

Business, Innovation and Skills Consultation

Balance of Competences: Cohesion Review – Industrial Policy

Submission from the Engineering and Machinery Alliance

The consultation questions

1. What do you see as the major advantages and disadvantages of an EU-wide industrial policy approach?
2. How can the EU approach and the strategies of individual member states be better aligned? Do you consider it appropriate that they are aligned?
3. Where, in your opinion, has EU action had a positive effect on UK industry? What leads you to this conclusion?
4. Where, in your opinion, has EU action had a negative effect on UK industry? What leads you to this conclusion?

Background

- The Engineering and Machinery Alliance (EAMA) represents circa 1,400 firms from 10 different trade associations mostly SMEs in the mechanical engineering sector with sales of some £6.5 billion.
- Typically, our companies supply ‘enabling technologies’ to other sectors (e.g. automotive, aerospace, medical, power, printing and food industries) in the form of machinery or packages combining services and products. Much but by no means all of this is carried out by small and medium sized niche or specialist firms (SMEs) -- innovative, entrepreneurial companies pushing the boundaries of factory performance, extending the envelope of the physically feasible to new levels in terms of speed, precision and migration into novel technologies and materials.
- They account for about a sixth of the UK’s mechanical engineering output (£39 billion in 2012). According to HM Customs’ data, sector exports account for about 70% of sector sales, which regularly show a positive trade balance for the UK, (2012 overseas sales £29 billion).
- At the European level, the sector is the world’s largest producer and exporter of mechanical engineering products and services, accounting for circa 10% of all EU manufactured output. This is dominated by Germany (39% of sales). Other major players are Italy (19%), France (8%) and the UK (6%).

1. What do you see as the major advantages and disadvantages of an EU-wide industrial policy approach?

- When manufacturing activity declines as a proportion of GDP, companies that were previously able to earn a satisfactory return supplying the domestic market find all of a sudden that demand has shrunk to such a degree they have to sell into other (most likely foreign) markets to remain viable.
- Manufacturing accounts for about 11% of UK GDP and doesn’t on its own represent demand of sufficient size to anchor a multi-faceted, innovative and dynamic mechanical engineering industry. Hence the vital importance to the sector of the Single Market conceptually as open to the free movement of goods, capital and people as a ‘home’ market.
- The EU’s overall manufacturing sector represents the necessary critical mass. It is about ten times the size of the UK’s, accounting for 15+% of EU value added GDP and in some member states even more, e.g. Germany 21%. But of course all that is only a practical extension of the UK ‘home’ market if it’s relatively hurdle free from a UK-based manufacturer’s perspective.
- The major advantages and disadvantages should therefore be tested against that simple criterion, e.g. advantages: common standards; protection intellectual property

rights; market surveillance; disadvantages: anything that gets in the way of forming efficient, globally competitive supply chains.

2. How can the EU approach and the strategies of individual member states be better aligned? Do you consider it appropriate that they are aligned?

a) *Market Surveillance is currently a member state responsibility with a big trans-EU impact.*

- To be competitively successful, mechanical engineering firms have to invest heavily in innovation and intellectual property rights (IPR).
- Then they have to train their people so that they are at the cutting edge in their chosen niche or expertise to offer customers enhanced performance.
- All this 'investment' can be lost when IP isn't sufficiently well protected or imports are permitted into the EU market claiming to meet standards they clearly don't.
- Once on the market, those products can move freely across EU borders, so market surveillance 'weakness' in one country opens up the whole Single Market.

b) *Keep the focus on major policy gains:*

- A properly functioning Single Market so that well managed SMEs can grow and thrive competitively.
- Avoid over regulation and non-value adding complexity.
- Ensure EU policies are measured against how they improve competitiveness and deliver employment.
- Ensure the EU's regulatory framework attracts manufacturers to invest in the EU. This means its key features should include a proportionate approach combining regulatory stability and predictability.
- Free trade agreements should only be granted where countries observe reasonable standards of worker health and safety and IPR.
- Ensure EU innovation programmes are based on what companies need and are easily accessible to UK SMEs.
- Mutual recognition might be preferable to alignment if it's achievable because in theory it requires no changes by either party.

3. Where, in your opinion, has EU action had a positive effect on UK industry? What leads you to this conclusion?

- During the 1950s and '60s, international companies had subsidiaries in each member state. After the UK joined the EC the model changed so that in the 1980s pan-European markets were being opened by companies with completely different structures complemented by the push for a Single Market, which provided a market at scale that incentivised companies to restructure and refocus across Europe (incidentally with financing arranged out of London).
- Expansion of the Single Market has attracted foreign companies to invest in the UK, so they can export from here into the other member states. In 2012 our sector exports into the EU were £9.6 billion or a third of the total direct exports. (Note much of the sector's £10 billion in UK sales will have been related to export activities. We could even say without gross exaggeration that nearly twenty of the sector's £39 billion were sold on the 'home' market).
- EEF estimated 2011 FDI stock in UK manufacturing at £66.3 billion. And the benefits of this investment in many cases goes beyond the financial transaction. Many foreign investors have been prepared to commit to raising the performance of their selected UK suppliers turning them into 'world class' companies (e.g. PP Electrical Systems).

- Without the incentive of the wider EU market such investments wouldn't have materialised and the UK's manufacturing sector would probably be smaller, providing fewer jobs as a result.
- Free Trade Agreements (e.g. with Korea, mechanical engineering exports increased 10% in 2012 and are expected to have increased by at least a similar margin in 2013 when the data becomes available. At the half year they were up a fifth).
- Free movement of people has enabled UK firms to recruit skilled staff, after the severe cutbacks that were necessary as much of UK manufacturing's bigger companies decided to dump their UK suppliers and source their requirements in Asia. UK companies were able to respond flexibly because they have been able to fill skills gaps with foreign workers, even if it has only been for a relatively short time until 'locals' are trained up to meet growing needs.

4. Where, in your opinion, has EU action had a negative effect on UK industry? What leads you to this conclusion?

- Failure to ensure that good science and accurate data trump political posturing so that EU decisions to take a world leadership role in certain areas are based on political considerations rather than assessing the practical benefits to be achieved through the commitment to growth and jobs that is central to the industrial policy.
- For example, in the case of EU carbon related policies the EU should have checked whether other nations were likely or not to follow the EU's lead and then assessed the downside risks and alternative courses of action accordingly.
- The EU Commission itself recognises that the "EU-US productivity gap has now widened again due to a production efficiency gap caused by regulations, lower investment in ICT and IP ... and commercialisation of the research gap." (European Competitiveness Report 2013 SWD 2013 347)

Concluding thought

Increasingly the 'short hand' description of a new regulation or piece of legislation starts with some formula which basically says "this is what has been agreed in Brussels" raising cries of opprobrium. But in many cases regulations would be needed anyway. Basically the other alternative is different regulations in each member state, which would then force manufacturers to meet myriad different requirements if selling across the EU into every member state for every product – an even worse regulatory nightmare.

EAMA Member Associations:

- Agricultural Engineers Association
- British Automation and Robot Association
- British Paper Machinery Suppliers Association
- British Plastics Federation
- British Turned Part Manufacturers Association
- Gauge and Toolmakers Association
- Manufacturing Technologies Association
- Printing Industry Confederation
- Processing and Packaging Machinery Association
- UK Industrial Vision Association