The most recent authoritative voice was that of Angela Merkel. "The Economist" is turning it into a real campaign. The issue of creating "European Champions" is animating the economic debate and is beco-

European champions: big groups grow bigger

ECONOMY

by Franco Mosconi

ming part of the political agenda, not only of Brussels but of the individual countries in the Union. But what does it really mean? Is it correct to speak of a European industrial policy?

"The European Union will be able to exploit the chances offered by the single market – and this is my firm conviction – only if we decide to create European Champions in areas [...] such as electrical energy, postal services, etc."
These are the views expressed on 9 May 2006 by the German Chancellor, Mrs. Merkel, during the "European Forum" of the WDR, which could be backed up by other positions she has taken – also during last spring. In fact, Mrs. Merkel had already referred to "European Champions" on at least two other formal occasions, such as at the press conference that concluded the European Council in Brussels (23-24 March) and a speech on 2 May given when the first stone was laid for the N3 – Arnstadt Engine Servicing Centre at which she specifically mentioned the joint venture between Lufthansa and Rolls-Royce as an example of a "European Collaboration".
These declarations, taken together – the benefits that the single market and companies capable of growing on a continental basis can bring to our prosperity, and in a more general sense, the need to develop a "European way of thinking" about competition – have greatly contributed to bringing to the forefront the issue that now goes by the name of "European Champions".
Naturally, emphasis needs to be placed on the adjective, since the noun might bring to mind – as if by magic – the "National Champions" of the past: and no-one today can reasonably think that this instrument, typical of the industrial policies of European countries during the post-World War II years, is still apt for competing in the new international context.
So it is not simply a question of vocabulary.
But the question that comes to mind is how are the two model-types of "Champions", the "National" of the 1960s and 70s (and beyond) and the "European" of the 2000s, different?
Like all developing issues, this one is also the subject of lively discussion and at the present time offers no unambiguous definitions to which one can subscribe.
Simply Google the expression "European Industrial Champions" and patiently look at the very first pages that come up on the search engine; one realizes that discussion is still wide open. On the other hand, it is

true that with the passage of time important empirical evidence is accumulating. What comes to mind is the wave of mergers and acquisitions (M&A) seen over the last couple of years, and the major role being played by large European industrial and financial companies.
The time seems right to try to present in this article an initial state of the art on the debate over "European Champions". First of all we shall look at Brussels, where an initiative of the European Commission has brought the (new) industrial policy back to representing a policy area of crucial importance; next, we shall quickly examine what is new in the growth strategies of European companies; finally the article will conclude with a first attempt at definition by successive approximations.

The Enlarged Europe and the new industrial policy

Back in the 1980s, the late Alexis Jacquemin – among the most authoritative and influential industrial economists, an advisor to Presidents Delors, Santer and Prodi – criticizing the delay of European companies compared with American and Japanese firms, pointed out that – and we quote his exact words from *La Nuova Economia Industriale* (Il Mulino 1989) – "the need to develop a concerted European Industrial Policy that would allow us to get beyond sectoral strategies that follow national lines, for existing barriers among the major national corporations to be reduced, and for a large internal European market to be developed for industrial applications".

_Angela Merkel lays the first stone for a new Lufthansa-Rolls Royce centre. With her, the CEO of RR, Cheffins, the Minister of Transports, Tiefensee, the CEO of Lufthansa, Mayrhiber, and Thuringian PM, Althaus

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To go back over, even briefly, what has happened in Europe since Jacquemin wrote these words would take us a bit far (we previously wrote on this in **east**, No. 4, May 2005). In this article we shall simply note that between the end of the 1980s and the beginning of the 2000s a United Europe was able to achieve three major successes in rapid succession: the completion of the internal market with the "four freedoms of movement" (goods, services, people and capital); the start of monetary union and the launching of the euro; the successive "enlargements" of the European Union (EU) up to the historic one with the countries of Central and Eastern Europe, which on 1 January witnessed the entry of Bulgaria and Romania.

Each of these success stories had a corresponding goal, a method of work, a changing number of protagonists, and a priority (or group of priorities).

