure ended in 2013.
- The growth of business expenditure in R&D&I across the MET industries has been weaker that that seen across the wider economy in Europe.

Investment in R&D&I is one of the major determinants of the future success of industry. The culture of business innovation runs deep in the EU MET sector, but this has not been matched in recent years with a commitment of additional resources to research and development.

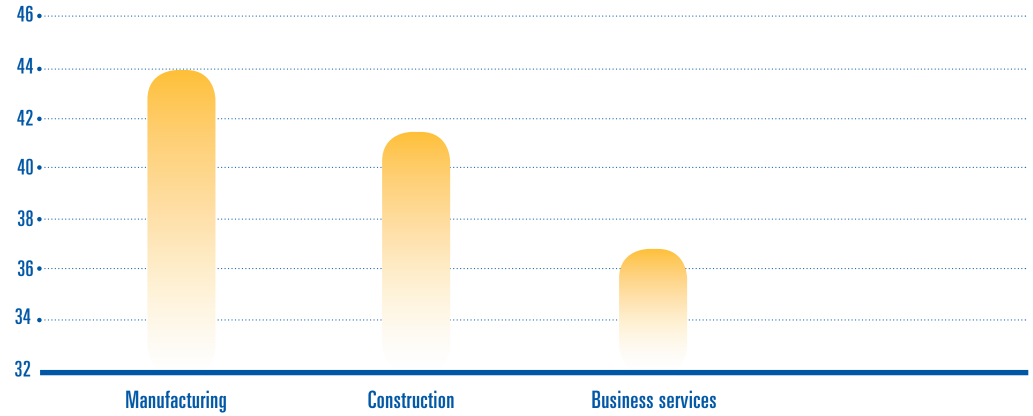
Without an improvement in absolute investment in innovation the EU risks falling behind competitors in bringing new products, processes and services to market. Moreover, there is a strong business and economic link between engagement in innovation and improved productivity.

Improvements in access to finance and steps to improve the skills base can help anchor R&D&I activity in the EU.

In focus: Labour cost

Non-wage costs have been on the increase

% change in hourly pay, excluding wages 2000-2014



Source: Eurostat

Headlines:

- There is significant variation in total hourly labour costs in the MET sector around Europe, with the highest reported in Sweden and Belgium and the lowest in the new member states – Romania and Bulgaria.
- Looking collectively at non-wage costs across manufacturing in Europe, these have experienced more significant growth than in other economic segments, such as business services and construction.

Europe's MET sector competes on the quality of its output, the additionality of services provided by manufacturers and its inventiveness. In order to continue to provide good quality employment and support rising living standards in the region, we cannot seek to emulate the wage rates seen in many emerging economies.

Nevertheless, companies must be confident that they will not be burdened with additional costs that divert resources from other, more productive activities within their business or damage international competitiveness.

There are worrying signs that non-wage costs in Europe are rising rapidly – and more than in other economic sectors, which will ultimately be detrimental for globally exposed industries.

A competitiveness agenda for the MET sector

A renewed focus on competitiveness across Europe is the only way for the MET sector to profit from growing market opportunities.

The data in this pamphlet indicates that the MET industries in Europe have moved to a more stable footing since the end of the recession, but there is still a lot for companies, national governments and European institutions to do to cement growth and competitiveness across the continent.

The agenda must focus on making Europe an attractive destination for MET sector companies to invest, innovate, grow and create jobs. It is evident from our research that the recent performance of investment in technology is not sufficient for our industries to take the lead on the world stage. And it is also clear that the commitment to a renewed focus on competitiveness across Europe must be delivered upon.

There are growing market opportunities for our businesses. The competitiveness agenda must focus on the following areas:

Better Regulation

The EU needs a better approach to regulation with fit-for-purpose policies, active leadership and concerted efforts by all stakeholders, ensuring that all EU policies which impact upon manufacturing's global competitiveness are fully aligned with the stated aims of this Commission to promote growth and job creation. In particular, the aim of labour market flexibility should form part of the core of the Commission's Better Regulation agenda. The need for MET sector companies and their employees to be nimble and adapt to changing economic conditions and the opportunities that new technologies can offer will be vital in securing investment for the future.

