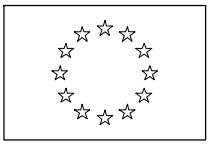

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Mid-term review of industrial policy
A contribution to the EU's Growth and Jobs Strategy

{SEC(2007)917}

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1. INTRODUCTION

In its Communication of 2005[1] the Commission set out for the first time an Integrated Approach to industrial policy based on a concrete work programme of horizontal and sectoral initiatives. This policy, which is an important pillar of the Lisbon strategy, is anchored in the EU's drive to ensure a well-functioning Internal Market[2] as well as open and competitive markets across the world, and respond to environmental challenges. Both the Council[3] and the European Parliament[4] endorsed the approach, requesting the Commission to implement the policy initiatives and come up in 2007 with a review of progress made, and new initiatives.

The purpose of this Communication is threefold:

- First to describe the current economic situation of the EU industry and to identify the key challenges it is currently facing;
- second, to take stock of the progress achieved on the horizontal and sectoral actions set out in the 2005 Industrial Policy Communication;
- and third, in consideration of the current figures and challenges as well as the progress achieved, to set out the measures for the period 2007-2009.

The main role of industrial policy at EU level is to proactively provide the right framework conditions for enterprise development and innovation in order to make the EU an attractive place for industrial investment and job creation, taking account of the fact that most businesses are small and medium-sized enterprises (SMEs).

An effective and functioning industrial policy in the EU must be based on coherent and coordinated efforts at national and European level as recognised in Article 157 of the EC Treaty. Many elements of major impact for the competitiveness of European industry are set at national level. Nevertheless, important challenges such as the creation of an open and competitive Single Market, but also the industrial policy response to the energy and climate change agenda can not, or only be insufficiently addressed at national level, and hence require action at European level as well.

2. ECONOMIC SITUATION AND CHALLENGES

Although the picture is different from sector to sector[5], in general, industry is healthy and dynamic, contributing substantially to growth and jobs in the Community. Industry continues to be an important driver of the European economy[6]. Directly, industry represents around a fifth of the Community's output and grew by 2.6% on average over the last two years. It is central to innovation, performing 81% of private sector R&D expenditure and providing an increasing number of high skilled jobs, thus playing a central role in transforming Europe into a knowledge economy. Over the past three years employment in industry has remained

[1] COM(2005)474
[2] A comprehensive Internal Market review is currently under way.
[3] Competitiveness Council 29-30 May 2006 and Competitiveness Council 21-22 May 2007
[4] Resolution on industrial policy, 5th July 2006
[5] EU Industrial Structure (DG Enterprise and Industry, 2007)
[6] For further details, see the Staff Working Document SEC(2007)892917 accompanying this Communication.

relatively constant, after a decline of almost 5% between 2000 and 2004[7]. Indirectly, industry is responsible for the dynamism of many services sectors contributing significantly to employment growth. In a number of industrial sectors such as ICT, electrical and mechanical engineering, there has been long and steady growth in value added, which has even accelerated in recent years.[8] In 2006, the Community also succeeded to attract more foreign direct investments which rose by 42%, compared to an increase of outflows of 35%.[9]

Whilst industry is currently performing well and is taking full advantage of the favourable business cycle, globalisation, technological advances and environmental challenges are likely to intensify in the coming years.

The EU has done well in goods trade, in which its export share in world trade stabilized around 15%. Yet, **globalisation** is no longer exclusively about trade in goods. More recently, the range of activities that companies trade and outsource has been increasing as ICT, organisational innovations and the growing skills base in India and China allow companies to slice-up value chains and outsource intermediate inputs and tasks. In this changing environment competitive advantage lies in optimising the global value chain. In doing so companies need to control the important parts of the value chain such as innovation and customised products, sometimes through clusters that anchor innovative capacity in Europe. Companies are also increasingly providing integrated solutions consisting of bundles of services and manufacturing activities.

