



EU policies to promote
the growth of firms:
is there a need to promote winners?

IFRI, 16 January 2007

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** The views expressed in this presentation are those of the author and do not necessarily reflect the official European Commission's view on the subject.*



Overview:

- Arguments for promoting large firms and high tech sectors
- Stylised facts:
 - is it the right debate?
- The role of EU policies:
 - Which tools to promote the emergence of fast growing companies in high tech sectors?
- Concluding remarks

Preliminary remarks: the nature of the debate

- Since a few years, strong focus on improving business environment
 - Entrepreneurship lower in the EU compared to US (Surveys)
 - High regulation impedes firm creation and firm dynamism (administrative costs. OECD studies)
 - Productivity gap with the US.
- Fears of a process of deindustrialisation in the EU
 - Request for supporting industrial champions
 - Request for a strong EU industrial policy targeting high tech sectors
 - Industrial policy initiatives in Member States (France, Italy, Belgium, ...)

Rationale behind the support of large firms

- Economies of scale and scope
 - Classical argument
 - Logic behind the single market
- Knowledge diffusion
 - Market failures as a justification for public support to small and large firms
- Agglomeration effects
 - Acknowledge the positive role of firms in a region as a catalyst for innovation
 - Logic behind the French « grands projets »

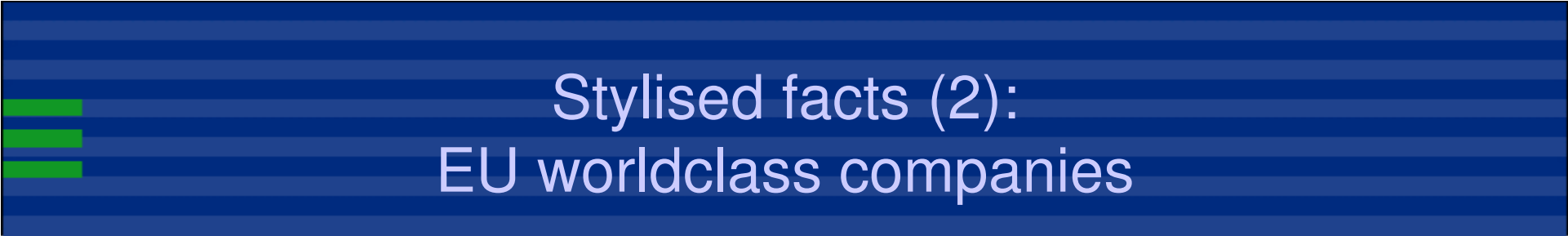
Arguments pros the support of hi tech sectors

- Market is not sufficient to help emerge new sectors
- Replicate the Airbus case in other sectors
 - Classical argument
- Emergence of China on intermediate industries
 - Increase in intra-industry trade with China
 - Strong industrial policy in China

Stylised facts (1): EU25 business structure (manufacturing)

2001	Number of Enterprises		Number of Employees (Mn)		Turnover (Mn €)	
	France	EU-25	France	EU-25	France	EU-25
Total	250 420 100%	2,165,842 100%	3.9 100%	32.4 100%	944,568 100%	5,769,436 100%
Micro (less than 10)	81,8%	79,6%	9,8%	9,8%	5,2%	5,9%
Small (10-49)	13,9%	15,8%	19,3%	20,6%	11,9%	12,9%
Medium (50-249)	3,4%	3,7%	22,7%	25,2%	17,2%	20,3%
Large (more than 250)	0,9%	0,9%	48,2%	44,4%	65,7%	60,9%
of which 1000 or more	0,2%	0,1%	26,8%	22,3%	44,1%	36,0%

