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COMMUNICATION FROM THE COMMISSION

Implementing the Community Lisbon Programme: A policy framework to strengthen EU manufacturing - towards amore integrated approach for industrial policy

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1. EU INDUSTRIAL POLICY AND THE ACTION PROGRAMME FOR GROWTH AND EMPLOYMENT

In setting out its renewed Action Programme for Growth and Employment[1], the Commission declared its commitment to focussing the renewed Lisbon Strategy on growth and employment. To do this the EU's priorities were declared to be:

- Making Europe a more attractive place to invest and work
- Putting knowledge and innovation at the heart of European growth
- Shaping policies to allow businesses to create more and better jobs.

This Communication on industrial policy was announced under the Community Lisbon Programme[2] of July 2005 and represents an important contribution to the achievement of these objectives. The health of manufacturing industry is essential for Europe's ability to grow. Whilst it is currently undergoing important changes and facing major challenges, it needs a favourable business environment to continue to develop and prosper.

The main role of industrial policy is to 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. It is evident that it is primarily private sector businesses that create economic growth, not the public sector. Businesses have the responsibility to develop their products and processes and to improve skills in order to unlock new markets and find new opportunities resulting from technological developments and internationalisation. In exploiting such opportunities, corporate social responsibility and sustainable development play a key role.

From an industrial policy perspective, the role of public authorities is to act only where needed, i.e. when some types of market failures justify government intervention or in order to foster structural change. The latter may require the introduction of accompanying measures to reduce the social costs of structural change, on the basis of an on-going dialogue with all relevant stakeholders. For this the public authorities can make use of policy instruments such as better regulation, single market, innovation and research policy, employment and social policies etc that apply generally across the economy without distinction between sectors or firms, together with other accompanying measures to facilitate social and economic cohesion.

The Commission is committed to the horizontal nature of industrial policy and to avoid a return to selective interventionist policies. Nevertheless, the scope of policy instruments should not be seen just as only very broad horizontal measures. For industrial policy to be effective, account needs to be taken of the specific context of individual sectors. Policies need

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1 "Working Together for Growth and Jobs: a New Start for the Lisbon Strategy" - COM(2005) 24.

2 "Common Actions for Growth and Employment: the Community Lisbon Programme" - COM(2005) 330.

to be combined in a tailor-made manner on the basis of the concrete characteristics of sectors and the particular opportunities and challenges that they face. This inevitably has as a consequence that whilst all policies are important, in the EU today some policies have greater importance for some sectors than others.

The Commission therefore stands by its previous commitments to encourage and facilitate the process of industrial innovation and change[3]. However, a new approach to industrial policy is required aimed at achieving better designed policies that are more relevant, integrated, and consensual.

The Communication on the Action Programme for Growth and Employment noted in particular that industrial policy is based on a partnership between the EU and Member states[4]. Several industrial policy challenges need to be addressed at the European level, since individual Member states acting in isolation cannot succeed in tackling issues such as major competition cases, the regulation of the single market, or social and economic cohesion. However, Member states also have responsibilities for many elements of industrial policies and this is emphasised in the Guidelines for National Reform Programmes. This Communication deepens and supplements the EU framework for industrial policy by focussing on its practical application to individual sectors. The range and diversity of the policy challenges posed by different sectors has thus been examined in some detail, based upon a systematic screening of opportunities and challenges for 27 separate sectors of EU manufacturing industry and construction[5]. On this basis, an outline of work for industrial policy over the coming years has been constructed.

2. THE IMPORTANCE OF EU MANUFACTURING INDUSTRY

A strong and healthy industrial sector is essential to fully exploit the EU's potential for growth and to enhance and sustain the EU's economic and technological leadership.

- EU manufacturing industry is important in its own right - it provides around a fifth of EU output and employs some 34 million people in the EU. Beyond this:
- Manufacturing is the key to exploiting the new knowledge economy - over 80% of EU private sector R&D expenditures are spent in manufacturing[6].
- Manufacturing generates the new and innovative products that provide some three-quarters of EU exports.
- EU manufacturing industry consists of a large majority of SMEs: over 99% of companies and 58% of manufacturing employment are SMEs.

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3 See "Industrial Policy in an Enlarged Europe" - COM(2002) 714 - and "Fostering Industrial Change: an Industrial Policy for an Enlarged Europe" - COM(2004) 274.

