2012 Economy Days

Luxembourg in the Greater Region: Finding industrial strategies in the current economic climate

The 2012 Economy Days were held on 8 and 9 February against a backdrop of economic uncertainty and freezing weather. Despite such inauspicious and chilly conditions, this first major event of 2012 brought together hundreds of entrepreneurs and decision-makers from Luxembourg and the Greater Region. Over these two half-days, the Luxembourg Chamber of Commerce hosted around 500 participants and many distinguished speakers from all over the region.

All proceeds from the registration fees were donated to the 1,2,3 GO initiative. Year after year, the success of the Economy Days has demonstrated the relevance of such exchange platforms for business professionals in the Greater Region. Indeed, difficult times often call for a common approach to economic challenges.

This year, the event brought together entrepreneurs, economists, politicians and trade union representatives around the key theme of "Industrial strategy", with all participants keen to share their views on the issues at stake.

During this sixth edition, held in the presence of HRH Hereditary Grand Duke Guillaume, contributors were invited to engage in a thorough analysis of the economy through lively debates and straightforward exchanges. These were marked by a strong desire on all parts to bring forward concrete proposals in support of businesses and entrepreneurs in these times of economic difficulty.

The first half-day of the event concentrated on the issues surrounding Luxembourg's industrial sector, in particular regarding the challenges of industrial regeneration. The second half-day, on 9 February, aimed to analyse the strategic options available to exporting companies to help them weather the economic downturn.

I. Industrial regeneration and other challenges facing the industrial sector

Finding new prospects for the industrial sector in the Greater Region

The industrial sector has been in sharp decline in Western Europe since the beginning of the 1980s. In Luxembourg, industry accounted for 44% of GDP in 1970, compared with only 7% today. The development of the financial sector and of services, until now strong growth contributors, has also unfortunately served to mask the **ageing of the country's industrial assets** and its decreasing competitiveness in the face of downward pressures on costs brought about by the emerging economies.

With this in mind, a general consensus was reached: Luxembourg and the Greater Region cannot abandon the industrial sector in favour of an economy based exclusively on services.

It is clear that economies which overspecialise in one sector — be it services or industry — are more vulnerable. What's more, services can be relocated to other countries more easily than industrial facilities.

All participants accordingly agreed on the need for industrial regeneration, or rather a new breed of industrialisation, with particular emphasis on **sectors offering high added value**. To achieve this, Luxembourg and the Greater Region require a clear and coherent policy based on a common vision.

In this context, Claude Wiseler, Minister for Sustainable Development and Infrastructure, began by highlighting a major challenge facing industrial regeneration, namely the need for a coherent strategy on land use **(sectoral planning to identify potential industrial sites) and innovative mobility (allowing access to industrial areas)** as drivers of economic growth in Luxembourg and the Greater Region.
This notably involves **transforming the existing infrastructure** and providing the right framework for developers to invest in industrial projects.

A prime example is the Alzette-Belval project, which was initiated with a vision for long-term growth to build a **cross-border eco-friendly urban area**.

He also stressed the need to **develop the public transport network** to provide better connections between areas of economic activity and better mobility for cross-border workers.

Investing in human capital is another fundamental ingredient for industrial regeneration, and participants agreed on the importance of defining a new framework for vocational training and on the need to develop employee skills.

With only 1.68% of GDP dedicated to Research and Development (R&D), and almost 1,300 researchers in the private sector, innovation efforts in the region remain insufficient. Moreover, cooperation between public and private R&D stakeholders needs to be strengthened. The participants also concluded that **creating an effective "innovation ecosystem"**, which places R&D at the heart of industrial policies, is an essential component to ensure a successful transition to a more competitive economy.

In order to foster synergies, the Luxembourg Government needs to support researchers by giving them greater financial backing and by promoting a stronger research-oriented and entrepreneurial spirit among young people. As such**, partnerships between businesses, universities and research** must be encouraged not only in Luxembourg, but also cross-border.

This also involves creating effective operational platforms bringing together all innovation stakeholders — from project initiators to investors — so as to attract high-tech businesses. As demonstrated by PwC's Accelerator, Luxembourg has the tools to become an international **acceleration platform** linking research projects with emerging market niches.

The debates for this half day ended on a unanimous agreement on the need to create a **High Committee for Industry** similar to the high committee already in place for the financial sector. This committee will make it possible to give concrete expression to Luxembourg's industrial strategy in order to promote the implementation of effective industrial measures.

II. Facing the current economic circumstances

The second half-day once again drew a capacity audience to the Chamber of Commerce to welcome Étienne Schneider, Luxembourg's new Minister of the Economy and Foreign trade.

In his first address since taking office, the Minister stressed the pressing need to return to budgetary equilibrium in order to support domestic competitiveness, which has been placed under great strain by the ongoing crisis. He also reasserted the government's resolve to encourage **economic diversification** and to strengthen the country's position in sectors offering high growth potential, such as ICT and Cleantech.

