



INDUSTRIAL POLICY MANIFESTO

Mission:

Intensive involvement of the most competent industrial stakeholders with regard to global development, production and marketing.

Challenge:

Achieving the optimal development of industry as the key driver of exports and the economy by the year 2020/2030, while forging strong links with related non-industrial branches.

Objective:

Raising the value added in Slovenia's strongest industrial branches to 80% of EU average by 2020, implying an actual increase of 2 percentage points per year.

WHY AN INDUSTRIAL RENAISSANCE?

Last year the European Commission called on the member countries to recognise the role of industry in creating new jobs and growth. The Commission subsequently published a document titled »For a European Industrial Renaissance«. Key authorities – business owners, managers, and experts – in leading developed countries are as such intensively debating the industry of the future. In Germany the initiative is called »Industrie 4.0«, while it is known as the »Smart Manufacturing Leadership Coalition« in the USA.

A significant lack of discussion on the development of our industry has been observed by the Chamber of Commerce and Industry of Slovenia (CCIS), despite industrial and related activities being the biggest contributors to Slovenia's exports. Exports have been mitigating recent crisis conditions, due to which it is crucial to debate not only the industry of the future but also how to ensure optimal conditions for an industrial renaissance. In Slovenia this is not only limited to technological development but is also linked to the broader business environment, from taxes and administration to development and education.

Due to this the project of reaching goals of industrial renaissance has been titled »Slovenia 5.0«.

SLOVENIA 5.0 AND INDUSTRIAL POLICY MANIFESTO

The mission of the CCIS Slovenia 5.0 Strategy Group is to raise awareness in different public spheres on the importance of industry and the necessity of its advancement based on development programmes with the best chance of succeeding on the market. For this purpose, Slovenia 5.0 brings together stakeholders who know best how, where, and to whom new products, services, or technologies could most successfully be sold which is also the goal of smart specialisation strategy.

The parties involved in the Slovenia 5.0 project are facing one all-important question: how to achieve optimal development of industry as the key driver of exports and the economy by the year 2020/2030, while forging strong links with related non-industrial branches.

This year the most important document in the framework of Slovenia 5.0 is the »Industrial Policy Manifesto«. It will be presented by CCIS at the Slovenian Business Summit. The main authors of the document are members of the Slovenia 5.0 Strategy Group, particularly members of its executive board:

Chairman:

Marjan Mačkošek (Štore Steel).

Members:

dr. Janez Bešter (IER),

Radovan Bolko (Kolektor),

Andrej Božič (Steklarna Hrastnik),

Alojz Burja (Lip Bled),

Marko Derča (AT Kearney),

Bojan Kos (Akripol),

Marko Jagodič (Papirnica Vevče),

Andrej Kranjec (LTH Castings),

Marko Lotrič (Lotrič meroslovje),

dr. Blaž Nardin (Gorenje Orodjarna),

Toni Pogačar (BSH Hišni aparati Nazarje),

Andrej Poklič (GKN Driveline),

dr. Jožica Rejec (Domel),

Branko Rožič (Količevo karton),

dr. Tomaž Savšek (TPV),

Tone Stanovnik (Špica International),

Janez Škrabec (Riko),

Vojmir Urlep (Lek),

dr. Otmar Zorn (Iskra zaščite),

Rok Svetek (Adria kombi) and

dr. Matjaž Polak (Helios TBLUS).

Heads of the five sections of the Industrial Policy Manifesto:

- Smart state:
Marko Jagodič (Papirnica Vevče)
- Smart taxes:
Alojz Burja (Lip Bled)
- Smart HR management:
Toni Pogačar (BSH Hišni aparati Nazarje)
- Smart development:
Marko Derča (AT Kearney)
- Smart industrialisation:
Janez Škrabec (Riko)

Sources:

Proposals from members of the CCIS Slovenia 5.0 Strategy Group (July, August 2015)

CCIS Agendas (Business Memorandum, November 2014; Business Agenda for the New Government of the RS, July 2014; Small Industry Agenda, June 2014; How to Create New Jobs, June 2014)

Proposals from the 1st Slovenia 5.0 conference (May 2015)

Other proposals from business leaders (strategic group of representatives of foreign owned companies and other business leaders; July, August 2015)

