

Europe's MAJOR INDUSTRIES: AN OVERVIEW



Area Development Site and Facility Planning

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In an increasingly competitive global market, how will trends in the EU affect your business?

Like the daily tides that rush the world's beaches, there appears to be no stopping the continued globalization of all types of small and large industries. The interconnectivity of it all can be mind-boggling. Metaphorically, it means that when a pin drops in Europe, it may just somehow affect a business decision in America, an ocean away.

What follows is a brief look at how some of Europe's major industries are faring in this new economy. Manufacturing in Europe employs more than 34 million people and makes up 75 percent of European Union (EU) exports and more than 80 percent of private-sector R&D expenses. Taking the pulse of these particular sectors is important, whether you're a competitor, alliance partner, or merely a curious businessperson. That's because as the world shrinks, the status of Europe's economic health just might affect your company, now or in the future.

Much of the information is derived from the staff working document of European Industry: A Sectoral Overview, a landmark report published by the European Commission (EC) on October 5, 2005. It provides brief but detailed data about the competitiveness of 27 individual sectors, and helps launch a new industrial policy supporting the EU's vital manufacturing industries. The policy includes initiatives designed to grow diverse industry sectors, especially pharmaceuticals, defense, and information and communication technologies.

Automotive Industry

A large home market is a major competitive advantage for European manufacturers, reports the EC; yet at the same time, this market has been flat in recent years. According to Europa, the EC's website (www.europa.eu.int), the EU is the largest

automotive region in the world, manufacturing 34 percent of vehicles and making up 7.6 percent of the EU's manufacturing sector. Direct employment is about 2 million people, while indirect employment adds another 10 to 11 million. The industry contributes 3 percent to Europe's gross domestic product (GDP).

Europa reports that motor vehicle production has decreased in the EU "from 17.2 million units in 2001 to 16.9 million units in 2002. The decline continued into 2003 with 70,000 motor vehicles less being produced, compared to 2002. The market for trucks and buses saw a more severe decline than the one for passenger cars over the period 2001-2003." This decline, which began in 2000, is attributed to the "worsening...macro-economic situation" affecting consumer demand.

According to the website Automotive Intelligence (www.autointell.com), the main Western Europe producer is "by far Germany, beside France, Spain, the U.K. and Italy." The site also indicates that the primary EU car industry is made up of Germany's DaimlerChrysler, Volkswagen, Porsche, and BMW; Ford Europe; General Motors (GM) Europe; France's Renault and PSA (Peugeot-Citroën); and Italy's fiat.

Aerospace Industry

Europe's aerospace industry is made up of "a small number of very large firms, a large number of mediumsized firms, and a very large number of small enterprises," according to the EC report. Nations with above-average employment are France and the U.K., as well as Luxembourg and Sweden. The industry's 415,000 employees work in aircraft-related activities (89 percent), space programs (7 percent), and missile programs (4 percent). New regional clusters are starting to appear near large industry players, particularly research facilities.

What is raising "particular concerns" in the industry are "signs that highly qualified personnel are proving increasingly difficult to recruit." The EC reports that keeping and developing a robust population of skilled workers is key to Europe maintaining its global competitiveness.

Biotechnology Industry

The European biotech industry employs about 95,000 people, spends nearly \$23.2 billion in revenue, and \$7.32 billion in R&D. About 20 percent of marketed medicines - and half of all drugs in the pipeline - are health care biotech products.

Nations with the most number of biotechnology firms are the U.K., Germany, France, the Netherlands, Sweden, and Denmark. While the number of companies doubled in the mid-1990s, the EC report states that "recent years have been

characterized by consolidation rather than growth...employment fell by 4 percent in 2001 -2003. " One 2001 University of Siena study found that 10 percent of biotechs employ more than 50 people, while 57 percent employ fewer than 20 workers. Furthermore, "the lack of a developed European venture capital market is likely to hinder the future development of [the industry], as companies move abroad where risk-oriented financing is easier to obtain." On the downside, this sector is missing late-stage debt financing and lacking a "critical mass" at the company level and cluster level.

Thinking positively, it's predicted that many established technology platforms (especially the plant biotechnology, white technology, and innovative medicines platforms) will soon benefit this community. Many pioneering ideas are coming out of the MEDICON Valley (between Denmark and Sweden), the Munich region, and other areas.

More sector data is available at www.europabio.org.

Cosmetics Industry

The EC report reveals the euro35 billion cosmetics sector is a major employer, responsible for 150,000 direct jobs and 350,000 indirect jobs in retail, distribution, and transport areas. Excellent product development strategies and innovations are hallmarks of this industry, which markets "several thousand new or improved products" each year. The sector's "ex-factory output" is two times higher than Japan's output and 33 percent higher than U.S. output.