However, the fact that it was not until the end of 2002 that the issues of industrial manufacturing and industrial policy were again at the top of the EU political agenda should not be surprising. These were the years of the Lisbon Strategy, which even with all of its limitations focused attention on the modernization of the European economy and society. And these were the years in which the "Sapir Report" was taking shape, the extended title of which – An Agenda for a Growing Europe (Brussels, July 2003) – is in itself a work programme.

As we were saying, in December 2002, after more than a decade of silence on the subject, the Brussels Commission at the initiative of the then Commissioner responsible for EU Enterprise, Liikanen from Finland, presented the report entitled Industrial Policy in an Enlarged Europe. It was then President Prodi who, in presenting this report in January 2003, spoke specifically about "European Champions" and the sectors in which they need to be promoted.

- Biotechnology and life sciences
- The information and communication sector ("where our leadership in mobile telecommunications has much at stake in a new fight over standards").
- The so-called hydrogen economy ("as an alternative means for accumulating and transferring energy").
- The defence industry ("still fragmented and lacking the will to build a truly integrated European defence system").
- Our aerospace ("still hesitating between civil applications and those needed for security").

There were in fact four reports on industrial policy in the brief space of a few years (2002-2005): simply to say that the totality of documents is truly sizeable and can lead us in many directions. In sticking to our subject it needs to be pointed out that other sectors will emerge, step by step, from new community documents on industrial policy (and related subjects) of the last four or five years. Just as other sectors will spontaneously come under the spotlight, driven by the wave of mergers and acquisitions sweeping across Europe (and we shall see this in the latter part of this article). What needs to be clarified is that nothing in this new approach is aimed at resurrecting the unregretted period of "sectoral plans". As is clear in the table duplicated below and taken from the report of the October 2005 Barroso Commission, what is being developed is an "integrated" approach that includes new horizontal initiatives as well as tailor-made initiatives for specific manufacturing sectors. Consequently, the general rule is that of a horizontal approach to industrial policy, but with vertical declinations: several times it is emphasized that EU industrial policy follows a horizontal approach, aimed at guaranteeing general conditions favourable to industrial competitiveness:

1. THE NEW "INTEGRATED" INDUSTRIAL POLICY

Cross Sectoral Initiatives
1. Intellectual Property Rights and Forgeries (2006)
2. High Level Group on Competitiveness, Energy and the Environment (end 2005)
3. External Aspects of Competitiveness and Market Access (Spring 2006)
4. New Legislative Simplification Programme (October 2005)
5. Improving Sectoral Competencies (2006)
6. Managing Structural Transformation in the Manufacturing Industry (end 2005)
7. Integrated European Approach to Industrial Research and Innovation (2005)

Source: European Commission, Implementing the Lisbon Community Programme [COM(2005)474].

"Its instruments, which are the policies of companies, propose to provide the general conditions within which entrepreneurs and companies can take initiatives, develop ideas and seize opportunities". But at the same time – goes the argument – this is a policy that must take into consideration the specific requirements and characteristics of each individual sector, and must be applied differently: "Industrial policy, of necessity, brings together a horizontal base and a sectoral application." Needing to synthesize, we can say that the horizontal dimension implies numerous and multifarious links with the other Community policies: the list is indeed very long and when consulting all four reports several times, there is a danger of it appearing disjointed. Nevertheless, what are called in one case "transverse factors", in another the "synergies (to optimize) among the various policies" emerge with sufficient clarity and two of them deserve a special mention: "put knowledge at the service of companies", and "improve the function of markets". The vertical applications, on the other hand, relate to the hypothesis of the "European Champions"; or rather, to go back to Jacquemin's intuition referred to above, to the idea of "a concerted European industrial policy that allows going beyond sectoral strategies along national lines". The many sectoral strategies that occur in the new EU industrial policy, either through so-called technological platforms or other ad hoc initiatives, seem to be signs pointing in that direction.