Source: New Cronos - Eurostat



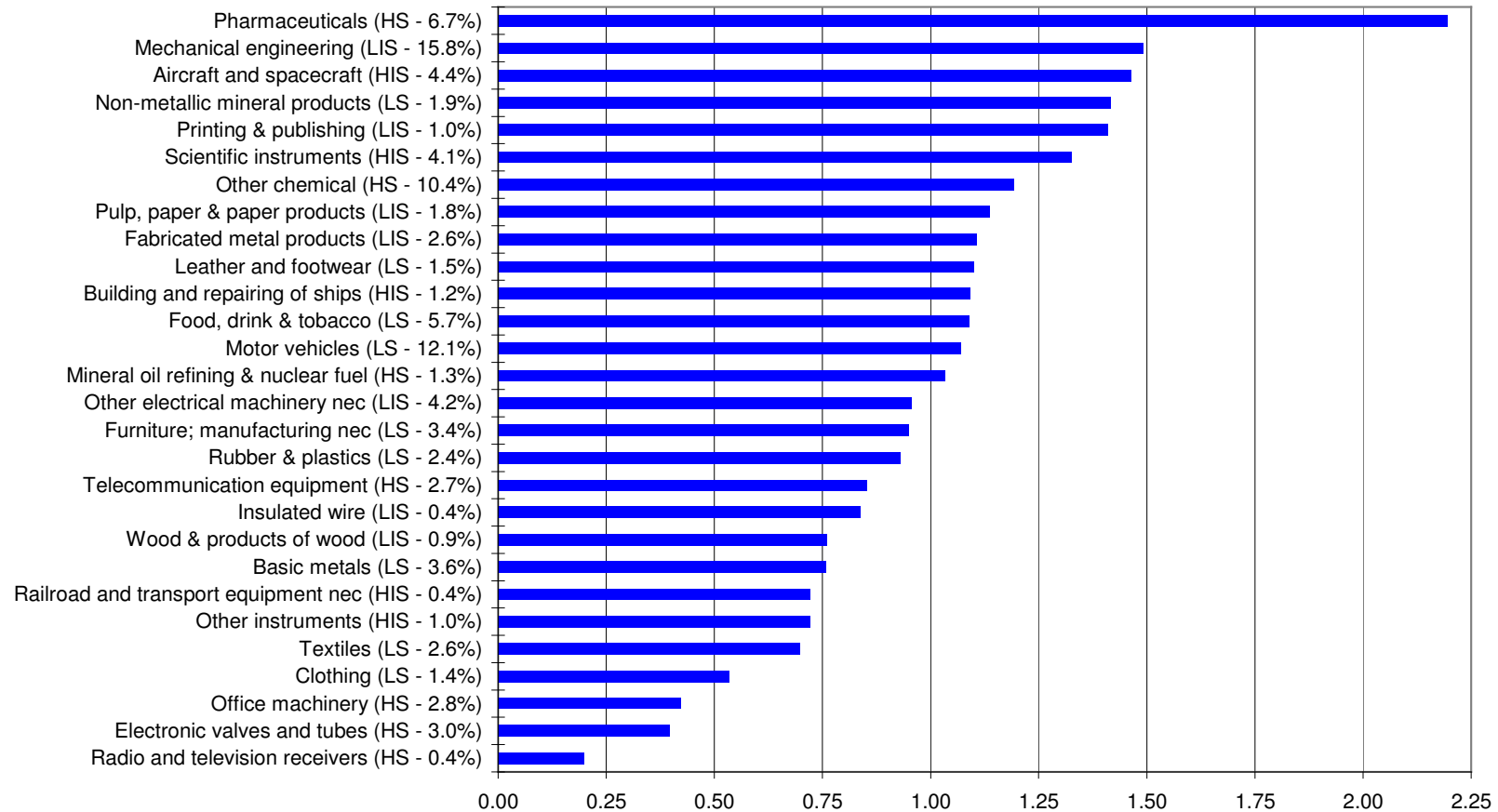
Stylised facts (2): EU worldclass companies

- The EU has internationally ranked companies
- The majority of them are:
 - in services (retail, banking, insurance)
 - 1/3 are in industry (energy, petroleum)
- Sectors: mining, petroleum, motor vehicles – are those that were involved in the industrial revolution at the end of the 19th century.