Cosmetic firms here are mainly small and mediumsized companies, with a smattering of major companies. Competition may come soon from pharmaceutical, biotech, and even medical device companies seeking market share in this lucrative field.

Chemical Production Industry

The EU is the global leader in chemicals, responsible for 28 percent of chemical production worldwide. The industry employs 1.3 million people directly and 2.6 million indirectly. More importantly, the EU chemicals companies support many advancements in medicine, aerospace, information technology, hygiene, mobility, nutrition, housing, clothing, and particularly the promising biotechnology and nanotechnology arenas.

Petrochemicals, polymers, specialty and fine chemicals, and consumer chemicals make up the primary parts of the European sector. Of its 27,000 players, the EC

states that "96 percent are small and medium-sized firms generating 30 percent of sales, and 37 percent of employment." Similarly, the plastics industry has nearly 30,000 firms and 1.5 million employees, while the rubber industry has some 4,000 companies and 350,000 workers.

Germany is the clear chemicals producer leader, followed by France, Italy, and the U.K. About 61 percent of all output is from these four nations combined. Other key nations involved in chemical production include Belgium, Spain, the Netherlands, and Ireland.

Defense Industry

About 770,000 people work in the European defense industry (about half of the U.S. industry's employment). While most of the companies do both military and civil projects, the defense part of the industry works in "aeronautics, space, electronics, shipbuilding, engines, trucks" and the like. According to the EC, terrorism and other security issues are moving defense firms into using nanotechnology, biotechnology, and information technologies, a move impacting civil and military applications.

Recently, Army Times Publishing Group released the 2005 Defense News Top 100, an annual ranking and report on the world's premiere defense firms based on defense revenues. The list of the top 100 industry firms is the highlight of this report, and is created using information derived from a questionnaire filled out by senior defense company executives each year. While American defense firms placed high on the list, many European nations ranked in the top half of the list: the U.K. with BAe Systems (#4), RollsRoyce (#18), QinetiQ (#38), Smiths Group (#42), VT Group (#46), and Cobham (#49); France with Thales (#9), DCN (#16), Snecma (#23), Titan (#25), Dassault Aviation (#27) and SAGEM (#30); Germany with Rheinmetal (#26) and Thyssenkrupp (#47); the Netherlands with EADS (#7); Italy with Finmeccanica (#11); Switzerland with RUAG (#45); and Sweden with Saab (#25).

Distribution Industry

The "king" of Europe's distribution industry is the Netherlands, one of the world's top dozen trading nations. Distribution, transportation, and trade are important activities in the Dutch economy, as exports make up about 60 percent of its GDP. Not surprisingly, almost 30 percent of the population works in this sector. There are 350 million customers reachable in one to two days by roads, waterways (e.g., the Meuse and the Rhine), and rail. About half (more than 160 million) of those people live within a 300-mile radius of Rotterdam.

The Netherlands boasts many high-performing distribution points. Its Port of

Rotterdam is one of the world's top ports and is supported by lesser but still robust activity at the Port of Amsterdam. According to the Royal Netherlands Embassy in Washington, D.C., half of all goods entering the EU go through one of these two ports. Schiphol Airport in Amsterdam is Europe's fourth-largest airport and the winner of more than 100 international awards for its service quality.

Bordering seven other nations, France provides easy access to eastern and southern Europe, as well as to North Africa and the Middle East; the latter nations represent the fastest-growing consumer good markets in the world. France's distribution industry is supported by 6,800 miles of maintained superhighways, modern ports, and two airports in Paris handling 20 percent of the EU's total airfreight.

According to Invest in France, the Port of Paris is the nation's leading river port and the second busiest in Europe. In addition, France's 5,300 miles of navigable waterways connect with other European waterway systems. In 2001, they moved more than 56 million tons of freight.

Food Industry

Dominated by small and medium-sized firms, Europe's food industry is mammoth, the number-one industrial employer in the EU-15 (the 15 nations that made up the EU on January 1, 1995). The EC report says it represents "13.6 percent of total manufacturing turnover, over 13 percent of employment [4.1 million workers], and 11 percent value added...Germany, France, Italy, Spain, and the U.K. account for over 79 percent of turnover [for] the EU-25." (The EU-25 are the nations in the union on May 1, 2004).

The EU-15 bloc of nations is the "second world exporter (after the U.S.) and the world's largest importer of food products, with a share of 12.6 percent of total world trade." The U.S. is by far the primary destination for European food products, followed by Japan, Switzerland, and Russia.

Footwear Industry

Italy, Spain, and Portugal are home to most of Europe's footwear manufacturers, which include more than 27,000 mostly small firms directly employing 361,000 workers. In fact, the larger companies with more than 500 employees only employ 15 percent of the sector's workers.