Sector Specific Initiatives
1. Pharmaceutical Forum (first meeting in 2006)
2. Intermediate Adjustment of Strategy for Life Sciences and Biotechnology (2006-2007)
3. New High Level Groups on the Chemical Industry and the Defence Industry (2007)
4. European Space Programme
5. Taskforce on Competitiveness in the ICT (2005/2006)
6. Dialogue on Policies for Mechanical Engineering (2005/2006)
7. Various Studies on Competitiveness, including the sectors of ICT, Food, Fashion and Desig

Naturally, not all industrial sectors will necessarily see new champions emerge. There are a great number of them, for example, where being a medium sized company leads to a brilliant performance, especially in terms of the growth dynamic of added value, of employment and of exports. For Italy, the reference is in the breeding ground of the almost 4,000 "medium size industrial companies" investigated by Mediobanca-Unioncamere, which earn two thirds of their revenues from the typical "Made in Italy" sectors. But it is equally true that there are sectors which represent the area of choice for "European Champions", as is seen in the listings of the European Commission. If one were to generalize, the natural candidates would seem to be these sectors: where the effort at research and development (R&D) is most intense: where therefore, the dispersal of research in as many trickles as there are member States runs the risk of not allowing any national company to attain the critical mass necessary to generate inventions and innovations;
where different types of economies of scale are relevant: where the failure to create European corporations limits enjoying to the full the advantages of the internal market, now enlarged, as it is today, in the direction of Eastern and Central Europe.
We believe that counter evidence of this approach can be found in subsequent studies developed at the Community level as well as by individual member States. For the first, reference is made, inter alia, to the "Aho Report" (Creating an Innovative Europe, 2006), that within the framework of a "favourable market to innovation" proposes, among other things, "large scale strategic actions" in such areas as – and we quote verbatim – "e-Health, the pharmaceutical sector, energy, the environment, transportation and logistics, digital security and content". This – the reasoning goes – in order to duplicate two recent successes, in telecommunications and aeronautics respectively, such as GSM and Airbus. But looking at things from our perspective, we could add the Italian-French STMicroelectonics joint venture headed for many years by Pasquale

Pistorio and ranked among the world leaders in semi-conductors. We have now entered the second level (member States) and to limit ourselves to the two cases of France and Italy, we first turn to the "Beffa Report" – Pour une nouvelle politique industrielle (Towards a New Industrial Policy) (January 2005) – requested by President Chirac; and secondly to the legislative bill *Interventi per l'innovazione industriale* (Interventions for Industrial Innovation), accompanied by the document entitled *Industria 2015* (Industry 2015), DDL recently approved by the Italian government, at the initiative of Minister Bersani (September 2006).
Like the Community approach, the national experiences being developed at this time (we have just mentioned the French and Italian, while at the beginning we referred to statements made by Mrs. Merkel) emphasize the possibilities for intervention and cooperation in a number of specific areas: information technology, of course, but also biotechnology and life sciences; energy and transportation; the environment and health, etc. There is also a sector like that of financial services that is a virtual prerequisite of sorts for the creation of "European Champions". From this perspective, we think we can claim that Italy is in a good starting position. In fact, Banco Santander's takeover bid for the British Abbey National (2004) was followed first by the big merger of UNICredit-HVB (2005), which resulted in a pan – European Group operating in Italy, Germany, Austria and in the countries of the New Europe; following that, the merger of Banca Intesa and San Paolo IMI (2006) which created another of the top ten banks in Euroland.
Remaining in the realm of the financial system, what should not be forgotten are the strategies currently being implemented by the major European and American stock markets; we are thinking of the alliance between the cross-border exchange Euronext (since 2000 it links the markets in Paris, Amsterdam, and Brussels, and was enlarged in 2002 to Liffe of London and the Lisbon Stock Market) and the New York Stock Exchange (NYSE), with the Deutsche Börse and the Italian Stock Market still waiting to join. And we are thinking, in keeping with this transatlantic perspective, of the fact that the NASDAQ is the major shareholder of the London Exchange, the City, and has launched a takeover bid that is still in progress.
The distance is short between the sectors (which are seen, we reiterate, as choice areas for the creation of "European Champions" and companies (or groups), and it is to them that we now turn our attention.