4 Article 157 of the Treaty Establishing the European Community.

5 See the accompanying Staff Working Paper SEC(2005) 1216. The challenges facing the Business related services sectors are described in the Communication on the Competitiveness of Business Related Services and their Contribution to the Performance of European Enterprises - COM(2003) 747, which also announced an Action Plan on Business Related Services.

6 Sources: Eurostat Business Statistics.

- Manufacturing creates growth and jobs in the wider EU economy: it is closely inter-linked with the service industries, providing demand for business services and supplying key inputs to the services industries.

EU manufacturing is currently undergoing a revolution with new opportunities and challenges[7]. New technologies are emerging that allow the fast introduction of new products and the increased flexibility of production processes. At the same time, EU companies are presented with an increased internationalisation of the world economy driven by improving transport linkages, falling communication costs, reduced barriers to trade and investment, and more vigorous competition. The EU is thus increasingly facing international competition as a location for investment, production, and R&D spending.

EU manufacturing industry is responding to these challenges. Whilst there has been a productivity growth differential between the EU and other industrialised economies, particularly the US, this has been to some extent the result of an industrial composition effect due to the lower share of ICT-producing sectors in EU manufacturing. In fact, the majority of individual EU manufacturing sectors have performed well in comparison with their counterparts in other industrialised economies. Nevertheless, the industrial structure of the EU economy as a whole makes it less than ideally positioned to face the ongoing globalisation process. While important EU manufacturing sectors such as mechanical engineering, chemicals and motor vehicles have a substantial revealed comparative advantage and record trade surpluses against the rest of the world, EU trade is overall still concentrated in sectors with medium-high technologies and low to intermediate labour skills[8]. This exposes the EU to competition from producers in emerging economies that are upgrading the skill intensity of their exports and catching up in terms of the non-price factors that often underlie the EU competitive edge on world markets. Hence, adaptability and structural change, allowing a shift towards a more robust situation of comparative advantage, are critically needed if the EU is to maximise the gains arising from the integration in the world economy of China, India, and other fast growing economies.

EU foreign direct investment flows towards the emerging Asian economies have increased in recent years, however their share in total flows remains limited[9]. International relocations of EU jobs to low cost countries have also been limited in most manufacturing sectors, although these can have painful consequences on a local or individual sectoral basis, especially on lower skilled workers that should be helped to cope with the consequences of industrial restructuring.

There is also increasing international competition for R&D spending. Shifts in global markets, together with factors such as human resources, the quality of local research and innovation systems, and the presence of clusters or poles of excellence, play an increasingly important role in determining the location of R&D spending. There is evidence that the EU is not competitive enough as a location for research. The US and Japan are attracting more international R&D expenditure than the EU, whilst there is emerging evidence that countries such as China and India are becoming important locations for new R&D investments. The US has also been more successful than the EU in attracting researchers and highly skilled staff.

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7 See also the forthcoming EU Annual Economic Review that analyses the factors affecting the competitiveness of the EU economy as a whole.

8 See section VI of the EU Sectoral Competitiveness Indicators 2005.

9 Eurostat “EU Foreign Direct Investment in 2003” Statistics in Focus, 20/2005.

These trends are a matter of considerable concern in so far as they lead to a loss of R&D investment and researchers from the EU.

On the whole therefore, while the performance of individual EU manufacturing sectors over the recent past has been positive, there are still important challenges ahead. In particular, promoting the conditions to ensure increased adaptability and structural change is essential in order to ensure the competitiveness of EU manufacturing, especially in the light of increasingly strong competition from China and the emerging Asian economies.

The challenge for EU manufacturing industry and individual sectors is to be able to maintain and further improve their performance in the future in the face of further technological breakthroughs and continued internationalisation. The challenge for policy makers is to make a clear and coherent response by making substantial improvements to the framework conditions and general environment in which European industry operates.

3. ASSESSING THE DIVERSITY OF POLICY CHALLENGES ACROSS SECTORS

In order to build on EU industry's existing strengths, the Commission services have undertaken a detailed screening of the competitiveness of 27 individual sectors of manufacturing industry and the construction industry[10], with inputs from stakeholders and the Member states. The screening aimed to determine to what extent their performance is or could be influenced by the instruments of industrial policy. The policy areas chosen for screening were those particularly important for sectoral productivity growth and international competitiveness:

- ensuring an open and competitive Single Market, including competition
- knowledge, such as research, innovation, and skills
- better regulation
- ensuring synergies between competitiveness, energy and environmental policies
- ensuring full and fair participation in global markets
- facilitating social and economic cohesion.