Rapid **advances in science and technology** create opportunities for manufacturers to adapt and exploit new technical possibilities. However, EU manufacturing remains specialised in medium-tech sectors and has not taken advantage of the fast growth of certain high tech sectors, nor has it fully exploited the potential of ICT uptake. Heavy product regulations in certain markets tend to hamper the necessary upgrading of industry. Standards, Intellectual Property Rights (IPR), and procurement practices could also be made more supportive of innovative industries. While improving demand is important for the innovative capacity of industry, some industries are held back by unfavourable market structures. The lack of a large, unified defence market prevents the sector from reaching its full innovative and economic potential. To some extent this also applies to pharmaceuticals.

The EU has set ambitious environmental goals to **increase energy efficiency and reduce greenhouse gas emissions** by at least 20% by 2020, and to promote renewable energy sources[10] So far, European industry has already made significant advances in improving its energy efficiency. It is also well placed to grasp the opportunities of the emergence of environmental industries. Environmental industries in Europe are at the global forefront on technologies generating a turnover of approximately 2.2% of EU GDP, and employing 3.4 million people. To overcome regulatory and other obstacles, which can however prevent the full exploitation of the new market opportunities, a range of policy tools including market based instruments and well designed regulation will be needed. When realising these policy

[7] Eurostat: Labour Force Survey

[8] EU Industrial Structure (DG Enterprise and Industry, 2007): In ICT the average annual growth rate from 1995 to 2006 was 6%, but rose to 10% in the period 2004-2006. Comparable figures for electrical and mechanical engineering were 2% and 5%.

[9] Eurostat news release 70/2007 - 24 May 2007

[10] The Commission Communication "An energy policy for Europe" COM(2007) 1 set quantitative objectives and targets.

tools, due account must be taken of the competitive position of those energy intensive industries that are exposed to international competition.

3. THE PROGRAMME OF WORK ON INDUSTRIAL POLICY

3.1. Assessment of progress and current state of play

The 2005 Communication announced a number of horizontal and sectoral policy initiatives on most of which good progress has already been made.[11] In all the cases consultation played an important role.

The initiatives which have already delivered their results have had an appreciable impact on policy development. They helped to bring together, sometimes through High Level Groups, a wide spectrum of stakeholders responsible for the different policy areas which constitute the framework for industry activity, and to build consensus on key issues and the way forward.

- This applies in particular to the High Level Group on Competitiveness, Energy, and the Environment that helped to merge the three different policy strands and made significant contributions e.g. to the debate in the run-up to the Commission's energy and climate change package and the development of a sustainable industrial policy.

- It also applies to the CARS21 initiative, whose recommendations formed the basis for the Commission's Communication on the automotive regulatory framework and led to important legislative proposals e.g. on extending the European whole-vehicle type-approval system and on simplification.

- The High Level Group on Textiles was instrumental in helping to identify the policy priorities, and at a practical level, setting up an industry-wide platform for research and development.

- The EnginEurope initiative on mechanical engineering and the task force on ICT competitiveness have delivered reports that have helped in shaping our industrial policy.

- The High Level Group LeaderSHIP 2015 developed a broad set of recommendations that helped to turn European maritime industries that were heavily depending on State Aid for its operational business into a vibrant and competitive industry, whose shipyards only benefit of innovation aid with aid, intensities tailored to reflect and reward intelligent risk-taking and enhance technological ascendancy.

- Other groups that are still in progress have delivered partial results, such as the Pharmaceuticals Forum and the Defence Industry Forum. The High Level Group on Chemicals will start its work soon.

- The initiatives on IPR and on skills[12] have both shown that these policies are essential components of a strategy for industrial competitiveness. The first has led to several actions, including a joint EU/US Action Strategy on IPR and counterfeiting, and IPR dialogues

[11] Full details of progress can be found in the document SEC(2007)892.917.

[12] The Commission is preparing a **Communication**considering presenting its views on a long-term e-skills strategy for adoption in 2007.

with priority countries for IPR enforcement. The latter is addressing skills shortage and mismatches in industry through a number of actions.