"Farewell national champions"

Farewell National Champions is the title of an interesting essay written by Nicolas Veron (2006) for Bruegel, the Brussels think-tank headed by Mario Monti and directed by Jean Pisani-Ferry. Its major conclusion, or what the author calls "the trend toward the Europeanization of the biggest European corporations" is based on a detailed study of the Top 100 in Europe, compared with the Top 100 in the United States.
At the end of 2005, notes Veron, "their domestic market is more and more Europe-wide rather than a particular country within it". And also "at 65%, the share of sales in Europe as a part of total revenues is almost identical, on average, to the share of revenue that the Top 100 American corporations earn in the United States. The share of their national base (or regional base for the smaller countries) is rapidly declining, and in 2005 was equal to 36.9% of global revenues, as opposed to 50.2% in 1997".
Still following the Bruegel study, there are only 7 Italian companies included in the category of the Top 100, compared with 26 from the United Kingdom (plus Ireland) , 18 from France, 14 from Germany, 11 from the Benelux countries, 9 from the Nordic countries and 9 also from Switzerland. Spain and Portugal finish off this special "Champions League" with 6, while there is no company from the final zone used in the study, Eastern and Central Europe. **Fig. 2**
A brief reference back to the sectoral analysis may be useful and you can refer to the study just cited for clarifications at (www.bruegel.org). In the time period

2. "TOP 100 OF EUROPE": ITALIAN AND GERMAN PRESENCE (2005)

Position In the general ranking	Companies Groups
ITALY	
11	ENI
21	UniCredit
40	Telecom Italia
43	Enel
53	Generali
57	Banca Intesa
84	San Paolo IMI
GERMANY	
22	Siemens
23	E.ON
26	Deutsche Telecom
29	SAP
30	Allianz
38	Deutsche Bank
47	DaimlerChrysler
53	RWE
55	BASF
68	Deutsche Post
71	Bayer
72	Munich Re
76	BMW
98	Volkswagen

Source: Extracted from N. Veron, Bruegel Policy Brief, 2006/04, June 2006

_The financial sector is a prerequisite of sorts for the creation of "European Champions". The UniCredit Group operates in 20 countries. Above, Alessandro Profumo and Dieter Rampl, CEO and Chairman of the UniCredit Group, respectively

covered by the study (1997-2005), among the Top 100 European corporations, telecommunications and utilities have seen an increase in the share of revenues deriving from the "rest of Europe" (with respect to the European country where the headquarters is located). This change, as Veron comments, "underscores the significant impact of market-opening policies being carried out in Europe", and in this regard, the author does not hesitate to remind us of how this has occurred in the banking sector, only at a more limited level. We also learn that the completion of the internal market has had its effects on other sectors, such as consumer goods, commercial distribution and logistics.

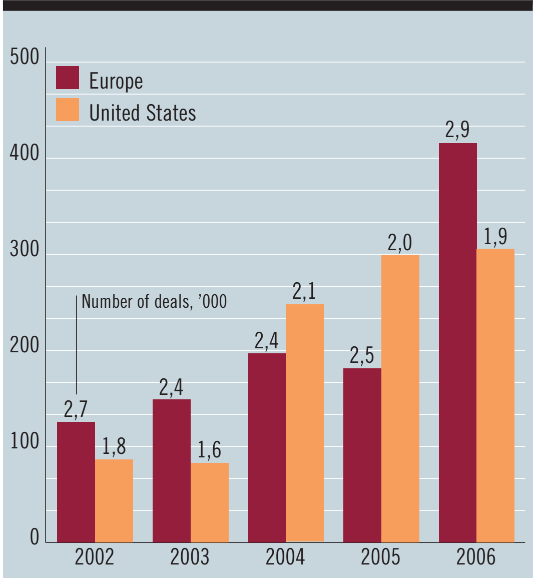
Finally, for a number of sectors that produce consumer goods and/or technologically advanced industrial goods (among all the pharmaceuticals and chemicals), Veron notes that the market for those same Top 100 European corporations is in fact worldwide, in the sense that the major share of revenues are earned not in Europe (headquarters plus the rest of Europe) but rather in the "rest of the world".

Is the trend toward Europeanization of the largest European companies going to continue? The question is one of those, how should I say, that is "open" to definition. The events are actually unfolding right before our eyes and it is difficult to know in advance where we will end up. What is certain is that the current wave of mergers and acquisitions mentioned at the beginning of the article views Europe as a major player.