The screening process has resulted in the systematic identification of the most important competitiveness and policy challenges of each individual sector in both a quantitative and qualitative fashion as summarised in Annex 1[11].

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10 Since only limited sectoral data was available on the New Member states, the screening must be regarded as preliminary. The missing data is currently being compiled and analysed by the Commission and will be fed into the on-going policy initiatives.

11 The table indicates with crosses, the cases in which a policy challenge is considered of the highest priority for each sector 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. More detail on these and other issues are set out in the accompanying Staff Working Papers.

As a result of the screening, individual sectors have been grouped into four broad categories: the food and life sciences industries; the machinery and systems industries; the fashion and design industries; and the basic and intermediate product industries[12]. Each of these broad categories of industries is characterised by its own distinctive set of particular challenges.

Food and life sciences industries

The food and life sciences industries (e.g. food and drink, pharmaceuticals, biotech) make up one fifth of EU manufacturing value-added and are characterized by medium to high growth rates. The main cluster of challenges for this group relates to knowledge and better regulation. As highly innovative industries, key knowledge challenges are R&D, protection of intellectual property rights, and the financing of innovation for highly innovative SMEs. The industries also rely upon the continued adaptation and updating of regulations to keep up with technological progress, whilst ensuring health and safety. International regulatory convergence is hence also an issue for many sectors. Key sector-specific challenges include the need to make more progress towards creating a fully competitive single market for pharmaceuticals products, and environmental and market access issues relating to the food and drink industries, pharmaceuticals, and cosmetics.

Machine and systems industries

The machine and systems industries (e.g. ICT, mechanical engineering etc.) account for about one third of EU manufacturing value-added and are characterized by medium to high growth rates with high rates of R&D spending. The challenges for these sectors therefore mainly relate to innovation, intellectual property protection, and ensuring the availability of high skilled personnel. The Single Market for many of these industries depends upon technical standards that need continual updating. Better access to international markets is also essential for some industries, notably ICT, electrical and mechanical engineering, and motor vehicles. The transport industries also face a number of environmental challenges, particularly the need to continually improve the environmental performance of their vehicles, planes, and ships.

Fashion and design industries

The fashion and design industries (e.g. textiles and footwear) make up just 8% of manufacturing value-added, but have experienced low or negative output growth and relatively low R&D spending over recent years. Successful structural adjustment is the key challenge for these industries. Improving innovation, IPR protection, and skills are essential to be able to continue to improve the quality and product-diversity of their output. Obtaining better access to currently heavily protected world markets is also a key policy requirement for these industries.

Basic and intermediate industries

The basic and intermediate industries (e.g. chemicals, steel, and pulp and paper) account for some 40% of EU manufacturing value-added. As suppliers of key inputs for the rest of EU industry, these industries can be an important source of innovation for other sectors. Growth

[12] See the table in Annex 1 for an overview of the classification. A broadly similar, but not identical, classification was used in the "Industry Memorandum: Heart for Industry" of the Netherlands Ministry of Economic Affairs (October 2004). The classification was based on common industry challenges and similarities in characteristics such as products, processes etc.

rates in this sector have been medium to low, with the exception of the strongly performing chemicals and rubber industries. These industries are largely energy-intensive and hence the main cluster of challenges relates to energy and the environment. Important sector-specific challenges include the REACH legislation for the chemicals industry and legislative simplification issues for the construction sector. Structural adjustment is an important issue for the ceramics, printing, and steel industries.

4. TOWARDS AN OUTLINE OF WORK FOR INDUSTRIAL POLICY

The outline of work set out in this section involves a new approach to industrial policy, aimed at achieving better designed policies that are more relevant, integrated, and consensual. Starting from the screening of horizontal policies in terms of their concrete implications for specific industrial sectors, this approach enables the identification of the policies most relevant for each sector. Through linking together under a single initiative, a number of different policy dimensions of key relevance to industry, it will provide increased coherence and integration between policies with a more powerful effect on competitiveness. Finally, it attempts to achieve a greater consensus over policy, through the involvement at an early stage of key stakeholders and Member states in policy making. The European social partners are invited to contribute to this work, both at horizontal and sectoral level.

The outline of work in this section focuses on a series of specifically new initiatives to foster the competitiveness of different sectors. It is thus not exhaustive. Under the new Community Lisbon Programme, a number of other actions and policy initiatives with an impact on industry in general and on sectors have already been launched across the range of policy domains.