IMPORTANCE OF MANUFACTURING FOR SLOVENIA

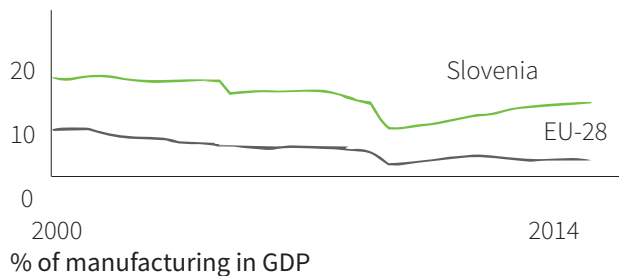


18,000 ENTERPRISES (SI)
21 MIO ENTERPRISES (EU)



188,000 EMPLOYEES (SI)
32 MIO EMPLOYEES (EU)

SLOVENIA: THIRD MOST INDUSTRIAL NATION IN EU



SUCCESSFUL INDUSTRIAL SECTORS

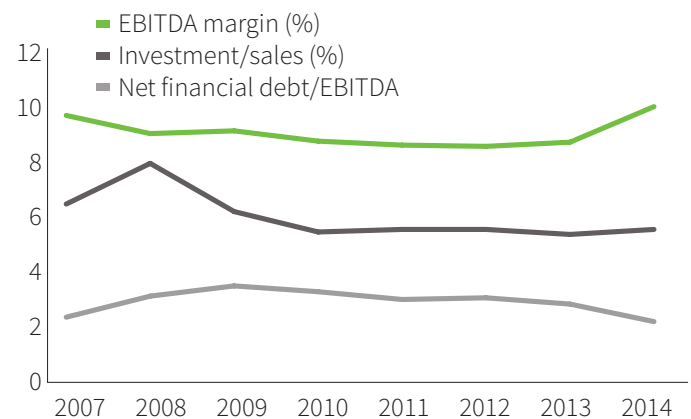
Sector	Value added per employee	2014/2009 (in %)	As of EU-28 average
pharmaceuticals	104,400	15%	75%
chemicals	62,600	46%	77%
electric equip.	37,800	31%	72%
rubber & plastics	39,200	23%	77%
vehicles	40,600	12%	79%
machines	36,700	30%	62%
metal	45,500	98%	71%
paper	43,700	9%	66%
non-metal	44,800	40%	77%

Source: KAPOŠ GZS, based on annual financial account from Ajpes, Eurostat

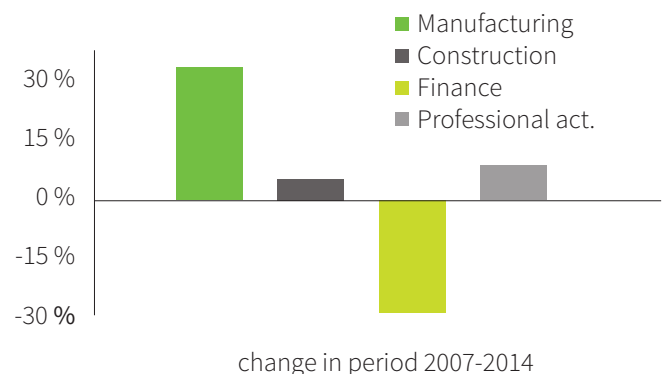
JOB AND DEVELOPMENT

- Manufacturing accounts for 30-55% of jobs in services like sales, marketing, transport and logistics (McKinsey).
- Each EUR of sales in manufacturing creates 20 cents of sales in service companies.
- 10 jobs in manufacturing create 5 to 20 new jobs in other sectors (IPTS, 2012).
- 4 of 5 private investments in R&D are from the manufacturing sector.

IMPROVED PROFITABILITY, STABLE INVESTMENTS, LOWER INDEBTEDNESS



MANUFACTURING IS THE ENGINE OF VALUE ADDED GROWTH PER EMPLOYEE



1. SMART STATE (BUSINESS ENVIRONMENT)

The key areas where public administration has an opportunity to improve the business environment are spatial legislation, attractiveness for investors, priorities in strategic infrastructure investments, and labour market flexibility.

Days to receive construction permit

213 **183**
Slovenia Visegrad

Source: Doing Business 2015

Labour market efficiency (rank)

99 **78**
Slovenia Visegrad

Source: World Competitiveness Report 2014/2015, WEF

Inefficiency of red tape (bureaucracy)

2nd most problematic factor (1/6th of companies)

Source: World Competitiveness Report 2014/2015, WEF

1.1. Spatial legislation. Swift reduction of red tape following the principles of “Make it simple” and “One-stop shop” for businesses based on the best solutions in comparable countries. Responsibility for implementation at administrative units should be allotted to individual personnel, opting for sanctions in the event of violations:

- for obtaining building and other permits needed by investors. Short-term objective: a measurable 20% decrease of the average time required to obtain a building permit by 1st of January 2017.

