Does the EU have an Industrial Policy?
Paul Graham, 21st May 2014

- How has EU industrial policy developed over the years and what are the current strengths and weaknesses?
- How is the EU helping to develop EU companies in terms of global competitiveness for the future?

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Does the EU have an Industrial Policy?

- Introduction
  - Who am I and what are my influences?

- Overview of the EU?
  - History of the its development
  - Current situation in the EU and EZ

- What is the EU’s role in business?
  - Is there an industrial policy?
  - How does the EU contribute to industry?

- Concluding thoughts
  - What binds the EU together?
  - What is the current outlook and threats?
1. Who am I?

- 1979 Obtained BSc Class 1 in Engineering Science
- 1980 gained Master of Engineering
- Worked for Rolls-Royce as an aero engine designer/developer
- 1989 Completed MBA at London Business School
- Joined SMBC
- 2010 Appointed Associate Fellow of Said Business School in 2010

I trained to be an engineer by choice, became an economist by necessity - Why?
2. Policy can affect your career choice

Historical excess wages in the financial sector
(relative to private sector equivalent)

(Glass-Steagall Act
City of London
Big Bang
Graduate as engineer
Switch to economics)

3. What do I do and how do I think?

I am head of industrial research for SMBCE (London subsidiary of SMBC), and with that my role includes:

- Responsibility for all industrial research produced for the EMEA region
- Advising on strategic direction for the bank, especially the asset allocation in the EMEA region

I have a well earned reputation for gloom and doom – I have been a long term follower of Nouriel Roubini

If you only read 2 books this year I recommend:

- “Thinking Fast and Slow” - Daniel Kahneman
- “Economics of Good and Evil” - Tomas Sedlacek
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### 4. Timeline to creation of EU

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1914 - 1918</td>
<td>World War 1</td>
</tr>
<tr>
<td>1928 - 1933</td>
<td>Great Depression</td>
</tr>
<tr>
<td>1938 - 1945</td>
<td>World War 2</td>
</tr>
<tr>
<td>1951</td>
<td>Treaty of Paris creates Coal and Steel Community</td>
</tr>
<tr>
<td>1957</td>
<td>Treaty of Rome creates European Economic Community</td>
</tr>
<tr>
<td>1973</td>
<td>Accession of Denmark, Ireland and the UK</td>
</tr>
<tr>
<td>1979</td>
<td>First direct elections to European Parliament</td>
</tr>
<tr>
<td>1981</td>
<td>Accession of Greece</td>
</tr>
<tr>
<td>1986</td>
<td>Single European Act, Accession of Portugal and Spain</td>
</tr>
<tr>
<td>1992</td>
<td>Maastricht Treaty creates The European Union</td>
</tr>
<tr>
<td>1995</td>
<td>Accession of Austria, Finland and Sweden</td>
</tr>
<tr>
<td>2002</td>
<td>The Euro replaces twelve national currencies</td>
</tr>
<tr>
<td>2004</td>
<td>Accession of ten countries; signing of Constitution</td>
</tr>
<tr>
<td>2007</td>
<td>Accession of Bulgaria and Romania (EU now has 27 members)</td>
</tr>
<tr>
<td>2009</td>
<td>Lisbon Treaty creates EU as single legal entity</td>
</tr>
</tbody>
</table>

Peace in Europe?
5. EU statistics are better than many believe

External EU financial parameters are strong – problem is lack of balance within the Eurozone

<table>
<thead>
<tr>
<th>Year</th>
<th>EZ</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012E</td>
<td>Popn (m)</td>
<td>333</td>
</tr>
<tr>
<td>GDP (€ bn)</td>
<td>9,491</td>
<td>12,902</td>
</tr>
<tr>
<td>Debt/GDP</td>
<td>90.6%</td>
<td>85.3%</td>
</tr>
<tr>
<td>CA Surplus</td>
<td>1.2%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

(Source) Eurostat

![Export of goods (€m)](chart)

Germany is the big winner

(Source) Eurostat
6. Lack of leadership created Euro hangover

**EU house price index (2010=100)**

- Green line: EU
- Yellow line: Germany
- Black line: Spain
- Gray line: Ireland
- Green line: UK