4.1. Cross-sectoral policy initiatives

Seven major **cross-sectoral policy initiatives** are announced in this Communication in order to address the common challenges across groupings of different industries and to reinforce the synergies between different policy areas in the light of competitiveness considerations.

An Intellectual Property Rights and Counterfeiting Initiative (2006)

Intellectual property rights (IPR) are of key importance for the competitiveness of many industrial sectors. While key areas have already been harmonized, more can be done to ensure that the regulatory framework meets the needs of industry at a time of rapid technological development and societal change. Companies and their clients need IPR which stimulates innovation, provides a stable context in which to make investment decisions, and encourages the development of efficient new business models. The debate engendered by the proposed directive on the patentability of computer-implemented inventions has demonstrated that framing IPR rules which balance the needs of all stakeholders is by no means easy. The Commission will therefore launch a dialogue with industry and other interested parties in 2006 to determine what more might usefully be done to provide European industry with a sound IPR framework. In addition, the proper enforcement of IPR within the internal market and in third countries is of the highest importance to fight counterfeiting and piracy occurring in many sectors. Infringements of IPR can jeopardize legitimate businesses, threaten innovation and sometimes pose problems to public health and safety. Many companies, in particular SMEs, are still not aware of their rights to obtain adequate IP protection, whilst counterfeiting continues to be a major problem in many areas of trade. Taking account existing and planned anti-counterfeiting and anti-piracy instruments and measures, including those in the enforcement[13] and customs fields, the Commission will review the state of progress in the whole area of IPR with a focus on competitiveness issues and come up with suggestions on how to improve the situation in 2006.

High Level Group on Competitiveness, Energy, and the Environment (end 2005)

Competitiveness, energy and environmental policies are closely interrelated and their impact is of significant importance in particular for many basic and intermediate product industries. Given the need for consistency of policy and legislative initiatives in these areas and in order to exploit fully the synergies between them, closer coordination and the development of an integrated approach is of the essence. For this purpose a High Level Group on Competitiveness, Energy and the Environment will be set up. It will function as an advisory platform bringing together the Members of the Commission for Enterprise and Industry, Competition, Energy, and the Environment as well as all relevant stakeholders. It is designed to examine the links between industrial, energy and environmental legislation and to ensure the coherence of individual initiatives, whilst improving both sustainability and competitiveness. This will be achieved through the balanced participation of all stakeholders with the objective of creating a stable and predictable regulatory framework where competitiveness, energy and environment go hand in hand. Likely issues to be addressed include: (i) concrete implementation of better regulation principles; (ii) climate change, particularly the emissions trading scheme, energy-efficiency and renewables; (iii) the functioning of energy markets, particularly the electricity market; (iv) implementation of the thematic strategy on the prevention and recycling of waste, and related legislation; (v) the improvement of resource efficiency and the uptake of environmental and other innovative technologies.

External Aspects of Competitiveness and Market Access (Spring 2006)

Access to international markets is a priority issue for most of the sectors. The Commission is currently working on a possible Communication on the revision of Market Access Strategy, reviewing the existing strategy and instruments to focus on those sectors and markets with greatest potential gains for competitiveness. Market access objectives will be regularly prioritised in combination with a more effective use of the Trade Barriers Regulation. In cooperation with stakeholders, a detailed strategy will be developed and implemented to tackle barriers in the selected sectors and countries. A specific market access action plan has already been introduced for textiles, and has been expanded to cover leather and footwear products. The Commission also intends to launch a wide process of reflection and debate on the external aspects of EU competitiveness through a further Communication dealing inter alia with trade issues related to Intellectual Property Rights, regulatory issues, investment and government procurement, particularly the possibility of an "External Procurement Instrument" to create incentives for third countries to negotiate the opening of their public procurement markets on a reciprocal basis.

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[13] Including the Commission proposals for a directive on "EU criminal law provisions to combat infringements of intellectual property rights", July 2005.

New Legislative Simplification Programme (October 2005)

Better regulation at various levels has been identified as a key challenge for several sectors, including construction, motor vehicles, ICT industries, and the food and life sciences industries. In addition, the waste regulations have been identified as important to a wide series of different sectors, and particularly to SMEs. The Commission has already announced[14] that it intends to re-launch its work on the simplification of existing legislation. Following consultation with stakeholders, a Communication will be published in October setting out a **Simplification work programme** including the three priorities that have already been identified for this approach: the automotive sector, the construction sector, and waste legislation. In fact, the CARS21 High Level Group started the screening of existing legislation with the aim of completing this process by the end of 2005.