Stylised facts (3): comparative advantages in low-medium skill sectors

EU25 Trade in Manufacturing Products Revealed Comparative Advantage Index (average 2002-2004)

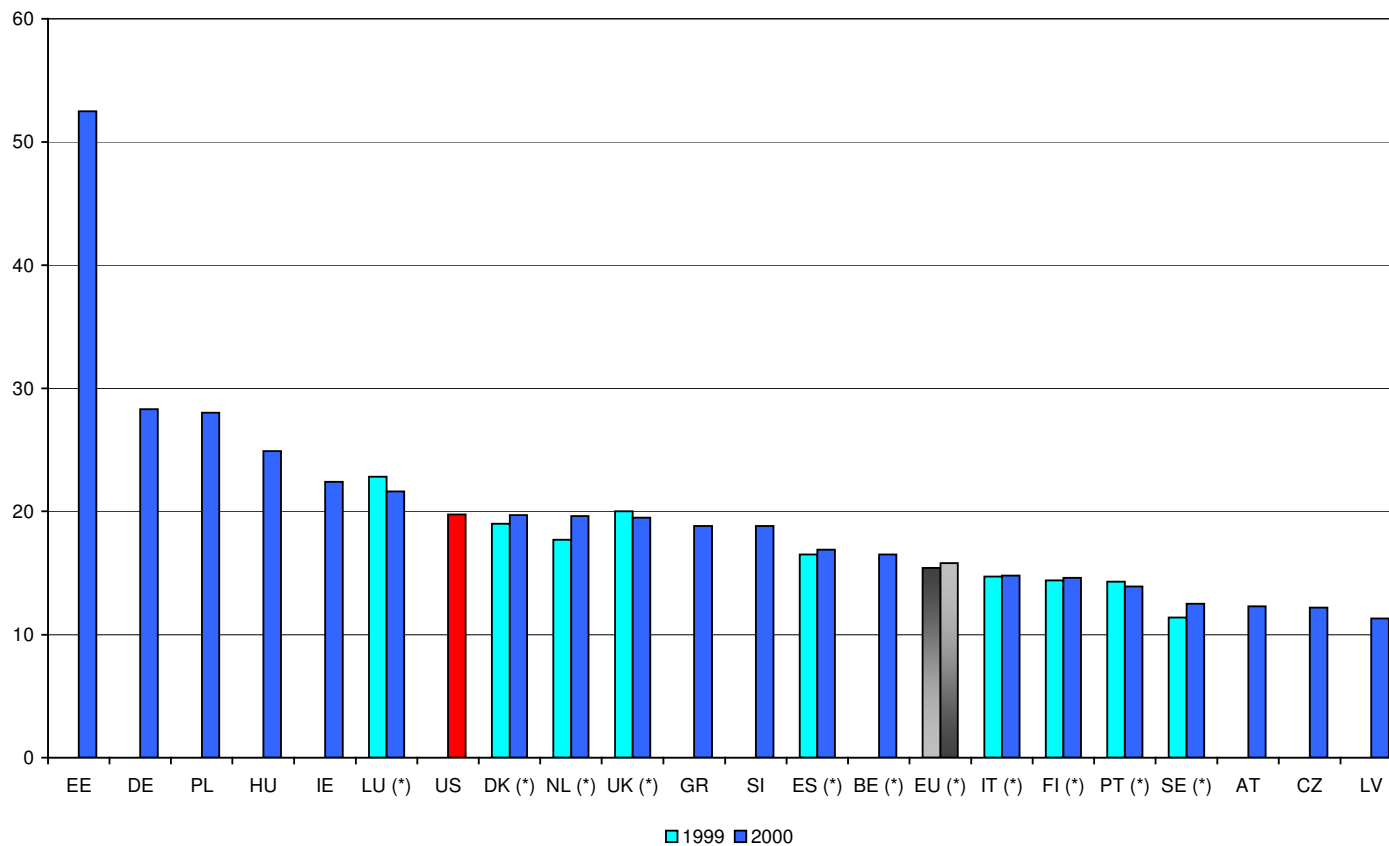
Graph VI.1: EU-25 trade in manufactured products - Revealed Comparative Advantage index (2002-2004)



Source: EU Industrial Structure (Forthcoming).