(Source) Eurostat

- Negative real interest rates caused money to rush into Ireland & Spain

**Unit labour costs % change (2000-12)**

(Source) Eurostat

- Difficult to cut nominal wage rates, aggregate demand suffered

Austerity response but problem not fiscal deficits
7. But EU lacks real political legitimacy

Power lies here

Commission
Right of initiative
Autonomous promotion of the community interest

Lack of leadership

European decision-making process

Council
Negociations of national interests

European Parliament
Direct representatives of citizens

QMV when Treaty of Lisbon comes into force in 2014
8. The EU is a balancing act of competing interests

Holding together
- Peace
- ECB

Driving apart
- Populism
- Bureaucracy
- Balkanisation
- Unemployment

How can the EU address the balance?
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9. So is there a EU wide Industrial Policy?

The simple answer is No
- EU is a collection of nation states

- Steel and coal was more an attempt to maintain peace in Europe rather than an Industrial Policy
- National governments tend to act in their own self interest – policy is delegated to governments
- Approach differs between countries e.g. Germany creates internal competition, others still favour national champions
10. Steel Production (‘000s tonnes)

As a selection of industry to support – success has been rather limited

(Source) Eurostat
11. Internal “regional” competition drives success

* Mercedes-Benz, BMW and Audi are the top 3 luxury brands in Europe.

(Source) ACEA

Internal competition has prevailed
12. So does the EU contribute to Industrial Policy

The simple answer is Yes
- EU is a facilitator

Guiding Principles for 2020

- **Smart growth**: developing an economy based on knowledge and innovation.
- **Sustainable growth**: promoting a more resource efficient, greener and more competitive economy
- **Inclusive growth**: fostering a high-employment economy delivering social and territorial cohesion
13. Digital agenda for Europe

Reform industry with focus on high technology

- Industrial innovation and technologies policy (increase R&D spending as % GDP)
- Skills, restructuring and structural change
- ICT, internet and cross-border sales

Roll-out of high-speed internet - create digital single market for households and firms
14. The world is becoming ever more complex

New business structures will develop – 3D printing could be a game changer

Need much more focus on R&D, even Germany below 3% target

High speed internet, >50% homes 100Mbps by 2020
15. Even I can create a new business?

My wife and I organised a one-day music festival with no experience.

This was only possible because of the internet, twitter and facebook.

In today’s world there are no borders.
16. An industrial policy for the globalisation era

Create a level playing field both inside and outside the EU – market size remains a strength

- Improve working of the Single Market
- Ensure international market access and fair global competition
- Create better and more consistent regulation

Goal is protection of intellectual property including brands
## 17. Larger examples of antitrust fines by EU (‘06-13)

<table>
<thead>
<tr>
<th>Date</th>
<th>Fine</th>
<th>No.</th>
<th>Reason for the Fine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov-06</td>
<td>€519m</td>
<td>5</td>
<td>Fixing prices and sharing customers in synthetic rubber</td>
</tr>
<tr>
<td>Jan-07</td>
<td>€750m</td>
<td>11 (Toshiba)</td>
<td>Cartel for gas insulated switchgear projects</td>
</tr>
<tr>
<td>Feb-07</td>
<td>€992m</td>
<td>4</td>
<td>Cartels for the installation and maintenance of lifts &amp; escalators in Belgium, Germany, Luxembourg and NLs</td>
</tr>
<tr>
<td>Sep-07</td>
<td>€328m</td>
<td>7 (YKK)</td>
<td>Cartels for fasteners and attaching machines in Eu/worldwide</td>
</tr>
<tr>
<td>Nov-07</td>
<td>€487m</td>
<td>4 (NSG)</td>
<td>Coordinating price increases and other commercial conditions for deliveries of flat glass</td>
</tr>
<tr>
<td>Oct-08</td>
<td>€676m</td>
<td>9</td>
<td>Operating cartel for paraffin wax</td>
</tr>
<tr>
<td>Nov-08</td>
<td>€1,380m</td>
<td>4</td>
<td>Car glass producers or market sharing cartel</td>
</tr>
<tr>
<td>May-09</td>
<td>$1,450m</td>
<td>Intel</td>
<td>Skewed competition &amp; denied users choice for chips</td>
</tr>
<tr>
<td>Sep-10</td>
<td>€799m</td>
<td>11 (JAL)</td>
<td>Coordinated on surcharges for fuel and security without discounts over 6yr period</td>
</tr>
<tr>
<td>Dec-12</td>
<td>€1470m</td>
<td>6 (Panasonic)</td>
<td>Cartel for monitor cathode-ray tubes</td>
</tr>
<tr>
<td>Mar-13</td>
<td>$731m</td>
<td>Microsoft</td>
<td>Breaking a voluntary pact with EU anti-trust regulators</td>
</tr>
</tbody>
</table>