Improving Sectoral Skills (2006)

Skill shortages were identified as a key challenge in a wide range of different industries, including the ICT and engineering industries, the textile and leather industries, and a number of basic and intermediate goods industries. Moreover there is some evidence that relocation of industrial activity is in some cases motivated more by skill shortages than by cost factors. The Commission has already begun to address skill shortage issues through a number of policies, such as the Education and Training 2010 work programme, including the European Qualification Framework (EQF) that will serve as a common reference for European education and training systems, facilitating the transparency, transfer, and recognition of qualifications with a special reference to the sectoral level[15]. To supplement these existing initiatives, it is proposed to make assessments of the nature of the skill problems in particular industries. These assessments would include the **identification of current sectoral skill requirements and skill gaps**, and would examine likely developments in sector-specific competences, including where possible effects on SMEs. Building upon the on-going work by the Cedefop, this information base would allow the articulation of future specific policy initiatives in the light of sectoral competitiveness requirements.

Managing Structural Change in Manufacturing (End 2005)

The private sector has the primary responsibility for undertaking structural adjustment. Nevertheless, the EU has useful levers at its disposal to anticipate and accompany change, as acknowledged in the recent Communication on the employment effects of restructuring[16]. It is essential that EU-level industrial initiatives are fully integrated with the use of the Structural Funds and the policy instruments of individual Member states. The screening process has identified the following industries for which potential structural adjustment is an issue: the textiles, leather, furniture, footwear, and ceramics industries, printing, motor vehicles, shipbuilding, steel, and parts of the food industries. The Commission intends to ensure that better anticipation and positive management of economic restructuring are included in the new Structural Funds programmes. In line with the Community Strategic Guidelines for Cohesion, 2007-2013, support for programmes aimed at modernisation of labour markets and

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14 In the Communication on Better Regulation for Growth and Jobs

15 "Work Programme on the Objectives of Education and Training Systems" adopted by the Council and the Commission on 14 February 2002; see also the "Commission's Action Plan on Skills and Mobility" - COM(2002) 72.

16 "Communication on Restructuring and Employment" - COM(2005) 120.

anticipation of gradual changes throughout the Union in sectors for which structural adjustment has been identified as an issue needs to be included in the new Structural Funds programmes, alongside active measures to reinforce the economic well-being of regions[17]. The Commission will also further explore the issue of enhancing the co-operation across regions faced with similar problems and challenges.

An Integrated European approach to Industrial Research and Innovation (2005)

The forthcoming Communication on Research and Innovation[18] will set out a new, integrated approach to policies and actions in support of research and innovation, including a number of initiatives highly relevant for industrial sectors. The recent Communication on State Aid for Innovation additionally proposes to facilitate the granting of state aid that tackles market failures hampering innovation. As part of the follow up to the Communication on Research and Innovation, a European Industrial Research and Innovation Monitoring System will be established in 2006 to provide a consolidated overview and analysis of developments relevant to industrial research and innovation, and a conduit for stakeholder views. This will ensure the availability of industry- and policy-relevant data and intelligence, helping to anticipate both barriers and opportunities to improving research and innovation investment, and the commercialisation of new technologies in Europe. A High-level Stakeholders Group, including policy-maker representatives, will be set up to provide guidance and feedback on the focus and relevance of this activity for competitiveness.

The European Technology Platforms[19], which have already demonstrated themselves as an important voluntary, bottom-up process for shaping industrial and policy strategies in well-defined key technology domains via their ‘strategic research agendas’, will contribute to increasing industrial investment in research and innovation and Europe's capacity to commercialise new technologies.

4.2. Sector-specific initiatives

In addition to the cross-sectoral initiatives, a number of new political **sector-specific initiatives** have been identified, based on their nature or particular importance. These initiatives take a variety of different forms. Some of these involve new high-level groups or policy fora, following up the successful examples of G10 Medicines, the LeaderSHIP 2015, and the CARS21 which will continue to make an important contribution in the future. Whenever a new sectoral initiative is proposed, full attention will be given to ensuring its coherence with other initiatives, particularly the recently proposed technology platforms, sectoral innovation panels, and networking initiatives under the European INNOVA initiative and the i2010 initiative on a European Information Society for Growth and Employment. A full list of new and existing cross-sectoral and sector-specific initiatives for all of the individual sectors is summarised in Annex 2. These include political, regulatory, or technical actions, depending on the nature of the issue.