The Cohesion Policy also made an important contribution to improving the industry's competitiveness. In line with the Community Strategic Guidelines for Cohesion 2007-13, Member States are focusing investments of the European Regional Development Fund and of the European Social Fund in areas closely linked to the growth and jobs agenda, in particular on up-grading human capital, on research, innovation, entrepreneurship, and support to SMEs.

Furthermore, the Commission has laid down a fully fledged strategy[13] regarding the external competitiveness of EU industry, to seize the benefits of globalisation and ensure a more favourable international environment for EU companies.

Most of the horizontal and sectoral initiatives described in the 2005 Communication are long term projects, which will continue during the period 2007-2009.

In summary, recent economic developments as well as experiences and feedback on the key pillars of the 2005 Industrial Policy indicate that there is no need for a fundamental change of this policy.

3.2. Planning ahead

Based on the assessment of the current situation, and building on the achievements since 2005, the Commission envisages strengthening some of the ongoing initiatives and launching some new initiatives in response to recent challenges.

Annex 1 provides a detailed overview of the horizontal and sectoral initiatives and indicates which challenge is considered of the highest priority for each sector. The implementation will be preceded by an impact assessment, where relevant. Drawing on recent information, the overview updates that of the 2005 Communication which built on broad consultation of Member States and stakeholders.

Policy actions fostering industrial competitiveness are partly carried out at Community and partly at Member State level, but the link between EU industrial policy and national policy actions remains weak. The renewed Lisbon strategy provides a good opportunity to strengthen these interactions, especially as the integrated guidelines adopted by the Council include a guideline on Industrial Policy. Member States should report in their annual progress reports policy actions related to industrial competitiveness, which are linked to Member States' key challenges. On selected issues the Commission would work together with the Member States, with a view to identifying and spreading good practice. This would also allow the Commission to better integrate the national dimensions of policy making in the horizontal and sectoral initiatives announced in this Communication.

3.3. Building on ongoing work, and responding to new challenges

Although the general design of the 2005 Industrial Policy still appears appropriate, some challenges remain and some have grown in significance. Globalization, technological and climate change all put competitive pressure on our economy to adjust: a process which leads to resources being deployed where they add most value.

[13] COM(2006)567 "Global Europe: competing in the world"

3.3.1. Horizontal initiatives

1. **Simplifying and improving the regulatory environment and reducing the administrative burden** on enterprises will remain a top priority for the Commission, as well as the need to ensure that regulation is designed to promote "eco-innovation" and more sustainable consumption and production patterns. The Commission's efforts will intensify in the future and particular attention will be paid to areas such as construction, business statistics, health and safety, employment relations, transport and fiscal issues/VAT.. The Commission is also committed to continue measuring administrative costs and reducing administrative burdens.

A concrete example of how this can be applied in a particular sector is the follow-up to the CARS21 initiative, whereby the Commission will seek to ***simplify the regulatory framework for the automotive industry*** *through constant application of better regulation principles. The main priorities of the Commission are: replacement, starting in 2007, of a number of EC Directives with international regulations; introduction of self and virtual testing in certain areas; developing legislation for achieving ambitious standards for emissions, including achievement of 120g/Km CO2 emission by 2012 through an integrated approach[14]; introduction of safety-related improvements in vehicle construction, such as Electronic Stability Control (2008).*

This approach might set an example for other sectors, and is of particular significance to SMEs. Through their light structures and natural capacity to interact with their environment, SMEs are well equipped to provide innovative solutions and transform challenges into business opportunities. They also form an essential part of business clusters mentioned below. At the same time, they are less well equipped to cope with regulation and administrative burdens – often entailing costs that are not directly related to the size of the enterprise. And they are also proportionally more affected by any measures which require fixed investments, such as could be associated with the introduction of more demanding environmental standards for processes or final products.

2. A further set of horizontal initiatives derive from the fact that innovation, and response to rapidly evolving technologies, can not be stimulated by the regulatory framework alone. Community funding programmes[15], as well as current and planned European Technology Platforms and Joint Technology Initiatives build open partnerships and foster innovation, but other forms of pro-active response are also required.

A successful innovation with global reach generates a number of competitive advantages for the **"lead market"** such as faster returns on investments and thus higher incentive for private investment in further R&D; location advantages for R&D and production facilities; higher productivity and exports or increased growth and employment.