Covers activity outside EU and be retrospective
- Fines now exceed €5bn
## 18. Method used to calculate antitrust penalty

<table>
<thead>
<tr>
<th>Category</th>
<th>Formula/Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic Fine</strong></td>
<td>PERCENTAGE OF VALUE OF RELEVANT SALES (0-30%)</td>
</tr>
<tr>
<td></td>
<td>× DURATION (years or periods less than one year)</td>
</tr>
<tr>
<td></td>
<td>+ 15-25% OF VALUE OF RELEVANT SALES: ADDITIONAL DETERRENCE FOR CARTELS</td>
</tr>
<tr>
<td><strong>Increased by</strong></td>
<td>AGGRAVATING FACTORS</td>
</tr>
<tr>
<td></td>
<td>e.g. ring leader, repeat offender or obstructing investigation</td>
</tr>
<tr>
<td><strong>Decreased by</strong></td>
<td>MITIGATING FACTORS</td>
</tr>
<tr>
<td></td>
<td>e.g. limited role or conduct encouraged by legislation</td>
</tr>
<tr>
<td><strong>Subject to Overall Cap</strong></td>
<td>10% OF TURNOVER (per infringement)</td>
</tr>
<tr>
<td><strong>Possibly Further Decreased by</strong></td>
<td>LENIENCY: 100% FOR 1st, UP TO 50% FOR THE NEXT,</td>
</tr>
<tr>
<td></td>
<td>20-30% FOR THIRD AND UP TO 20% FOR OTHERS</td>
</tr>
<tr>
<td></td>
<td>SETTLEMENT: 10%</td>
</tr>
<tr>
<td></td>
<td>INABILITY TO PAY REDUCTION</td>
</tr>
</tbody>
</table>

(Source) European Commission

Fines can cover activity outside the EU and can be retrospective, even for products not in use.
19. How to protect brands in a global world

Middle class expands to reach 5.9bn out of global population of 8bn by 2030

Rising middle class still wants branded products

(Source) BMI
20. Which do you prefer?

(A) Scottish Smoked Salmon

(B) Smoked Scottish Salmon

Do you prefer (A), (B) or are you Indifferent
21. Resource efficient Europe

Resources and environment central to policy

• Resource-efficiency and recycling
• Access to raw materials
• Energy and climate regulations
• Internal transport market

Decouple economic growth from the use of resources - shift towards a low carbon economy,
22. Strategy 2020 - an agenda for reform?

- Reform industry with focus on high technology
  - High-speed internet, encourage R&D

- Create a level playing field
  - Develop single market, protect of intellectual property

- Decouple economic growth from resource use
  - Move to a low carbon economy

- Share benefits of growth and jobs more widely
  - Ensure social cohesion, peace in Europe
23. Added value jobs from low carbon economy

- CO₂ Emissions (g CO₂/km): 2015 130g, 2020 95g
- 20% reduction in 1990 GHG
- 20% from renewable sources
- 20% improvement in energy efficiency
24. A place to live - to maintain social cohesion

Social equality and human rights remain core

• Create a world class education system
• Improve youth access to the labour market.
• Share benefits of growth and jobs widely.
• Expand EU to ensure LT peace in Europe

Share benefits of growth and jobs more widely, especially provide more opportunities for women
25. Now unemployment threatens social cohesion

- Short term decisions
- National champions

Populism is the “Curse of Democracy”

Unemployment Rate (%)

