

Tony Helsham's Keynote Speech to the CECE conference: 19th October 2005

Mr. President, Distinguished Guests, Ladies and Gentlemen,

Volvo Construction Equipment was 'born' in Sweden in 1832 – but we are **not** Swedish. Half our sales and two thirds of our employees are in Europe – but we are **not** European. Volvo is active in 150 markets and is best described as a global supplier of heavy equipment.

But that isn't to say Europe is not important, it's crucial to the success of Volvo – and every CE-CE member here today. Equally, our twelve hundred member companies are vitally important to the success of Europe itself. This industry generated a turnover of 17 billion euros last year equating to 7% of total EU industrial output. That's not all, as an industry we directly employed 140,000 people and our equipment – used and maintained by hundreds of thousands of other workers - helped build the houses, offices, schools, hospitals, factories, highways and infrastructure that offer a better life for millions.

In the past we have not been vocal enough in highlighting our industry's contribution to society – in fact our equipment is often accused of being detrimental to it. But the truth is that the construction equipment industry is literally building a better Europe. It is vital that we maintain our leading position especially in today's highly competitive global marketplace.

The European initiative has been a tremendous success, and we often forget the progress our representatives have achieved on our behalf. Europe used to be a patchwork of closed, even hostile nation states where freedom of movement of people, goods and services was limited. Now Europe's 450 million people can easily meet their neighbours and weave the ties of friendship we need to maintain peace and prosperity. Major milestones include the Internal Market, Currency Union and Enlargement. With many more achievements besides, they prove the enormous power that is inherent in the political and economic integration taking place.

But in a wider context the truth is that Europe is *not* keeping pace with world growth and, despite the great successes, there are important problems that need to be addressed.

Economically, socially and culturally, the expanded 25 Member States of the European Union are quite diverse. GDP growth rates range from sub 1% of some established members to 5% of some new entrants. Likewise there are significant pay variations between 'old' and 'new' Members. But while accepting these areas are important when considering how Europe's Construction Equipment industry can stay competitive, we are obviously powerless to change economies – and moving all our production to low wage countries within Europe is not a long term answer. I would like today to focus on areas where we can make a real difference to our collective competitiveness.

Reinforced by the so-called 'Lisbon Process' (the EU's strategy to make Europe the most competitive trading bloc in the world) politicians want Europe growing faster and creating more jobs. But far from leading the field Europe is falling behind the two other major players, the US and Japan, and that's not to mention the growing might of China and India.

They work longer hours than we do, produce more, have a lower cost level and, with the possible exception of India, are less encumbered by bureaucracy. These are important factors that help determine GDP growth, new employment and global competitiveness.

Undermining our ability to compete are obstacles - many of which we have little or no control over. The lack of a level playing field with competitors outside Europe, non-tariff barriers, the burden of over regulation and the cumulative effect of regulations that are sometimes conflicting all create a drag on our competitiveness.

This mountain of regulation isn't restricted to technical, environmental and safety issues, but employment, commercial, fiscal, marketing – and a host of others. The laws are not inherently flawed in fact many are quite positive, the problem is there are just far too many of them.

Improving the regulatory framework should be the main message of this conference.

Europe is quite possibly the most regulated region in the world boasting a statute book that runs to a mind-boggling 85,000 pages. There is the Machinery Directive, the Environment Directive, the Product Safety Directive, the Electromagnetic Directive, the Vibration Directive, the Exhaust Emissions Directive - and the list goes on. Of course it's every manufacturer's responsibility to ensure that their products comply with all relevant regulations – but when the requirements of directives can conflict with one another it becomes obvious that the legislative proposals are not sufficiently coordinated.

The Vibration Directive is a good example of this. Guidance is unclear for both manufacturers and Member States. This has not only made it complicated to record vibrations with comparable results but has also lead to differing interpretations of the legislation. The various directorates need to be better coordinated in order to give clear, unambiguous direction on what it is they want us to achieve.

For manufacturers producing in such a legislative environment tremendous proportions of development budgets are used trying to comply with the rules. In fact as much as 70% of R&D is spent complying with regulations, rather than adding specific customer value to the equipment we make. European manufacturers cannot for long lead the field if they have 'one hand tied behind their backs' when it comes to producing innovative products. Innovation isn't just 'nice to have' – it's the lifeblood of our industry because it produces a better output for customers and should produce a better result for us manufacturers.

And while it is a huge burden for large companies such as Volvo to meet these regulations, for smaller sized companies it has become almost impossible to keep up with ever changing, complex and conflicting rules.

A major reason why such anomalies occur is that manufacturers are not involved enough in the creation of new legislation and when we are our input is not given sufficient weight. As an industry we are in a unique position to see the real cost/benefit of proposed new rules. Even simple regulation changes can have far-reaching ramifications – ramifications that are all too apparent to us at the

sharp end of the change. If we work more effectively together the total impact of rule changes can be better assessed.