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17 COM(2005) 299, 5.7.2005.

18 “More Research and Innovation: Investing for Growth and Employment: A Common Approach” - COM(2005) forthcoming.

19 Report to the European Council on European Technology Platforms and Joint Technology Initiatives: Fostering Public-Private R&D partnerships to boost Europe’s industrial competitiveness - SEC(2005) 800, 10.6.2005

The new initiatives the Commission will bring forward are:

- Pharmaceuticals Forum (first meeting in 2006)

The pharmaceuticals strategy will be overseen by an annual Pharmaceutical Forum consisting of Member states (at Ministerial level), senior representatives of industry and other key stakeholders, such as patients and health professionals. Addressing the fragmentation of the European pharmaceutical market, work will focus on R&D issues and regulatory matters at Member state level, such as the crucial issues related to pricing and relative effectiveness.

- Mid-Term Review of Life Sciences and Biotechnology Strategy (2006-2007)

The life sciences and biotechnology strategy will undergo a mid-term review in 2006-2007. This will involve closer cooperation with industry through the Competitiveness in Biotechnology Advisory Group and a regular annual triangular dialogue with industry and Member states in order to help identify problems, propose priorities, and make recommendations for actions.

- New High-Level Groups on the Chemicals Industry (2007) and the Defence Industry

Following the expected adoption of REACH in 2007, the new chemicals regulatory framework, it is proposed to set up a High-level Group to examine how to enhance the competitiveness of the chemicals industry. A further High-level group will be set for the defence industries, examining issues such as the transfer of defence goods, procurement and standardization in the defense area.

- European Space Programme

The European Space Programme will be the common, inclusive and flexible programmatic basis for the activities of European Space Agency, EU and their respective Member states. Work is also underway on a Communication on the Global Monitoring for Environment and Security (GMES) outlining how to move towards operational services in 2008.

- Taskforce on ICT Competitiveness (2005/2006)

To ensure that public policy provides a supportive environment for the competitiveness of an evolving ICT sector, a taskforce with stakeholders' representatives will be set up. Adding to the initiatives the Commission is undertaking under i2010[20], it will identify key obstacles to competitiveness and possible policy responses, for example in terms of better regulation, skills, IPR, and standardization. The taskforce will also permit a structured dialogue to help mobilize the sector and to draw the attention of Member states to the barriers to the competitiveness of ICT manufacturing in Europe and to the obstacles to wide and effective take up.

- Mechanical Engineering Policy Dialogue (2005/2006)

The mechanical engineering policy dialogue will analyze the future strengths and weaknesses of the sectors and anticipate how any weaknesses could be addressed in the longer term.

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20 "i2010 – A European Information Society for growth and employment" - COM(2005) 229.

- A series of competitiveness studies, including for the ICT, food, and fashion and design industries

These studies will analyze the trends affecting the competitiveness of industrial sectors with a view to deriving further proposals for concrete policies and actions where necessary.

5. CONCLUSION

This Communication sets out an outline of work for industrial policy in manufacturing industries for the coming years. The Commission thereby stands by its commitments in the Action Programme for Growth and Employment to contribute to a strong industrial base. To achieve this, it will take the necessary actions to improve the framework conditions for manufacturing industry and to ensure the consistency of various policy areas. The horizontal and sectoral initiatives outlined in this Communication are intended to complement work at Member state level to help address the key challenges faced by the various sectors of manufacturing industry. This approach will have to be extended through further analysis and proposals for concrete policies and actions as necessary. A mid-term review of the outline of work will be undertaken in a Communication scheduled for 2007 which will report on progress on the work programme presented above and consider possible further extensions to other focuses of the economy, such as for example environmental technologies.