The aim of the ***lead market initiative*** *is to contribute to unlocking market potential for innovative products and services by lifting obstacles that hinder the development of new markets through a prospective, concerted and focused approach of regulatory and other policy instruments to allow a varied set of technologies and of innovative business models to meet rapidly the demand with a global perspective. The instruments include the legal and*

[14] COM(2007)22

[15] Research Framework Programme (FP7) and the Competitiveness and Innovation Programme (CIP)

regulatory framework, fostering of open-innovation mechanisms, standards, public procurement practices, intellectual property protection, or the availability of venture capital. The Commission will prepare a policy paper later this year proposing the implementation of a lead market approach.

3. A further means of speeding up the process of innovation, as suggested in the Lahti paper[16], lies in the use of **standards**, which are not only facilitators of access to markets for innovative products, services and processes, but also act as a diffusion mechanism for much of the knowledge created in R&D. Furthermore, by ensuring consistency in the quality and safety of new products and delivery of services, standards promote more confident and sustainable consumption patterns, with greater returns on growth.

*The **standards** initiative will aim at making it easier for the results of R&D to find their way to market, and facilitate, for example, the uptake of new low carbon and energy efficient technologies. However the pace of technological change, and convergence of technologies, requires the European standards organisations to adapt their processes so that they can deliver the appropriate products in a timely fashion. They must also continue developing global standards. But the full benefits can only be harvested if all stakeholders are involved in the standard-setting process, and the standards are also widely used. Greater efforts must be made to engage with SMEs and the research community. To this end, the Commission will present in late 2007 a Communication on increasing the contribution of standardisation to innovation, and propose measures to tackle the issues mentioned above.*

4. Globalisation is leading to structural transformation. This calls for the creation of new and strong cross-border relationships and alliances. Collaborative networks, such as innovation poles and research-driven clusters, can be powerful engines of regional economic development and drivers of innovation. This goes hand in hand with the need for more regional specialisation in research and technological development in a globally competitive European Research Area. The European Institute of Technology (EIT) initiative builds on and takes further trans-national innovation poles and clusters. Its mission is to bring together the best European players in education, research and innovation to deliver concrete solutions to major social, economic and environmental challenges.

*The **Clusters initiative** will assess how combined actions of the Member States and the Commission, supporting clusters and their cooperation, can help the European knowledge area to progressively structure itself as a powerful web of competitive world-class clusters that foster the competitiveness of industry and services.*

5. European industry is already well positioned to build on its strong position in the market for new products, services and processes, based on environmental technologies. In addition, European companies are more and more sensitive to environmental performance as part of their corporate social responsibility approaches.

To build on these strengths and help industry to benefit from the emergence of new markets in environmental technologies, a new initiative on a **sustainable industrial policy** is envisaged. The main thrust is to turn potential challenges into opportunities for EU industry, in order to lead the transition towards a low carbon and resource efficient economy. It will thus

[16] COM(2006) 589

contribute to reaching the objectives of the energy and climate change package adopted by the European Council in March 2007.

The Commission will also draw up a complementary Action Plan to promote sustainable production and consumption in the EU. This Action Plan will respond to the request made to the Commission in the renewed EU Sustainable Development Strategy.

The three basic principles of the sustainable industrial policy, which will be followed up by an Action Plan in early 2008, are the following*:*

Stimulate the development and commercialisation of low carbon and energy efficient technologies, products and services, for example by fostering lead markets and creating incentives for frontrunners. This may require appropriate financing instruments and the development of market-based instruments that encourage the uptake of environmentally friendlier products and services, including through a better internalisation of environmental costs, without prejudice to state aid rules.

Creation of a dynamic internal market: Under consideration of the ongoing review of the internal market legislation, the Commission will develop a strong product policy and remove obstacles in the internal market. This will include realistic and progressively more ambitious minimum requirements complemented with, where appropriate, voluntary "lead" standards and incentives, such as labelling, to drive performance upwards. An extended EuP Directive in order to promote "eco-design" of the most significant products will be the cornerstone of this approach. Environmental management schemes and energy services for firms and households will also be promoted, supported by a simple, user-friendly framework.