During 2006, "The Economist"

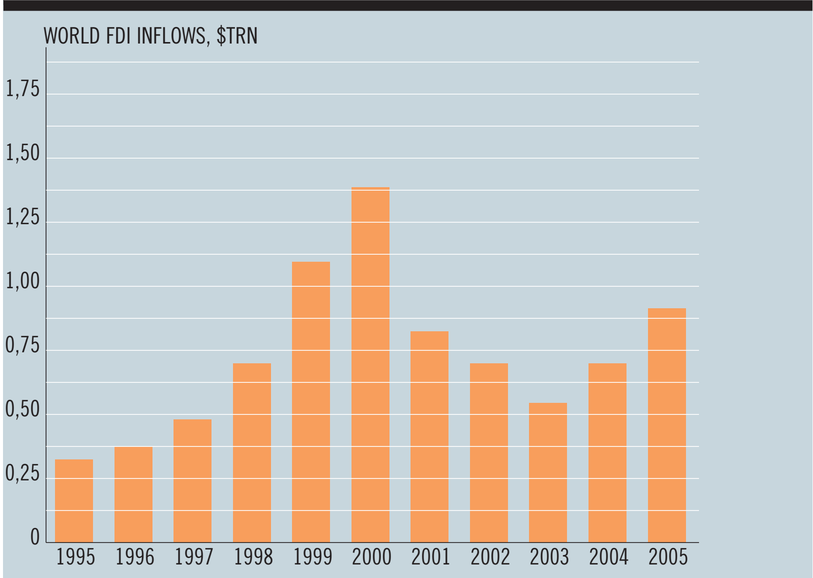
(www.economist.com) followed this wave step by step. At the end of the first quarter, for example, it wrote how the acquisition of European companies had risen to 418 billion dollars, more than double the amount compared with the same period in 2005 (and compared with 331 billion in America, 5% more than the previous year). The London weekly also noted that these were operations which concentrated on the core business of the companies involved in the various operations, that therefore used them to carry out a strategy of "horizontal integration" (utilities and energy but also telecommunications and defence were among the sectors specifically mentioned). Without going back over all the crucial events, we arrive at the end of 2006 and the Economist gives us a snapshot of what happened in a year that broke all records in M&A: the value of published operations reached the peak of 4 trillion dollars. Once again, as previously at the end of the first quarter of 2006, Europe as principal player is highlighted; the combined value of "European targets" totals approximately 1.6 trillion dollars – the most ever recorded – a figure that is slightly higher than the value of M&A operations that targeted American companies. Great Britain, Spain, France, Germany and Italy – to mention just the first five countries – stood out, even in different degrees, for the number of deals (from almost 2,500 in Great Britain to about 600 in Italy) as well as for the equivalent value (Great Britain is still the major contributor to Europe's excellent performance with over 300 billion dollars, but even the other big countries recorded between 100 and 200 billion in M&A deals).
The chart duplicated below [*Il Sorpasso* (The Overtake), *editor's note*] summarizes the start of this boom, which is reshaping the European oligopoly in a great many industrial and service sectors.
Furthermore, it's a wave that, in order to be placed in the right perspective, of the "enlarged" Europe, should be read together with the trend which, in recent years, has been attracting Foreign Direct Investment (FDI). Even in this regard – as can be seen from the two following charts (Foreign Direct Investment and New Horizons) taken from the London weekly – the very important role played by the European economy emerges; it now clearly leads in the rankings of FDI inflows. A