Stylised facts (4): A slow pace of change of industrial structure

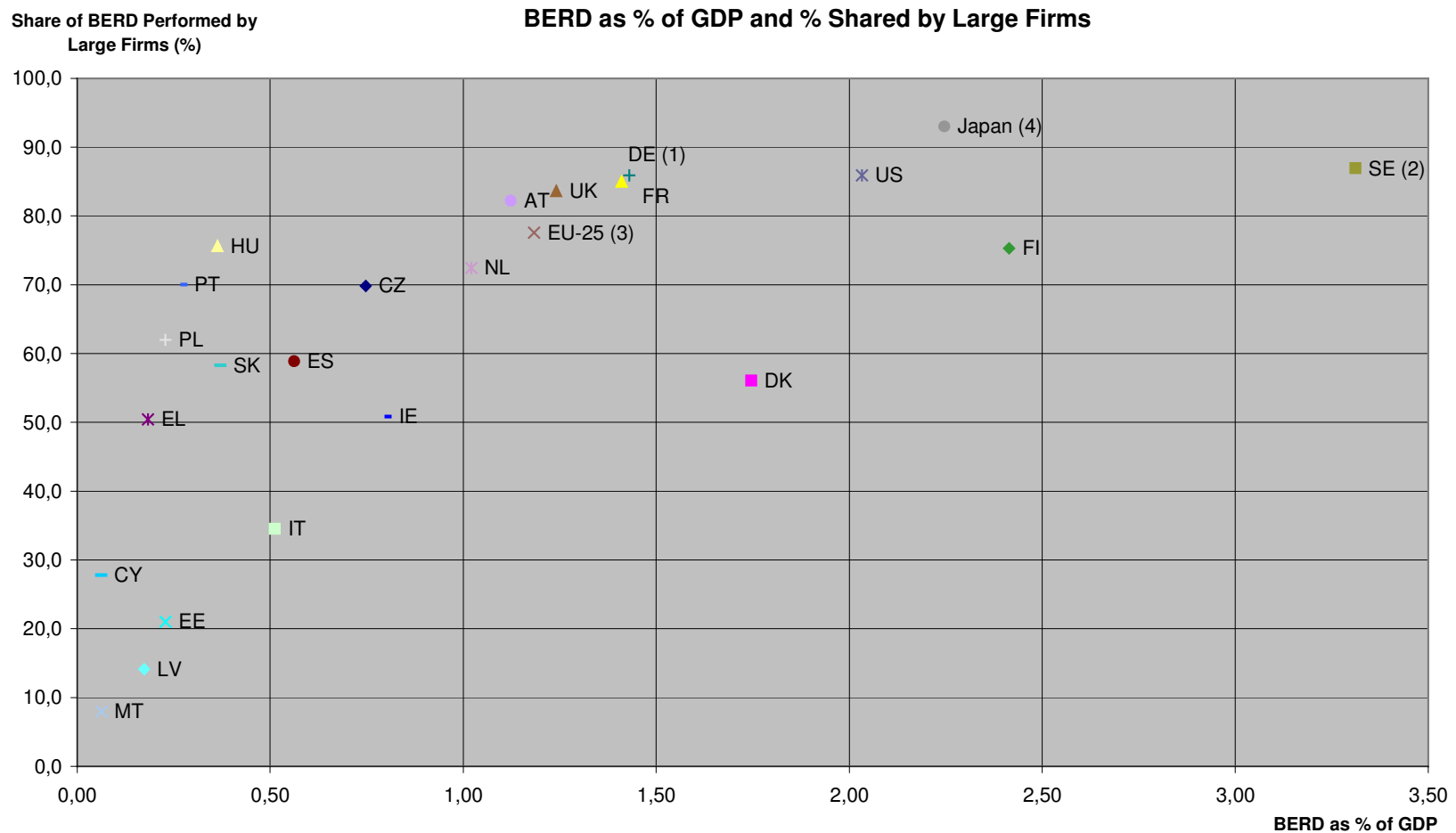
Volatility of Enterprise Population (birth rate + death rate. 1999-00)



Source: Benchmarking Enterprise Policy: Results from the 2004 Scoreboard (SEC(2004)1427)

Stylised facts (5a)

Large firms contribute to Europe's technological base



Source: DG Research, OECD.