Creation of global markets for low carbon and energy efficient technologies, products and services: Faster uptake of environmental technologies and standards for more sustainable technologies, products and services in the EU can pave the way to the development of international standards which better integrate environmental aspects, taking a life-cycle approach. This can give European companies "first-mover" advantages in global competition. International sectoral agreements for energy intensive industries hold out a significant potential to set global benchmarks for energy and resource efficiency and foster technologies that are meeting these benchmarks. Such sectoral agreements, which must comply with competition rules and environmental objectives, should help create export markets for leading European technologies, services and products. They can be complemented through international or bilateral agreements on the diffusion and use of environmental technologies, by facilitating the use of the Kyoto flexible instruments and through trade and development policy.

6. **Energy Intensive Industries** will require particular attention, as recognized by the European Council[17]. Cost-efficient measures are needed to improve both the competitiveness and the environmental impact of such European industries. The Commission will publish a policy document in the autumn setting out possible ways how this goal could best be met.

7. In addition, **access to natural resources and raw materials** is essential to European industry. Measures contributing to ensuring sustainable and safe access should be developed, including improving the resource efficiency and access to domestic raw materials, opening up

[17] Conclusions of 8/9 March 2007

the EU market for renewable raw materials, supporting the development of exploration technologies and ensuring the availability of skilled staff. In addition, multilateral and bilateral trade agreements must ensure that third countries support open and undistorted markets, and ensure security and diversity of feedstock supplies, taking into account the Commission's Thematic Strategy on the sustainable use of natural resources. The request to the Commission from the Competitiveness Council of 21st May 2007 to develop a coherent political approach to raw materials supply for industry, encompassing all relevant internal and external Community policies, will be actively followed up.

The Commission will seek to use its external energy policy in international relations, its trade policy and its industrial and environment policy dialogues, and where appropriate, help implement them through technical assistance, to encourage sustainable energy and climate change policies in partner nations.

8. In more general terms, external aspects of competitiveness and market access remains crucial for the EU's industrial performance.

*The initiative on **competitiveness and market access** will focus its efforts and resources on those sectors and markets with the highest potential gains for competitiveness. The Commission will pursue multilateral trade negotiations as a priority, notably the Doha Development Round, but also seek to conclude newly launched bilateral free trade agreements, bring forward the transatlantic agenda with the US and the partnership with China, and tackle non-tariff barriers, which have gained in importance in recent years due to the progressive dismantling of tariffs. This includes regulatory issues, foreign direct investment, competition, public procurement, safety and security and the protection of intellectual property rights and other intangible assets, and the fight against counterfeiting. This also means that rejection of protectionism at home must be accompanied by the active use of all available instruments in creating open markets and fair conditions for trade abroad.*

9. Industry's competitiveness also depends on its ability to undertake **structural change** in response to the challenges of globalisation and technological advances. To address the consequences the EU has developed legislation dealing with restructuring[18] and provides financial assistance through the structural funds and the European Globalisation Adjustment Fund. The Commission has made a positive assessment on the first two applications for the Fund and requested the budgetary authority to make available the necessary appropriations. However, more needs to be done to anticipate trends of structural change, better prepare for restructuring, and improve synergy between different policy strands, with the involvement of all stakeholders.

*With the **initiative on structural change** the Commission will extend its analytical work and act as facilitator for exchange of best practice. A first annual Restructuring Report will be published in mid-2008. The 2005 Communication on Restructuring and Employment[19] will be reviewed with the aim of encouraging a large partnership at European level. In the medium term, the initiative aims at equipping all actors concerned with better information on*

[18] Council Directive 94/45/EC of 22 September 1994 on the establishment of a European Works Council or a procedure in Community-scale undertakings and Community-scale groups of undertakings for the purposes of informing and consulting employees, Council Directive 98/59/EC of 20 July 1998 on the approximation of the laws of the Member States relating to collective redundancies, and Directive 2002/14/EC of the European Parliament and of the Council of 11 March 2002 establishing a general framework for informing and consulting employees in the European Community

[19] COM(2005)120

restructuring and how to deal with its consequences. Consideration should also be given on how EU funds can best be used in this context. The Commission will evaluate whether to revise its State Aid guidelines on rescue and restructuring by 2009.