3. OVERTAKING
MENGERS & ACQUISITIONS, DEAL VALUE BY TARGET AREA FIRST QUARTER



Source: Dealogic

4. FOREIGN DIRECT INVESTMENT



Source: UNCTAD

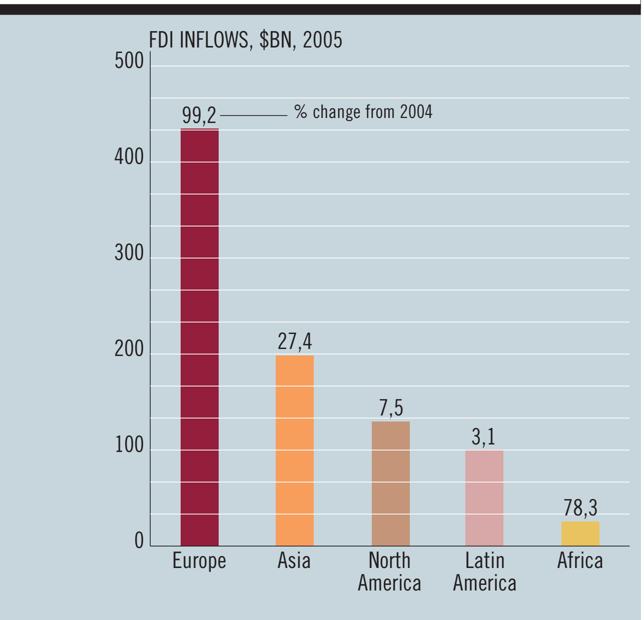
glance at the progression of these investments towards the countries of the New Europe suggests the idea that the corporate reorganizations, in both manufacturing and services, on a pan-European (or continental) basis have certainly been going on in some countries and have benefited – and are benefiting now – from the enlargement of the EU toward Eastern Europe.

The fact that for a significant group of these countries of the New Europe prospects are deemed to be very good, especially for the medium-high tech sectors, can be seen as further proof that the structural changes that have occurred are deep indeed. This direction emerges clearly from the results of the most recent issue of Sectoral Analyses (Outlook 2007-2008) produced by the "New Europe Research Network" of the UniCredit Group (Vienna, January 2007). The fact that the new areas of industrial specialization in countries such as the Czech Republic, Hungary, Poland, Slovakia, Bulgaria, Romania, Croatia and Turkey (these are the eight countries examined in the study cited) are already today – and will be more so in the near future – the sectors with medium to high technology content, represents the fruit of the growing integration – by now ten-years old – with the western part of Europe, the historic nucleus of the EU. Without neglecting the fundamental historic and cultural implications of the enlargement to the East, it must be considered first of all – and we limit ourselves here to the sphere of economics – a further extension of the single European market. The growth dynamics of the companies and the structural changes in the economy (in manufacturing, in primis) would seem to confirm the correctness of the choice, even if the road to travel is still long.

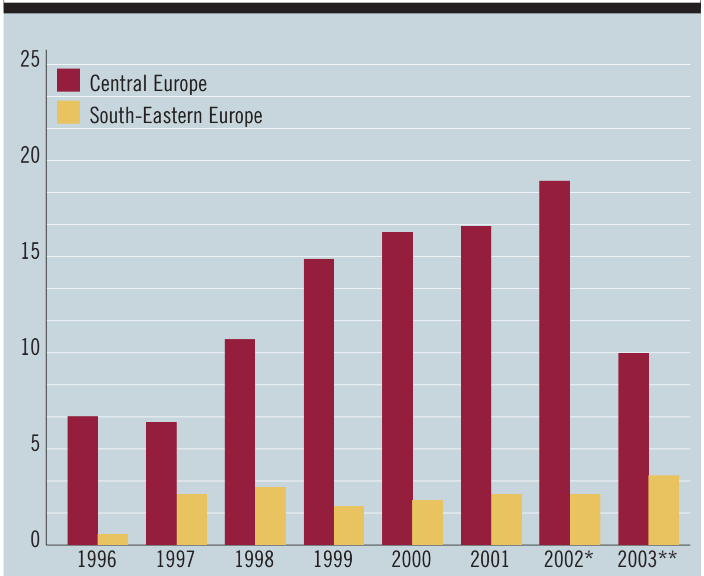
An attempt at definition

In the preceding pages we have tried to tell two European "stories": the first involves the new approach of industrial policy that has emerged at the Community level after the years of the internal market, the single currency, EU enlargement (specifically, to the East); the second involves the strategies for growth of the major European companies and their participation in the M&A boom taking place during these times.