It is for this reason, as well as a lack of any serious impact assessment prior to legislation coming into force, that too many conflicting, irrelevant or – to quote Commission President Barroso – ‘absurd’ standards being added to the ever-growing statute book. By improving the quality of legislation many billions of euros could be saved each year. Similarly, for every euro invested in impact assessments the industry could save hundreds in compliance. Thankfully this has now been identified as a problem and a task force has been formed to attack the issue. We welcome this initiative.

A closer involvement in the law-making process and a more thorough impact assessment will create a better result for all stakeholders. But there is another element – the laws are also poorly implemented. A ‘two speed’ Europe is being created where some follow the rules - whilst others don’t. Better market surveillance is needed to ensure the rules are being followed. Unlike the US which imposes punitive fines on manufacturers of non-compliant equipment, the EU requires only that equipment be

withdrawn from sale. This is a problem because the measure is failing to stem the growing tide of non-compliant machines finding their way into Europe.

Ironically this situation has come about because of a positive development in the way manufacturers' comply with EU requirements. Previously a time-consuming, expensive and inefficient system of approved third party testing was required to certify machinery. Expensive retesting was also necessary even for small product changes. Now we have the New Approach where, through the *Manufacturers' Declaration* producers self-certify their equipment as being CE compliant. While this has been a tremendous boost for legitimate manufacturers, the presumption of conformity is being abused and a lack of surveillance has lead to non-compliant equipment being imported into Europe in growing numbers.

A simpler more coordinated and clearer legislative system, backed up by better market surveillance, would deter those wishing to bring non-compliant and sometimes dangerous machines into Europe as well as enabling smaller manufacturers to comply with the rules and remain competitive.

This is the situation in Europe. But we also operate in a global environment. Compared to our automotive cousins in cars and trucks who produce many hundreds of thousand of units per year, our products are low volume. Low volume means that it is very expensive to produce machines for specific geographical areas. What we need is harmonization of legislation to allow us to develop global products.

To a large degree this has already happened within Europe, via a process of free circulation amongst Member States. The mantra of 'free trade, internal market and flow of capital goods' is, by and large, alive and well in the European Construction Equipment industry. In fact the only 'fly in the ointment' in Europe is the lack of harmonized road safety regulations for off road machines used occasionally for transport between work sites, which differs between States, adding a layer of unneeded multiple certifications. We support the CE-CE initiative on this subject and would urge the Commission to approve its proposed solution.

But back to the topic of producing global products. The problems of harmonization are not only technical – we are willing to meet more stringent requirements as long as they are globally harmonized. The problem is largely political, with EU legislators and politicians outside Europe unwilling to find a compromise between their legal, safety and environmental requirements. We are not suggesting global Type Approval but rather a simpler system of global ‘mutual recognition’. We need one standard and one test that is applicable – and accepted - worldwide. As the US is the most important overseas market for many European manufacturers – and vice versa – it’s important to make life as easy as possible for doing business between the two and thereby avoiding trade conflicts.

Creating a harmonized legislative environment will not only make doing business across trading blocs easier, it will also drive down our cost of supply, improve quality and enable shorter product cycles.

There is now a good 'window of opportunity' to devise unified measurements for engine emissions, as the EU and US requirements are due to come into alignment in 2012. This would be a perfect occasion to adopt a common system. Now is the time to negotiate this. In this regard our industry is unfortunately powerless, it is up to our lawmakers to find consensus. With that in mind there seems to be an unwillingness to compromise over the adaptation of the EN 474 Earthmoving Equipment European Norm into an international ISO standard. We support the initiative to include specific regional requirements within the ISO in order to accommodate the needs of both the US and Japan. It is not helpful for Europe to say that it is happy to have international standards – as long as they fit into the European system. Having a non-exclusive ISO would be a positive step towards global harmonization giving governments a technical base for health, safety and environmental legislation.

Europe is a great innovator, a knowledge and industrial powerhouse and a massive trading partner on the world market. Yet we are jeopardizing our leadership position – and our future economic growth – by a combination of over regulation, under-surveillance and too little regard for the likely impact of new

legislation. We want to be innovation leaders, but over regulation is suffocating R&D for the larger companies, and acting as an effective technical trade barrier for smaller ones. The devil truly is in the details – all 85,000 pages of them. We cannot risk that our products will be excluded from lucrative world markets in the future. The opportunity for growth and prosperity will be ours only if manufacturers and the EU work together on a sensible legislative platform.

The answer to the question: *How can the European Construction Equipment industry stay competitive?* is best summarized by saying that it needs to be released from the shackles of *over-*regulation and bad, or *unnecessary*, regulation. To achieve this, our industry needs to be more active in defending its interests within the EU.

European manufacturers need to build the best construction equipment in the world and the solutions to the issues I've highlighted today will help us focus resources on achieving this aim. Also, the EU needs to recognize that the construction equipment industry is not a societal problem: our products are not 'necessary evils' that are best forgotten but rather central to its Lisbon ambitions of growth and jobs. Not only are we a huge employer and major contributor to industrial output, we are also building the infrastructure that is vital if Europe is to achieve its aim of being the world's most competitive trading bloc.

Thank you for your attention.