10. One of the main structural changes has been the shift in employment towards services in highly developed economies. This should not be equated with de-industrialisation. It reflects the deepening international division of labour and a disaggregation of previously integrated vertical value chains. As a consequence, **industry and services are inextricably linked.** The cost, quality and productivity of certain service sectors, in particular Knowledge Intensive Business Services, have an impact on the competitiveness of industry. For example, regulations which affect the performance of professional and other business services, financial services or the retail and distribution sector also have an impact on industry. In addition, competitive network industries enhance the competitiveness of industry as a whole. Furthermore, industry is both a user and provider of a growing range of services related to innovative technologies and products.

*The **industry/services initiative** will conduct a detailed screening and competitiveness analysis of the service sectors and their impact on industrial competitiveness, and if necessary further sectoral monitoring. The outcome would be the identification of all obstacles to improved competitiveness, and possible market failures, which might justify actions to address specific problems in individual industrial and/or service sectors.*

In line with the Commission's Modern SME Policy for Growth and Employment[20], the Commission will continue ensuring that its industrial policy initiatives take account of the interests of SMEs, which play a vital role in creating sustainable growth and more and better jobs.

3.3.2. Sectoral initiatives

In addition to horizontal initiatives, the strategy of looking in depth at sector-specific issues has proved its worth. **Two new initiatives** will be undertaken in the fields of food processing and electrical engineering, both of which are large sectors with high potential for creation of growth and jobs.

All of the sectoral initiatives should make appropriate use of the modern instruments of the Research Framework Programme, namely Technology Platforms and Joint Technology initiatives and their recommendations.

11. Following successive CAP reforms which have shifted support from the product to direct payments to farmers and put the focus on market orientation and competitiveness, the European **food industry** has entered a period of adjustment. In the global context, this adjustment is taking place in the presence of high commodity prices, limitations of access to key raw materials and development of external trade policy on market access. Low labour productivity, persistent weakness of innovation, changing consumer preferences, and regulation which has built up in recent years in order to address concerns of consumers relating to health and the environment are all contributing to the challenges faced by the industry. However, harmonised EU legislation on food continues to contribute to food safety

[20] COM(2005)551

and consumer confidence across the Union, and to the development of the agro-food sector in the EU.

*With a targeted **initiative** the Commission intends to address the above challenges and the persistent lack of innovation, particularly in view of the large proportion of SMEs in the sector. Based on a competitiveness analysis and an extensive stakeholder consultation in 2007, and building on the work of the "Food for Life" Technology Platform, the Commission will set out a package of measures to be undertaken in a Communication in 2008. These may include a strategy for more value added products, targeted uptake of R&D results, sustained innovation efforts in SMEs (including wholesale and retail issues) and strengthening the international dimension, better market access to third countries, and where justified, reducing the administrative burden. The measures would complement the ongoing review of food legislation and the initiatives in the domain of novel foods and food labelling which will substantially simplify the legislative framework and reduce the burden imposed at EU level on enterprises.*

12. The **electrical engineering** sector plays an important role in the EU economy as supplier of intermediate goods, finished capital goods and consumer goods. It is facing increasing competitive pressure from both established and emerging economies; counterfeiting and the protection of intellectual property rights are issues of the utmost importance for the sector.

***ELECTRA** is a joint industry/Commission initiative aimed at identifying the main competitive challenges facing the European electrical engineering sector in the long term, and eventually developing recommendations for strengthening its global competitiveness of this sector. The initiative would explore the potential for applying better regulation principles and contributions to the debate on energy efficiency and lead markets. Based on its outcome the Commission could propose further actions in 2008.*

In addition, ongoing work will be stepped up in a number of sectors which are confronted not only with the need to respond both to rapid technological and scientific developments, but are also hampered by obstacles to fully exploiting the benefits of the Internal Market.