CEEMET believes that, despite recent improvements, the burden from existing regulation is still too high. The EU should examine the proposal for a target to reduce this burden, whilst maintaining a high level of worker and social protection.

Deepening the Single Market and Creating a Digital Economy

Manufacturers have long called for improvements to deepen and strengthen the European Single Market and this strategy is an important next step in delivering this. The Single Market is important for business as one of the key positives of membership of the EU.

The Strategy will promote industrial competitiveness and drive strong, sustainable growth in the EU. Citizens will not only benefit from a better and a fairer deal and the driving down of costs, but will be empowered to work across borders through improvements in the recognition of professional qualifications. We hope that this will go some way to solving Europe's enduring skills mismatch.

For business too, operating on a level playing field will create a more viable case for the badly needed Europe-wide investment. A single market of over 500 million people should be an engine for global growth and with a coordinated and integrated single market, alongside a strong Digital Single Market. However the EU must move at pace to deliver this strategy and create a better business environment.

The MET sector companies need the flexibility to adapt to changing economic conditions and innovative opportunities.

A better business environment will drive the EU MET sector to invest more in people, equipment and innovation.

Outlook for 2016

The European Commission's work plan for the forthcoming years hits many of the right notes for industry. Initiatives on the Single Market; the EU's digital future and improved access to finance must ultimately help industry overcome some of the challenges we face and deliver positive outcomes for businesses, employees and national economies. These include:

- **Underinvestment** – levels of investment across the MET sector are insufficient to drive future growth and to ensure companies can adopt new digital technologies that will be commonplace in other parts of the world in the next five years. The economic environment may become more supportive this year, but that cannot be taken for granted given some of the external headwinds. We need a step change in investment levels across the MET sector.
- **Sluggish productivity growth** – productivity suffered during the crisis and has yet to mount a strong enough recovery to close the gap with where industry needs to be. All policies should be checked against creating an environment conducive to improving industrial productivity.
- **Overcoming the drag on trade from an emerging market slowdown** – a mounting concern for industry in 2016 is the outlook for growth in the rest of the world, particularly emerging markets. The importance of economies, such as China, has expanded significantly over the past decade and polices to shore up demand across the EU economy are vital to counteract slower growth in these increasingly important markets.

Specifically, 2016 priorities for the Commission must include:

1. **Sustaining levels of funding for Horizon 2020 –** this is an important and much improved scheme for manufacturers to leverage greater levels of investment in R&D and facilitate collaboration with the research base and across borders. While some investment from the fund was channelled to other strategic projects, further erosion of funding levels would have consequences for confidence about the scheme and its impact.
2. **Align any new corporate tax proposal with national efforts to stimulate private investment** – while corporate tax structures remain a national competency, progress on issues such as a common consolidated tax base; EU engagement with the OECD BEPs process and discussions on the implementation of a Financial Transactions Tax must complement domestic efforts to increase investment and improve competiveness for businesses in the real economy.
3. **Target Strategic Investment Funds towards increasing the productive capacity of the EU economy** – the twin challenges of underinvestment and ailing productivity levels should guide the deployment of monies from the EFSI towards projects which will enhance the capabilities of the private sector, namely innovation and infrastructure.

Better dialogue with Industry

For all of these objectives to be achieved, CEEMET calls for improved cooperation between policy makers and industry to ensure industrial policy and economic governance reflects the reality for companies.

The European Commission, Council and Parliament need to demonstrate clarity and single-mindedness on economic growth intheir decision making. With fully fit-for purpose and stable framework conditions developed hand in hand with industry, European manufacturing will be in a position to invest and deliver solutions for a better world – invented and manufactured in Europe.

The UK in the European Union

It is the pursuit of this agenda and the large and deeply integrated market that should encourage the UK, in particular, to play its role in shaping a shared future of strong growth and rising prosperityfor our sector.

Manufacturers in the UK are clear about the importance of Britain's continued membership of the European Union: access to a single market made up of 500 million people, the ability to attract more investment and as a springboard for global commerce as part of one of the most influential trading blocs in the world.

However, it is also in the interests of the wider European MET sector that the UK continue to show strong leadership through positive and determined engagement with other Member State governments, key decision makers and stakeholders in Brussels. It is only by being integral to the economic success of the EU that Britain can help raise the bar and influence the direction of travel for the benefit of all.