Annex 1

	Industry	KNOWLEDGE				BETTER REGULATION				ENVIRONMENT & ENERGY [2]					TRADE				STRUCTURAL CHANGE	SECTOR SPECIFITIES	SECTORAL ACTIONS [4]
		R&D/Innovation	IPR, Counter-feiting	Skills	Access to finance for SMEs	Admin. burden/ Complexity of sectoral regulation	Internal Market	Health and Safety	Techn. Standards	Climate change [1]	Waste	Water	Air	Intensive Energy Use	Access to markets	Access to raw materials	Trade distortions subsidies / dumping	Regulatory issues			
Food and Life Science Industries	Food, drink & tobacco	X				X					X	X			X	X			X		
	Cosmetics	X					X	X							X			X			
	Pharmaceuticals	X	X	X	X		X	X							X			X			Pharmaceutical Forum
	Biotech	X	X		X	X		X												X [5]	Mid-Term Review of Strategy "Life sciences and bitoechnology"
	Medical devices	X			X		X	X										X			
Machine and System Industries	ICT [3]	X	X	X		X			X		X				X			X			Taskforce on ICT Competitiveness
	Mechanical engineering	X	X	X	X		X [10]								X						Dialogue for mechanical engineering
	Electrical engineering	X	X	X	X		X [10]								X					X [6]	
	Motor vehicles	X	X	X		X	X			X	X		X		X			X	X		CARS 21 HLG
	Aerospace	X															X				European Space programme/GMES
	Defence industries	X					X														HLG Defence
	Shipbuilding	X	X	X													X		X	X [7]	HLG LeaderSHIP 2015
Fashion and Design Industries	Textiles	X	X	X								X			X				X		
	Leather and leather goods	X	X	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 [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 & products of wood	X		X					X	X	X				X	X					
	Pulp, paper & paper products	X								X	X	X		X		X	X				
	Printing & publishing	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 [9]	HLG (2007)
	Construction	X		X		X	X	X	X		X										

Int. Euro. Approach to Industrial R&I

IPR

Improving Sectoral Skills

New Legislative Simplification Programme

HLG on Competitiveness, energy, and environment

External Aspects of Competitiveness and Market Access

Structural Change

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 I of the Emisisons Trading Directive 2003(87) EC. The sectors marked in this table are included in the ETS for their process related CO2 emissions.

2) Many sectors will also be affected by the new legislation framework for chemicals (REACH)

3) ICT: challenges are sector specific; ICT uptake is a general challenge for the industry.

4) Includes legislative actions and/or actions involving members of the Commission

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 each sector 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.

ANNEX 2

SECTOR	Sectoral Actions	Horizontal Actions
Textiles & clothing	Follow-up Textiles High Level Group European Techology Platform on Textiles Innovation Panel for Textiles Study on competitiveness, economic situation, and location of production in textiles and clothing, footwear, leather, and furniture industries	***IPR and counterfeiting*** ***Skills*** ***Market Access*** ***Restructuring***
Leather and leather goods	Discussions with social partners on structural adjustment Reduce/eliminate trade barriers for access to raw materials Study on competitiveness, economic situation, and location of production in textiles and clothing, footwear, leather, and furniture industries	***IPR and counterfeiting*** ***Skills*** ***Market Access*** ***Restructuring***
Footwear	Discussions with social partners on structural adjustment Study on competitiveness, economic situation, and location of production in textiles and clothing, footwear, leather, and furniture industries	***IPR and counterfeiting*** ***Skills*** ***Market Access*** ***Restructuring***
Furniture	Discussions with social partners on structural adjustment European Technology Platform on Forest products Study on competitiveness, economic situation, and location of production in textiles and clothing, footwear, leather, and furniture industries	***IPR and counterfeiting*** ***Skills*** ***Market Access*** ***Restructuring***
Shipbuilding	HLG LeaderSHIP 2015 European Technology Platform on Shipbuilding (Waterborne) Discussions on access to finance (within Commission and with EIB) OECD negotiations/possible bilaterals with China	***IPR and counterfeting*** ***Restructuring*** ***Skills***
Defence industries	***High Level Group*** Internal Market: measures on transfers, procurement and standardisation Mapping of defence related industries	
Aerospace	***European Space Programme*** **Global Monitoring for Environment and Safety (GMES) initiative as the Community's contribution to the European Space Programme** European Technology Platform and potential Joint Technology Initiative on aeronautics, air transport and air traffic management Potential Joint Technology Initiative "GMES" Follow-up of Boeing-Airbus WTO dispute	
Mechanical Engineering	***Dialogue on mechnaical engineering*** Study/competitiveness analysis (EU-10, including electrical engineering) European Technology Platform on advanced engineering materials European Technology Platform Manufuture	***IPR and counterfeiting*** ***Skills*** ***Market Access***
Electrical Engineering	Study/competitiveness analysis (EU-10)	***IPR and counterfeiting*** ***Skills*** ***Market Access***
Non energy extractive industries	In depth assessment of the competitiveness of the sector/ External evaluation of the Communication on promoting sustainable development in the non-energy extractive industry European Technology Platform on Sustainable Mineral Resources	***High level group on competitiveness, energy, and the environment*** ***Skills***
Steel	Communication on the impact of raw materials and energy supply on the competitiveness of the European metals industry European technology platform on steel (ESTEP) Remove obstacles to access to raw materials	***High level group on competitiveness, energy, and the environment*** ***Skills***
Non-ferrous metals	Communication on the impact of raw materials and energy supply on the competitiveness of the European metals industry Remove obstacles to access to raw materials	***High level group on competitiveness, energy, and the environment*** ***Skills***
Cement and lime	Competitiveness analysis	***High level group on competitiveness, energy, and the environment***
Ceramics	Continuation of working group set up in 2004 on the future of glass and ceramics industries. Staff working paper on competitiveness	***High level group on competitiveness, energy, and the environment*** ***Market Access*** ***IPR and counterfeiting***