1.2. Strategic infrastructure. Implementation of a golden investment rule allowing the development of strategic infrastructure without high financial oscillation, for at least 5 years in advance. Establishing national priorities for strategic infrastructure investments with a timeline and formation of financing models by the end of March 2016, based on the needs of business.

- Priority: smart logistics infrastructure (railways, roads, port) between industry and buyers and broadband internet in all economic zones.
- Continued infrastructure development: bridge repairs, motorways connections to industrial centres, better supply of electricity.

1.3. Increased flexibility for employers:

- Increased flexibility for terminating employment contracts (urgent adaptation to market conditions should enable the possibility of terminating employment contracts of up to 3% of all employees per year without cause; the only condition protecting older employees from termination of employment should be the number of years they need to meet the conditions for a full pension, etc.).
- The right to a 50% unemployment benefit for three months in event of a consensual termination of the employment contract.

- Legalizing special forms of employment contracts for seasonal work.

1.4. System for attracting investors. Procedures for attracting and implementing private domestic and foreign investments following the principle of “One-stop shop” with special focus on the marketing of industrial zones. Objective of measures:

- to establish a system of rapid response and support for interested investors;
- to make it easier for municipalities to successfully attract investors and expand industrial zones, for instance by establishing a more flexible system of land prices.

1.5. Public administration at the service of economy. Reduction of red tape:

- administrative procedures of national and local administration: introduction of the SME test by the end of June 2016 and increase in efficiency of public administration by 5% per year, including deregulation where required;
- procedures for placement of business facilities with the objective of sustainable development in areas protected by Natura 2000;
- optimisation of public administration by rationalising processes, proper allocation of responsibilities of public officials and concrete measures.

2. SMART TAXES (TAX POLICY)

International comparisons show that the tax burden on labour in Slovenia is too high. The aim of the tax reform should be to create more quality jobs in the economy, including in industry. However, this cannot be achieved without lowering the burden on labour, requiring lower current public spending.

2.1. The introduction of a development cap in the first half of 2016. Highly qualified human resources lead to the renaissance of industry. Imposing an upper limit to social security contributions means a lower burden on employment income for highly qualified expert human resources.

Alternative: indirect inclusion of the cap in the new income tax scale, enabling higher net salaries for experts without imposing an excessive burden on businesses.

2.2. Redefinition of the income tax scale in the first half of 2016. In combination with the development cap, a redefinition of the income tax scale:

- to introduce more tax brackets and a more even range between them;
- to introduce lower income tax rates (including removing the 50% income tax rate).

2.3. Lowering of environmental and energy excise duties, contributions, and other levies. Comparable with the EU average level based on the gross value added, taking into account the carbon footprint through the ETS scheme. Lower duties causing high final prices of petroleum products. Maintain competitive electricity prices, which should be lower than in competitive countries.

2.4. Maintaining the level of tax reliefs and allowances for businesses:

- Maintaining tax reliefs and allowances at their current level, increasing them for investments and research and development, and reconsidering existing ineffective tax reliefs;
- A more flexible administrative procedure for research and development tax reliefs (currently a full description of the project is required along with the budget, record of working hours for each employee, copies of all invoices, etc.).

2.5. Tax stability and security:

- Clear and consistent interpretation of tax legislation by all competent authorities. A stable tax system without constant (un)foreseen changes or last-minute changes (e.g. in November/December for the following year);
- Active assistance from public authorities for taxable subjects in case of doubts, no avoidance of responsibility when clarifying or instructing that should be provided by legally regulated deadlines (short – a few days); It is essential to introduce changes that will make binding tax rulings more useful for taxpayers.
- Time limit on duration of tax inspections, which can currently last several years;
- A fairer regulation of possibilities for correcting tax returns, for self-declarations and tax inspections (revision of deadlines, late payment interest). Examples: a) a taxable person can correct his/her tax return within a period of 12 months, FURS can carry out a tax inspection for the past 5 years, b) late payment interest in case of self-declaration is higher than in case of inspection, c) fines are time-barred after 2 years;
- Advance pricing agreements within the framework of legislation on transfer prices should be introduced as soon as possible.

Marginal tax rate* (in %)

60.4 45.3 47.3

Slovenia Visegrad OECD

* at 167% of average salary, single person, w-o children. Source: OECD

Effective taxation of energy in industry and energy transformation (in %)

17.4 8 9.4

Slovenia Visegrad OECD

Source: Taxing Energy Use, 2015, OECD

Social security contributions in GDP (in %)

14.8 13.3 10.9

Slovenia Visegrad EU-15

Data for year 2013. Source: OECD Economic Surveys, May 2015

3. SMART HR MANAGEMENT (HR POLICY)

It is essential to implement an action plan for adapting education programmes to focus more on occupations in shortage and the anticipated HR needs of industry in the future.