He added that the government must take centre stage in kick-starting the economy and in regenerating the industrial sector. Other key government projects include the desire to **put an end to the real estate bubble** in Luxembourg, which weighs down on salaries and is often seen as a barrier for foreign entrepreneurs. Investing in human capital and sustainable development are also fundamental pillars of Luxembourg's future economic policy.

Today, however, companies must face the consequences of economic slowdown in Europe. In the wake of the crisis affecting the euro area, **"Luxembourg is now close to recession"**, warns Serge Allegrezza, who heads Luxembourg's "Observatoire de la Compétitivité".

This being said, public finance indicators show that the country also offers encouraging prospects. Indeed, sovereign debt levels are on average four times higher in the euro area than in Luxembourg, which means the country will benefit from greater budgetary stability in the coming years.

Nevertheless, the current outlook remains pessimistic for business managers, who find themselves in an uncomfortable position between increasing shareholder demands and high wage costs. The slump in demand has **increased pressure on costs**, thus making it difficult for companies to maintain their market shares, eventually forcing them to adapt their strategy.

Indeed, although businesses enjoyed a brief respite in early 2010, they have been struggling for three years to maintain course despite decreasing activity levels on the leading markets. Added to this are problems arising from **longer settlement periods** in BtoB logistical chains and the increasing difficulty to secure loans with banks.

In response, businesses have implemented a number of good practices, such as optimising the product mix to increase sale prices, adapting labour costs to reduced sale volumes, implementing the employment safeguard plan (**Plan de Maintien dans l'Emploi**), and reducing electricity and water consumption.

Participants also highlighted that appropriate management tools and **a strong entrepreneurial culture** could serve as key drivers of competitiveness.

Regarding access to financing, one option for subsidiaries of large groups would be to secure intragroup loans. To guarantee their international transactions, businesses can also subscribe to **credit insurance policies** from the **Ducroire** agency or from private insurers.

Businesses are finding it increasingly necessary to set up flexible market deployment strategies. Many of them have already introduced **segmentation strategies** to reposition themselves on markets where lower demand has weakened bargaining power on the supply side. To stay afloat, businesses need to develop distinctive products, but this comes at a cost.

Exports account for close to 80% of Luxembourg's industrial production. As such, businesses must be fully aware of the risks and opportunities on foreign markets. Such risks vary from one country to

the other, and entrepreneurs must be especially vigilant in countries where **payment default risks** are high. For instance, the number of unpaid debts has risen by 50% in Spain over the past year.

Businesses come under huge pressure in times of tight liquidity, and some may find it relevant to **reorganise their market strategies** to target regional markets, thus generating lower transport costs and better control over sales.

In other cases, companies may be driven to conquer new foreign markets that have not been affected by the turmoil in the euro area. All of this, however, comes with many underlying risks linked to the inherent structure of the markets. Careful consideration must also be given to potential barriers to entry, including tariff barriers, regulations, financial constraints and cultural differences.

By answering the participants' questions, the speakers were able to address a wide range of current and structural economic issues facing the industrial sector, with one key notion emerging from the debates: **flexibility**. This term applies not only to businesses in their daily management, but also to public authorities in their ambition to support industrial entrepreneurs.

Innovation was also a central theme of the event. Innovation must become a driving force not just at enterprise level, but also in the design of industrial regeneration policies and in the creation of a productive and attractive ecosystem for research and development. Innovation will provide Luxembourg with the tools to spur its growth.

This event attempted to provide participants with frank and objective insights into the difficult economic situation facing the country. This is why it is necessary to thoroughly take stock of the situation so that stakeholders may unite their efforts to allow our region and industrial sector to emerge stronger from the crisis.

Through the experience and insights contributed by the speakers, we hope that this event has provided guests and entrepreneurs with new ideas and best practices to face this difficult period.

On behalf of the organisers, we would like to extend our gratitude to our distinguished speakers for their valuable contributions. We would also like to thank all our guests for their attendance, and we look forward to seeing you again at next year's edition of the Economy Days, which we hope will be set against a more auspicious economic background.

Under the patronage of:

Organised by:

In cooperation with:

Media partners:

In the presence of:

Étienne Schneider, Minister of the Economy and Foreign trade
Claude Wiseler, Minister for Sustainable development and Infrastructure

Speakers:

Serge Allegrezza	Director of Statec and of the "Observatoire de la Compétitivité", Ministry of the Economy and Foreign trade
Jean-Claude Bernardini	Member of the Executive Board, OGBL
Robert Dennewald	Chairman of Fedil – Business Federation Luxembourg
Yves Elsen	Chairman, Fonds National de la Recherche, Luxembourg
Claude Faber	Partner and General Manager, Optimise S.A.
Pascal Gauthier	Director-General of EPF Lorraine and pioneer of the Alzette-Belval Operation of national interest.
Pierre Gramegna	President of the Luxembourg Chamber of Commerce
Henri Grethen	Member of the European Court of Auditors, former Minister of the Economy and former Minister of Transport
Luc Helsen	CEO, Circuit Foil Luxembourg sàrl
Luc Henzig	Partner, PwC Luxembourg
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