13. As concerns the **space industry**, the European Space Policy[21] has been jointly developed by the Commission and ESA. It is accompanied by preliminary elements of a European Space Programme, which should be developed to achieve the maximum complementarity and transparency among all space programmes, thus ensuring the most efficient use of investments in space in Europe.

The Commission will evaluate the need for a European regulatory framework for control of satellite-derived data dissemination, and assess the need for supporting standards. It will also evaluate, following the consultation on the Green Paper on GALILEO[22] applications to what extent European or national legislation could support the development of such applications. It will further encourage the move to a market based approach for spectrum allocation, encourage pan-EU approaches to spectrum use, and discuss with Member States and international partners how to better streamline export control regulations. ESA and the Commission will propose new R&D projects on integrated space applications, including

[21] COM(2007) 212 final

[22] *The Galileo radio-navigation system will deliver positioning services following deployment of the 30 satellite constellation in the coming years*

integration with terrestrial systems before the end of 2008. ESA will prepare funding proposals in support of its long-term plan for space science by 2008 and propose new technology R&D activities. The Global Monitoring for Environment and Security (GMES) initiative will provide space-based environmental services enabling monitoring and control of climate change impacts.

14. Defence industries in Europe are subject to very different national rules, a situation which has retarded their development on a European scale handicapping them with respect to international competitors and giving poor value for money spent on **security and defence**. The Commission intends to strengthen the competitiveness of the European Defence Technological and Industrial Base in a joint effort with the European Defence Agency.

*To this end an initiative will focus on the development of a European **Defence** Equipment Market, technological development as well as improving the global competitiveness of EU defence companies. The Commission is preparing a "framework" Communication covering industrial and market issues, a Directive on defence and security procurement and a Regulation on intra-EU transfers of defence goods. Further results expected by 2009 are an EU wide homogeneous Mapping of the European Defence Technological and Industrial Base, a European Defence Standardisation Handbook.*

15. Furthermore, the Commission is pursuing an initiative on the specific challenges of **security research** which takes due account of the close links to defence related issues reflected e.g. in the above Directive on defence and security procurement.

*It envisages setting up a **European Security Research and Innovation Forum** to develop a Joint **Security Research** Agenda by the end of 2009. It will at the same time enhance the public-private dialogue in the field of European security research and increase transparency and coordination between the various ongoing programmes and initiatives.*

16. The European **pharmaceutical sector** is under threat as investment in pharmaceutical R&D is diverted to the United States and, increasingly, to the Far East. The ability of Europe to respond effectively is hampered largely by the lack of an effective single market in pharmaceuticals.

To tackle this, the Commission has established a twin-track approach of modernising the European legislative framework through the Pharmaceutical Review, and the ongoing Pharmaceutical Forum where critical issues affecting competitiveness, such as pricing & reimbursement, are addressed directly with Member States and key stakeholders. To bring these strands together, the Commission will publish a Communication, by the end of 2007, setting out our strategy and vision for the future competitiveness of this key sector. The basis will be a public consultation to be launched during the summer of 2007.

17. In response to commitments in the 2005 Communication on industrial policy, the Commission is now preparing two sector-specific Communications in relation to the competitiveness of the **metals** and of the **forest-based industries**.

4. CONCLUSIONS

At present industry operates in a relatively benign macroeconomic climate, but this is no reason for complacency.

The actions described in the 2005 Communication have helped to shape our policy which benefits Europe's industries, both large companies and SMEs. The integrated approach has proved successful, and has the support of Parliament and the Member States. Continuity and commitment to the existing policy strategy is, therefore, called for, and requires the backing of a balanced set of all stakeholders. Within this framework the priority will be to put in place the policy framework to allow industry to best respond to globalisation and climate change.