Expenses for active labour incentives (in % of GDP)

0.28 0.37 0.45

Slovenia Visegrad EU

Simple average, 2013. Source: Eurostat

Employment rate of young people 3 years after graduation (in %)

65.2 71.3 68.6

Slovenia Visegrad EU

15-34 years after finished studies, 2014. Source: Eurostat

Share of graduates from technical fields (in %)

31.6 40.2 34.9

Slovenia Visegrad EU

Engineering, manufacturing, construction. Source: Eurostat, 2013

3.1. Scholarship policy:

- More scholarship for business-related occupations in shortage.
- Scholarships for young researchers in industry (co-financed by the state) with deadlines for conclusion of studies.
- State scholarships in the form of refundable funds. The recipient returns the scholarship after a set period of time from concluding his/her education/studies. If within a set period after concluding his/her studies the recipient finds employment in Slovenia for at least the same length of time as the duration of studies, he/she is exempt from returning the scholarship.
- Company-sponsored scholarships in form of refundable funds, co-financed by the state in equal amounts as state scholarships. The company adds an equal or higher amount. The recipient returns the scholarship after a set period of time from concluding his/her education/ studies. If within a set period after concluding his/her studies the recipient finds employment in the company for at least the same length of time as the duration of studies, he/she is fully exempt from returning the scholarship. If the recipient finds employment in a different company within the set period, he/she is required to return a proportional share of the scholarship to the partner company.

3.2. Incentives for youth employment:

- 2-year relief for their first employment, extended after 1st of January 2016.
- A more flexible Early Stage Researcher project. It is essential to give companies a trial period for early stage researchers, allowing them to replace any unsuitable candidates.

3.3. HR training at all levels in accordance with employers' needs:

- Appropriate planning and limiting of university enrolment would lead to positive selection, reducing the large number of graduates who are unable to find employment.
- Planning the scope and contents of study courses in accordance with long-term predictions of qualification requirements by employers.
- A longer period of work placement in companies (this is already an option through the open curriculum in secondary schools or the introduction of optional subjects in short-cycle colleges and higher education institutions).
- Providing better vocational information and career orientation for youth at all levels of education.

3.4. Specialised programmes. Public funds should be used to support and develop specialised education programmes that should not be limited solely to Slovenia.

3.5. Transfer of knowledge from the academic sphere to the economy.

- In public institutions and universities: greater importance (including when it comes to occupational status and promotion) should be assigned to cooperating with the industry. Project results in real business rather than articles in journals should be evaluated.
- Internationalisation of programmes, at least 10% of foreign lecturers.

4. SMART DEVELOPMENT (DEVELOPMENT POLICY)

It is essential to mobilise society towards a new paradigm: a development policy means a stronger role of knowledge and development in Slovenian society with the aim of creating valued added for the economy. Objective: Slovenia as a reference to developing innovation.

4.1. Smart specialisation:

- Linking into value added chains. Establishment of innovative solution hubs (ISH) linking institutions of knowledge and companies able to offer and sell innovative products on foreign markets (examples: ISH.AUTO, ISH.PHARMA, ISH.ROBOT, ISH.MEDICAL, etc.). Setting ambitious goals for new clusters/strategic partnerships and foundations for multiple competence centres (IT, pharmacy, energy, mobility, etc.). More support from cohesion funds for projects launched by industrial companies.

Objective: To raise value added per employee from 39,500 to 43,500 EUR in 2020.

4.1. Industry digitalisation. Taking advantage of digital innovations, business models, and infrastructure for stimulating growth in industry. Promoting innovativeness through cooperation and digitalisation, including related branches such as logistics, design, etc.

Objective: To increase the number of new patents in ICT from 13 to 20 in 2020.

4.2. Cross-border research and development incentives (development centres). The aim is to enhance export orientation and competitiveness in Slovenia and abroad:

- Development centres: increasing cooperation between institutions involved in financing, realising, and commercialising innovations.
- Increasing the international cooperation of Slovenian universities, thus also increasing the flow of ideas and human resources into Slovenia, rewarding the comparative success of universities.
- Providing infrastructure for functioning of development centres and enabling flexible employment of highly qualified people. Promoting the linking of Slovenian development centres with foreign ones.

Objective: International ranking of Slovenian universities in 2020 better than place 500 (currently between 551 and 600).