The EC points out that emerging nations with quality-conscious, middle-class markets are the key to the industry's future success in global competition. While China has the lion's share of the world's exports (63 percent), Europe is a strong

second-place share holder (13 percent). About 20 percent of EU manufactured shoes are exported. Since one of the continuing problems affecting the industry is its inability to protect "design and brands," the EC notes that it is vital for international agreements to be better enforced and improved.

Medical Devices Industry

In 2003, the value of the worldwide medical devices industry was estimated to be \$220 billion, 16 percent higher than 2002 figures, according to the EU. The largest market for medical devices is the U.S. (38 to 43 percent of world share), followed by Europe (30 to 34 percent), then Japan and the rest of the world (14 to 16 percent).

The leading European markets are Germany and France, which make up half of the total market, followed by Italy and the U.K. While the U.S. and Japan each spend 5.1 percent of health care costs on medical devices, Europe is a bit more aggressive, with 6.2 percent of health care costs paying for such devices.

Medical device manufacturing is an important sector in Europe, representing a minimum of 0.8 percent of the EU-25's total manufacturing and 1.2 percent of this bloc's manufacturing employment.

Pharmaceuticals Industry

The European pharmaceutical industry is the single most important sector contributing to the trade surplus when compared with other high-tech sectors. The EC report states that the EU industry is becoming increasingly dependent on the U.S. both for its exports and imports: "U.S. companies created 42 percent more pharmaceutical jobs than its European competitors between 1990 and 2001. More than a half million people are employed by the pharmaceuticals industry, and of those, 20 percent - or 100,000 workers - are employed in pharmaceutical R&D. In total manufacturing, 1.6 percent of employment and 2.8 percent of production is represented by this sector. Although growth is "steady," it's slower than activity in the U.S.

The European Federation of Pharmaceutical Industries (EFPIA) calls itself the voice of Europe's 1,900 pharmaceutical firms, most notably its 29 national pharmaceutical organization members. In a 2005 article, Dr. Franz Humer, EFPIA president, noted that that in 1990, "the global research-based pharmaceutical industry still invested roughly 50 percent more in Europe than in the U.S. But today, the same industry is investing 40 percent more in the U.S. than compared to Europe." Not surprisingly, there is now a steady "brain drain" from Europe to the States. In fact, according to the EFPIA, more than 400,000 Europe-born scientists have crossed the Atlantic,

where they make up 40 percent of scientists working in the U.S.

For up-to-date information about the EU's manufacturing sectors and their economic health, visit www.eurostat.eu.int and click on "Statistics" in the site's Services section.

[Sidebar]

MANUFACTURING IN EUROPE EMPLOYS MORE THAN 34 MILLION PEOPLE

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North England

From the Industrial Revolution to today's focus on high-technology, North England has always been at the forefront of change. This has been especially true over the last two decades, as North England has evolved into a popular location for North American companies looking to effectively reach the European market. As of late, the region has attracted a variety of U.S. companies in the information technology, life sciences, advanced process manufacturing, and energy/environmental sectors, and continues to successfully leverage its tremendous expertise and deep history of innovation in these industries.

[Sidebar]

North England, which includes the cities of Manchester, Newcastle, Liverpool, Leeds, and Sheffield, has attracted more than 3,600 foreign companies. Compared to most European countries, the region is extremely pro-business and competitive in terms of its business regulations and tax structures, and has the added advantage of possessing direct air links with nine gateway cities in North America and throughout Europe, making the region very accessible.

In addition to foreign investment from the U.S. to the U.K. increasing 48% over the last year, North England has also registered nearly double the number of successful projects in 2004-2005 from the previous year. Today, more than 1,200 U.S. companies, many of which are major brands (e.g., Proctor & Gamble, Microsoft, Boeing, and Johnson and Johnson), have an established and varied presence in North England, and that growth is expected to continue.

With a population of more than 14 million people, the region boasts an extremely sophisticated labor pool and is home to five of the world's leading academic institutions. More than 60% of the region's graduates have a degree in science,

technology, or business; more importantly, this skilled labor force is available at 35% less cost in terms of wages compared to London and the southeast region of England.

The North of England Inward Investment Agency (NEIIA), a U.K. government sponsored agency responsible for promoting direct business investment from North America into North England, works closely with U.S. companies as they plan and execute business expansion and relocation strategies. They provide vital information that aids international business expansion, including site location, economic and market information, personnel recruitment and training issues, and availability of government financial assistance. NEIIA makes it easy for companies to enter the U.K. and European markets by ensuring that perceived and actual risks are mitigated. Find out how we can help your business - visit www.northengland.com

[Sidebar]

THE STATUS OF EUROPE'S ECONOMIC HEALTH JUST MIGHT AFFECT YOUR BUSINESS

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