Are these two stories destined to become



5. OVER THE HILL
FOREIGN DIRECT INVESTMENT, $BN



Source: BERS, Deutsche Bank *estimate **forecast

entwined? Or, on the contrary, will they continue to live two parallel lives?
We believe that the hope is that the first story (European policies for company competitiveness) should lead towards the second (the growth, whether it be from the inside or the outside, of authentically European companies).
In conclusion, we cannot know, at this time, if there will be a formal definition that the dictionaries of tomorrow will give to the expression "European Champions". We do know, however, what the meaning is already, in essence, and pre-figuring something that sounds like this is perhaps not too far from reality: *Those major companies that have been able to come to terms with the single European market, even enlarged to the countries of Eastern and Central Europe*.
The "four freedoms" of movement (goods, services, people and capital) that give meaning to the single market, the single currency (the euro) and the historic enlargement toward the East, have in fact markedly changed the face of the European economy over the last ten years. The three-fold process cannot yet be deemed completed: just think of the steps to be taken to complete the single market in services, which make up 70% of the EU GDP. But the consequences are being felt by the front line players in economic development: the companies. For the sake of simplicity, what we can define as "the new playing field" of the European economy offers companies the great opportunity to re-organize their business on an authentically pan-European, or continental, scale, whichever you prefer.
Thinking back to the possible definition of "European Champions" we could add a second part that sounds like this: And these are large companies resulting from cross-border mergers that make it past the scrutiny of the market.
We believe that this method helps us to make a clear distinction with the more or less recent past: these champions are not and cannot be reformulations, in disguise, of the "National Champions" of a few decades ago. Back then there was a prince, more or less enlightened, who could make use of resources (companies and assets in general) that were eminently national within the confines of the domestic market. Today, especially given the impetus provided by the process of European integration, companies (generally private property) operate in global and unregulated markets where the role of stock markets in the allocation of resources has greatly increased. The fact is that every individual company, no matter how big, can only contribute to the creation of "European Champions".
Extending the idea to the country system, we could say each must do it from a position of leadership in the areas in which the valued parts of its industry and of its service sector are concentrated, contributing as a partner in other cases. It would appear that we have come to a third (and final) part of our hypothetical definition (in the end we will discover that it is the last only for now.)
Examples, both real and potential, are plentiful in the Europe that we know today; actually, they are plentiful in one sense as well as in another. To the examples cited in this article to evoke sectors (industrial and services) and companies that well represent the idea of "European Champions", can be added others which demonstrate the problems encountered in implementing this idea. Good examples are E.ON-Endessa-Gas Natural, Enel-Suez-Gas de France, Autostrade-Abertis (but the list could go on); these are cases which saw disputes between the authorities of national governments and the European Commission, which is the "Guardian of the Treaties".
Trying now to draw some conclusions from this study, we can begin by putting together the separate parts (three) of the possible definition of "European Champions", that perhaps – some day – we will find in the economics dictionaries and that - here and now – we attempted in paragraph 1 (remember those italicised parts): Those major companies that have been able to come to terms with the single European market, even enlarged to the countries of Eastern and Central Europe. And these are large companies resulting from cross-border mergers that make it past the scrutiny of the market. Following this line, we then added a third part that

Grazia Neri_AFP

_The President of the Italian group Autostrade, Gian Maria Gros Pietro, with Isidre Faine of the Spanish group Abertis during a press conference held on 24 April 2006 to announce the merge of the two groups

referred to the individual companies participating in the new and larger society, which in fact extended to the country as a whole: No matter how big it is, it can only contribute to the creation of "European Champions": but it must do so from a position of leadership in the areas in which the valued parts of its industry and of its service sector are concentrated.
Actually, throughout this study we have added a fourth basic element: in fact, the emphasis has fallen on the policy which, to simplify, we shall call "technological", but which at a deeper level means research, innovation, centres of excellence and development of human capital.
Without an authentically European policy on this front it is difficult to create the conditions for the birth of new "European Champions" in the market.
If it is true, as the French properly argue, that industrial policy in the European tradition is the result of a "triangle" formed by "competition policy", "trade policy" and "technology policy", what is at issue – as we have previously written – is strengthening the third side, without at the same time weakening the first two.
The result will be a greater possibility of seeing "European Champions" take root, grow, and consolidate.
The happy end can really be the intertwining of the two stories which we have tried to tell here. The other, unhappy end is one of a persistent economic nationalism, or at least a lack of foresight on the part of the new European elites.