Annex 1: Existing and Envisaged Initiatives

	Industry	KNOWLEDGE				BETTER REGULATION				ENVIRONMENT AND ENERGY [2]					TRADE				STRUCTURAL CHANGE		SECTOR SPECIFICITIES	SECTORAL ACTIONS 2005-2009
		R&D – Innovation	IPR – Counterfeiting	Skills	Access to finance for SMEs	Admin Burden - Complexity of sectoral Regulation	Internal Market	Health and Safety	Tech Standards	Climate Change [1]	Waste	Water	Air	Intensive energy use	Access to markets	Access to raw materials	Trade distortions, subsidies, dumping	Regulatory Issues	Anticipation	Tertiarisation [3]		2005 2006 2007 2008 2009
Food and Life Science Industries	Food, drink and tobacco	x				x					x	x			x	x			x	x		**Food initiative** →
	Cosmetics	x					x	x							x			x		x		
	Pharmaceuticals	x	x	x	x		x	x							x			x		x		Pharmaceutical Forum → Pharma Communication →
	Biotech	x	x		x	x		x												x	x [5]	MTR Strategy "Life sciences and Biotechnology" →
	Medical Devices	x			x		x	x										x		x		
Machine and System Industries	ICT [4]	x	x	x	x	x			x		x				x					x		ICT Task Force →
	Mechanical Engineering	x	x		x		x [10]								x					x		Dialogue for mechanical engineering →
	Electrical Engineering	x	x	x	x		x [10]								x					x	x [6]	**Electra** →
	Motor vehicles	x	x	x		x	x			x	x		x		x			x	x			CARS 21 HLG → Review of automotive legislation →
	Aerospace	x															x			x		European Space Programme/GMES →
	Defence Industries	x					x													x		HLG Defence → Defence Package →
	Shipbuilding	x	x	x													x		x		x [7]	HLG LeaderSHIP 2015 →
Fashion and Design Industries	Textiles	x	x	x											x				x			
	Leather and leather goods	x	x	x											x	x			x			
	Footwear	x	x	x											x				x			
	Furniture	x	x	x											x				x			
Basic and intermediate goods Industries	Non-energy extractive industries	x		x				x			x	x									x [8]	
	Non-ferrous metals			x						x	x			x		x						
	Cement and lime									x	x		x	x								
	Ceramics		x							x	x		x	x	x		x		x			
	Glass		x							x	x		x	x	x							
	Wood and products of wood	x		x					x	x	x		x		x	x						
	Pulp, paper and paper products	x								x	x	x		x		x	x					
	Printing and publishing	x		x							x	x	x						x	x		
	Steel	x		x						x	x	x	x	x		x	x		x			
	Chemicals, rubber and plastics	x						x		x	x	x	x	x			x			x	x [9]	HLG Chemicals →
	Construction	x		x		x	x	x	x		x									x		
HORIZONTAL ACTIONS 2005-2009	2005 2006 2007 2008 2009	R&I Monitoring; **Clusters**; IPR; Skills; **Lead Markets**				- New Legislative Simplification Programme; - Better Regulation Strategy; -Reducing the Administrative Burden; **Standards Action Programme**				HLG on Competitiveness, Energy and Environment; **Action Plan for sustainable Industrial Policy**					External Aspects of Competitiveness and Market Access				Structural Change; **Industry and Services**			
EU and National Lisbon Reform Programmes																						

Footnotes

1) With regard to installations belonging to energy activities, all sectors fall under the ETS provided the installation in question is above the capacity threshold indicated in Annex 1 of the Emissions Trading Directive 2003(87)EC. The sectors marked in this Table are included in the ETS for their process related CO2 emissions.
2) The new legal framework for chemicals (REACH) will also effect many sectors.
3) Based on the input-output tables (use of services) contained in EC (2007) EU Ind. Structure.
4) ICT: challenges are sector specific; ICT uptake is a general challenge for the industry
5) GMO
6) Energy Using Products (EUP)
7) Financial instrument
8 Access to land
9) Energy and feedstock costs, logistics
10) Market surveillance

The table indicates with crosses the cases in which a policy challenge is considered of the highest priority for eachsector amongst the many relevant policy challenges. Hence, the absence of a cross does not therefore necessarily denote that the challenge is unimportant to a sector, only that it is not considered as an issue of greatest priority.