- Germany
- France
- Italy
- Spain
- Greece
- Portugal

Hourly Labour Costs ($)

<table>
<thead>
<tr>
<th>Country</th>
<th>($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>64.15</td>
</tr>
<tr>
<td>Switzerland</td>
<td>60.40</td>
</tr>
<tr>
<td>Germany</td>
<td>47.38</td>
</tr>
<tr>
<td>Australia</td>
<td>46.29</td>
</tr>
<tr>
<td>France</td>
<td>42.12</td>
</tr>
<tr>
<td>Canada</td>
<td>36.56</td>
</tr>
<tr>
<td>Italy</td>
<td>36.17</td>
</tr>
<tr>
<td>Japan</td>
<td>35.71</td>
</tr>
<tr>
<td>United States</td>
<td>35.53</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>30.77</td>
</tr>
<tr>
<td>Spain</td>
<td>28.44</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>18.91</td>
</tr>
<tr>
<td>Argentina</td>
<td>15.91</td>
</tr>
<tr>
<td>Brazil</td>
<td>11.65</td>
</tr>
<tr>
<td>Taiwan</td>
<td>9.34</td>
</tr>
<tr>
<td>Mexico</td>
<td>6.48</td>
</tr>
<tr>
<td>Philippines</td>
<td>2.01</td>
</tr>
</tbody>
</table>

(Source) Eurostat
(Source) US Bureau of Labour Statistics
26. Protecting social equality and human rights

Create a world class education system - Early school leavers should be <10%, ≥40% to have tertiary degree

Attract more women into the workforce – female board members 30% 2015 and 40% 2020

(Source) Eurostat
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27. So what binds the EU and the EZ together?

- The EU nations have a common heritage based on human rights and freedom of speech
- EU seen as a key element of peace in Europe – EZ is just an extension of this long term objective
- Desire to create a single market as a way of protecting EU companies from competition
- Imbalances in the union – Target 2 – the hidden glue binding the EZ together
28. At least the ECB stepped into the vacuum

Target 2 – hidden glue in the EU system

Mario Draghi announced ECB will do whatever needed to protect the Euro

Banking union very slow process but quantitative easing by ECB now highly likely

(Source) CEIC

(Source)“Datastream” Thomson Reuters
29. What drives long term competitiveness?

- Natural resources and productivity
  - How to obtain cheap energy?
  - How to manage continuing rise of the internet?
  - How to reduce youth unemployment?
  - How to reduce green house gas emissions?
  - How to increase food supply?

Can these issues be resolved by nation states?
30. Seems to me EU is on a knife edge?

EU continues to follow muddle agenda

Holding together
- Peace
- Single market
- Environment
- Complex world

Driving apart
- Populism
- Bureaucracy
- Balkanisation
- Resources

Elections likely to favour the ideas driving the union apart - nation state supporters to be big winners
Corporate Profile

SUMITOMO MITSUI BANKING CORPORATION

SMBC is a top-tier Japanese bank, which maintains relationships with over 103,000 companies in Japan.

The history of the Sumitomo and Mitsui companies date back more than four centuries, and both were founded as banks in the nineteenth century.

SMBC’s predecessor banks, Mitsui Bank was founded in July 1876 in Tokyo, and Sumitomo Bank in 1895 in Osaka.

SMBC was established in 2001 following the merger of the two leading banks: Sakura, formerly Mitsui Taiyo Kobe; and Sumitomo.

SMBC
Chairman of the Board
Teisuke Kitayama

President
Takeshi Kunibe

Capital stock*
US$ 24.8bn

Head office
1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan

Number of employees*
22,569

Network
439 domestic branches (Japan) (excluding sub-branches and agencies)
16 overseas branches (excluding sub-branches and representative offices)

Income* for fiscal year 2012-13
Ordinary income: US$ 22.5bn
Ordinary profit: US$ 7.1bn
Net income (loss): US$ 6.6bn

Total assets*
US$ 1,339.3bn

Capital ratio*
18.62% (BIS guidelines)

FX rate calculated @ JP¥ 94.01 / US$. Information correct as of 31 March 2013 unless otherwise stated.

*SMBC non-consolidated