4.3. Smart distribution of development funds:

- Centralisation of development investment decisions and financing in one expert and independent technological agency for the distribution and monitoring of the use of funds for development.
- Active attraction of strategic investors with the aim of increasing export and competitiveness. Promotion of Slovenian development departments in foreign owned companies as regional and global development centres.
- Increasing research voucher funds.
- Reintroducing the instrument for strengthening the development organisation of companies (KROP). Encouraging employment of new researchers and promoting further in-depth education of employees.

4.4. Launch of healthy company cores. Establishing the conditions for the sustainable operation of companies demonstrating development competences.

- Identification of companies suffering from a non-operational business unit burden or unstable financial constructions despite successful central performance and a healthy development core. Establishing a programme for healthy core re-launch including it in development centres/clusters while offering systematic support with financing.

Innovation efficiency ranking

53 **39**

Slovenia Visegrad

Global Innovation Index 2014

% of sales from innovation

85% of EU average

Innovation Union Scoreboard 2015

Innovation readiness

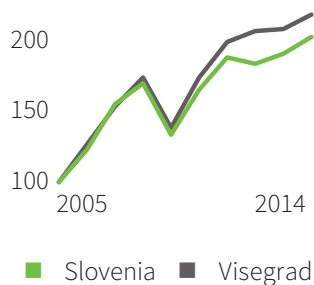
15 lost places in last 5 years

Source: World Competitiveness Report 2014/2015, WEF

5. SMART INTERNATIONALISATION (PROMOTION OF INDUSTRY ON FOREIGN MARKETS)

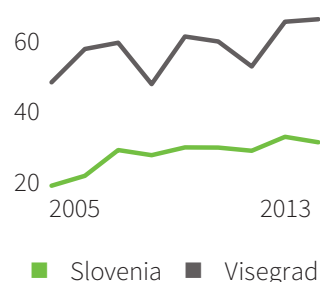
Support for Slovenian companies to develop breakthrough business models, including the redefinition of their role in international value chains, with the aim of significantly increasing value added. Improved ties between stakeholders: CCIS, Ministry of Foreign Affairs, SPIRIT.

Slovenia's export after 2007 behind its peers



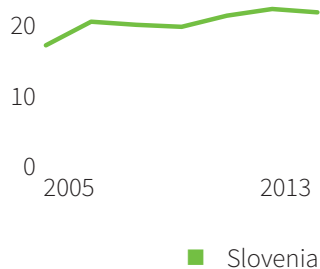
Source: Eurostat

Foreign (incoming) direct investment (in % of GDP): diverging trend



Source: UNCTAD

Stagnating high-tech exports



Source: SURS

5.1. Strengthening of business internationalisation programmes:

- Preparing a coordinated programme of internationalisation support of all institutions involved: CCIS, Ministry of Foreign Affairs, Ministry of Economic Development and Technology, SPIRIT. The programme should include:
 - target markets and activities to be performed there, as well as activity operators;
 - a review of needs of Slovenian companies by type of support services;
 - employee training of people in support services to ensure they have the qualifications to provide services that companies need.

5.2. Increasing support for participation at fairs abroad:

- A significant increase of funds for this purpose. EUR 1 million is currently available. This amount should at least double.
- Financial support for establishing Slovenian showrooms, including virtual, in close cooperation with embassies.

5.3. Stronger diplomatic support:

- Overhaul of the system for recruiting economic advisers at embassies abroad. Economic advisers should have at least some years of experience in the economy so that they are able to cope with potential enquiries and business opportunities effectively.
- Regulation and updating of the visa regime for business partners. Engaging specialised agencies dealing with issuing visas on the markets where Slovenia has no embassy.

- Opening Slovenian embassies on high-potential markets in the former Soviet Union (Kazakhstan, the Caucasus region, Moldova). Re-opening the embassy in Iran. Opening an embassy on the Arabian Peninsula.
- Support for establishing companies and locations abroad.

5.4. Enhancing the services of the Slovenian Export and Development Bank (SID bank)

towards offering additional support for projects on foreign markets, following the example of banks such as the German development bank KfW. Increasing the SID bank contingency reserves. Positioning the SID bank as the entry bank for business transactions using EU investment funds (e.g. from the Juncker Plan, etc.).

5.5. Strategic integration in international associations:

- The integration of Official Development Assistance as facilitator of Slovenian export companies breaking through to developing markets. An increase of the very modest sum for companies to EUR 3 million for the current year and annual increases of EUR 1 million.
- Slovenia should join the Asian Development Bank (ADB). This would open new opportunities for Slovenian companies to participate in projects financed by ADB in Central Asia or across the Asian continent. The condition for participating in these projects being that the general contractor's and subcontractors' country of establishment is a member of ADB.