Stylised facts (5b)

Business R&D in EU large companies

Top 10 companies with more that €200 mn net sales by R&D/sales ratio

Top 10 EU companies	R&D/sales ratio	Rank in 2005 R&D scoreboard	Date of creation	Employees	Sector
Elan (IE)	39,9	98	1969	2000	Biotech
ARM (UK)	32,8	155	1978(?)	1324	IT
Dassault System (Fr)	27,8	69	1981 ^a	5693	IT
Industria de Turbo Propulsores (ES)	21,6	141	1989 ^b	2200	aerospace
Schwarz Pharma (DE)	20,9	74	1946	4400	pharmacy
Finmeccanica (IT)	19,3	19	1948	56600	aerospace/ energy
Schering (DE)	19,0	26	1851	26000	pharmacy
Ipsen (LUX)	18,5	97	1929	4000	pharmacy
AstraZeneca (UK)	17,7	9	1913/19 26 ^a	65000	pharmacy
Infineon Technologies (DE)	16,9	21	1999 ^c	41600	IT
Total R&D investment	7,2 bn €				

Source: 2005 Industrial ResearchScoreboard, + company website

compared to US companies

Top 10 companies with more that €200 mn net sales by R&D/sales ratio

Top 10 US companies	R&D/sales ratio	Rank in 2005 R&D scoreboard	Creation	number employees	Sector
Ciena	68,7	248	1992	1497	IT
Millennium Pharamceuticals	59,4	193	1993	1142	Pharmacy
Sepracor	42	289	1984	1782	Pharmacy
PMC-Sierra	40,5	360	1984	900	IT
Celgene	37,3	320	1980	944	biotech
Openwave Systems	32,1	445	1994	1300	IT
Cadence Design Systems	31,1	134	1987	5100	IT
Biogen Idec	30,6	85	1978	4166	biotech
Actelion (CH)	28,9	361	1997	1239	biotech
Medimmune	28,7	153	1987	2500	Pharmacy
Total R&D investment	1,8 bn €				

Source: 2005 Industrial ResearchScoreboard, + company website

Stylised facts (5c)

Business R&D investment in high technology sectors is insufficient in the EU

Table 8: EU and non-EU R&D investments by sector

FTSE Sector	Sector R&D Investment as % of all sectors	
	EU Top 500	Non-EU Top 500
Automobiles & Parts	23.8	15.7
Pharmaceuticals & Biotechnology	17.0	18.5
IT Hardware	12.4	22.9
Electronic & Electrical Equipment	10.3	10.9
Chemicals	7.2	4.2
Aerospace & Defence	6.8	2.1
Engineering & Machinery	4.6	2.5
Telecommunication Services	2.8	2.0
Software & Computer Services	2.6	7.8
Oil & Gas	1.9	1.2
Others (21 sectors)	10.6	12.2
Total (31 sectors)	100	100

Source: The 2004 EU Industrial R&D investment Scoreboard



Summary: Is it the right debate?

- Large firms produce a sizeable share of total manufacturing value-added and are a major source of employment
- Few worldclass European companies in technological and knowledge-intensive industries coupled with a weak European specialisation in these industries
- Slow pace of change of industrial structure
- A deficit in R&D expenditures, especially in SMEs

The role of EU policies in promoting EU firms growth (1): who does what?

- Limited competences of the EU?
 - Functioning of markets (competition, internal market) through regulation and legislation
 - Trade (delegation by Member States)
 - Expenditures (research, cohesion, agriculture)
- Status of industrial policy at EU level
 - No specific instrument (different to the ECSC Treaty)
 - Article 157: Competitiveness should be the final objective for industry.
 - No distortions of competition
- The important role of Member States?
 - Transposition of directives and avoid gold plating
 - Research expenditures
 - Industrial policy

The role of EU policies (2): Internal market: a precondition

- Going beyond the internal market
 - The internal market well advanced in manufacturing
 - Still some areas (energy, services...)
- Many issues are in the hands of Member States
 - Transposition of directives
 - Need of quality of transposition (infringement)

The role of EU policies (3)

- Competition policy at stake
 - Has rarely prevented the emergence of champions
 - The need of greater consistency with trade policy, especially when using defence trade instruments
- Research Policy
 - Fragmented and insufficient (4.3% of 2006 EU budget expenditures)
 - Fragmentation of national initiatives due to national considerations (example of Poles de compétitivité).

Concluding Remarks

- The EU has the means to promote firms growth
- The case of industrial policy: which objective do we want to pursue?
 - Needs of a political agreement and common vision among Member States
- Evolution of the role of public policies in Member states and at EU level
 - Public/private partnership: joint technology initiatives, lead markets