SECTOR	Sectoral Actions	Horizontal Actions
Chemicals and Rubber	***HLG on the competitiveness of the chemical sector*** ***European Technology Platform on Sustainable Chemistry***	***High level group on competitiveness, energy, and the environment***
Glass	Staff working paper on competitiveness Continuation of working group set up in 2004 on the future of glass and ceramics industries.	***High level group on competitiveness, energy, and the environment*** ***Market Access*** ***IPR and counterfeiting***
Construction & construction products	Simplication of Construction Products Directive European Technology platform on construction Competitiveness assessement with stakeholders	***Simplification of legislation*** ***Skills***
Wood & products of wood	Initiative against illegal logging (EU FLEGT action plan) European Technology platform on the forest sector Rationalisation of technical standards regarding wood products	***High level group on competitiveness, energy, and the environment*** ***Skills***
Pulp, paper & paper products	***Communication on Forest-based Industries*** Remove obstacles to wood supply in various policies: biodiversity, bioenergy, forestry strategy European Technology platform on the forest sector	***High level group on the competitiveness, energy, and the environment***
Printing & publishing	Launch of a study on delocalisation	***High level group on the competitiveness, energy, and the environment*** ***Restructuring Task Force*** ***Skills***
ICT	***Task Force on ICT Competitiveness*** Analysis of the competitiveness, strengths and weaknesses of the of ICT sector European Technology Platform and potential Joint Technology Initiative on nanoelectronics European Technology Platform and potential Joint Technology Initiative on "Embebbed Computing Systems" European Technology Platform on mobile wireless communications European Technology Platform on new electronic media Innovation Panel for ICT Review the ICT standardisation policy of the Commission	***Skills***
Automotive	***Cars 21 HLG*** Innovation Panel for Automotives European Technology Platform on Road Transport European Technology Platform and potential Joint Technology Initiative "Hydrogen and Fuel Cells"	***IPR and counterteiting*** ***Restructuring*** ***Market Access***
Cosmetics	Implementing actions of the 7th amendment (Directive 2003/15/EC) of the Cosmetics Directive Continuation of international regulatory dialogue in Cosmetics Harmonisation and International Cooperation meetings	***Market Access***
Pharmaceuticals	***Pharmaceutical Forum*** European Technology Platform and potential Joint Technology Initiative on Innovative medicines	***IPR and counterfeiting*** ***Market Access***
Biotechnology	***Mid-term review of the strategy "Life sciences and biotechnology - A strategy for Europe" started in 2002*** Comprehensive cost-benefit analysis of economic, social and environmental effects of biotechnology Innovation Panel on Biotechnology European Techology Platform on Plants for the Future European Techology Platform on Sustainable Chemistry	***IPR and counterfeiting*** ***Simplification of legislation***
Medical devices	Review of directive 93/42/EEC concerning medical devices Active participation within the Global Harmonization Task Force	
Food, drink & tobacco	Launch of a Study on the competitiveness of the Food processing industry European Techology Platform on Food for Life Communication on the competitiveness strategy for the food industry accompanied by an Action Plan	***Restructuring*** ***Simplification of legislation*** ***Market access***

The sectoral actions include only studies and actions directly related to identified challenges, unless otherwise addressed through horizontal actions. The Integrated European Approach to Industrial Research and Innovation by its nature will apply across the board to all sectors.