Address by Jeff Immelt, Chairman and CEO, GE to the American Chambers of Commerce to the EU (AmCham EU) Brussels – May 5th 2015

Growing Europe

Thank you, Karl, for your introduction. And, I want to thank you all for being here. I find it's an interesting time to be in Europe; there is a lot going on, there is a lot of promise here but there is also a lot of challenges.

Like most Americans of my generation, I have grown up with Europe, I travelled this region extensively, made many friends and learned so much! Some of my best memories are of building factories in Italy, buying businesses in the U.K., selling against Siemens in Germany, or having heated discussions and "trading ideas" with Minister Montebourg in France!

I come here tonight as a friend, not to lecture or complain. Rather, I am here to talk about something that is near and dear to everyone: how do you make Europe more competitive, how do you grow faster and how do you create jobs.

We are deeply invested in Europe.

GE employs 94,000 people. And we support tens of thousands of other jobs – in large and small European enterprises – through the €10 billion in goods we purchase locally from SMEs in Europe.

GE exports €13 billion worth of products and services from Europe, while generating €20 billion of revenue. All told, GE generates €41 billion annually in economic activity in the region.

Europe is also a hub of innovation for our company. We employ more than 11,000 technologists in 20 industry research centres across the region and we are currently doubling the size of our Global Research Centre near Munich. We are everything about Europe.

Europe is also the home of many of our customers and partners who we work with internationally including; ENI, EdF, Total, Airbus and others.

And, we have done that successfully for many years not just by investing in innovations, but by partnering with indigenous companies. Decades ago, GE and Snecma formed CFM International which today is arguably the world's best industrial joint venture in history.

I'd like to think we made a difference in Europe in terms of turning companies around, and developing industries as an example to others. For instance, Italy has been a slow-growth region with many challenges. But, to GE, Italy has been a source of growth and productivity.

GE acquired what was a fledgling Italian enterprise, Nuovo Pignone, which we have since built into a global player in Oil and Gas employing 4,500. In the 20 years since the acquisition, sales have increased seven-fold, the number of employees has continued to

grow, and it's really the base of our $20 billion "GE Oil and Gas" business today.

And in the Aviation sector we built European based champion in Avio Aero, an enterprise which we acquired in 2013. Today, Avio, employs 4,700 and is now the global center of excellence for GE for aviation components business. Our plants in Italy have the most productivity, they can compete with plants in China and engineering centers in the US. So we know that Europe can compete in the core industry.

Our commitment to Europe is an enduring one. We have been here in good times and bad.

There's a lot of optimism – as there should be. Europe has what it takes to be successful in the 21st Century and that really is great people. But that optimism is being tempered by a real frustration. It boils down to this: in many ways the concept of Europe is not living up to its potential. The challenges of competing globally have exposed some fundamental weaknesses in the region's economy and governance. Growth is too slow and unemployment remains too high. And that really is what brings people here tonight.

So, as a partner and an investor, here are my ideas. What would it take to have a single-minded focus on growth?

<u>First: Complete the Unified Market</u>

Growing up in the U.S. but also selling in China for the last 25 years, you see the efficacy of what one market can do to leverage employment. No longer do people, like GE, put factories around

cheap labor. Today it is about speed to market and innovation. Here, Europe can really win.

But Europe remains still too fragmented, which means it fails to exploit one of its great strengths: a market of more than 500 million consumers. It remains more a promise than a reality. And that remains a tremendous opportunity.

Completing the single market is going to be a huge advantage to Europe and to those who do business here. A single digital market, let alone a single market for goods and services, has the potential to add significantly to growth and competiveness over the long term.

One of the world's we live in is energy. A fully integrated and competitive energy market could result in cost savings of about €50 billion in the next fifteen years. Capitalizing on economies of scale will help drive down the cost of doing business while providing the framework for investment in energy infrastructure.

Similarly, Europe could lead in other industries, like Healthcare. There is substantial clinical talent and market demand. But, Europe plays too small. The inability to achieve scale in technology or markets stands in the way of investment growth. Driving one common market remains a real promise for the future.

Second: Simplify Structures and Processes

Just make a few things easier. Europe is proud of complexity. Instead, clarify roles and take pride in getting things done more quickly.

This is something I hear over and over again – and not just from corporate leaders. I hear this from members of national governments as well and many other stakeholders. Europe's structures, processes, policy-making and governance are too complex.

By the way, that's something I've had to do at GE and the private sector has had to do too. One of GE's imperatives in recent years has been to simplify our systems so that we were more able to respond and adjust quickly when required. One of the dangers of size is bureaucracy and complexity, and you have to fight that all the time.

National governments and the EU should be working in a more coordinated manner. Otherwise, the result today is mixed signals to investors, and that's simply not something Europe can afford.

Over the past decade, Europe's attractiveness for FDI has dropped from a 40 percent share of global investment to 17 percent. At the same time, companies have €2 trillion sitting on their books. Europe doesn't have a liquidity problem; it has a confidence problem when you look at investors globally.

There are many causes of this, obviously – but one is certainly the absence of coordinated governance that's "fit for purpose" – that can fulfill its responsibilities to Europe's citizens while creating a climate of clarity. President Juncker in his first speech to the European Parliament indicated he wants to tackle the issue of bureaucracy.

Complicated bureaucracy is not unique to Europe. One of the recommendations American business leaders give to President Obama is to lead regulatory reform. Our point is <u>not</u> to lower

standards. Rather it is to improve cycle times, simplify agency overlap and achieve government accountability.

Complex regulation helps big companies and hurts small ones. We can hire enough resources to power through the red tape. Meanwhile, small companies pay the price for market inefficiency. SME development coming out of the financial crisis has lagged dramatically in terms of the amount of complexity that's been added.

No serious investor believes that Europe cares about jobs when rules are inconsistent, agencies are unresponsive and there is no accountability around speed.

Third: Accelerate Investment in Manufacturing

In my view, Europe and the U.S. took a wrong turn when they transitioned from a manufacturing- and technology-led economy. Manufacturing creates middle-class jobs and industrial competitiveness. It is where small and large businesses unite. As you know, GE is embracing this renaissance inside our own company.

Industrial production still accounts for approximately 75 percent of Europe's exports – yet it remains below where it was back in 2008. This is such an opportunity. There is no reason that Europe cannot see tremendous growth here. We are a huge exporter out of Europe so we know that we can compete in high-tech goods from Europe.

The tools of manufacturing have changed dramatically over the past 20 years. With new materials and techniques – like 3D printing – labor cost is less important in the competitiveness of high-tech goods. You literally can make almost anything in Europe and sell it almost

anywhere around the world, and be competitive if you are doing it the right way. Add to that a weak Euro, and Europe is more competitive than ever.

But Europe also needs to be more productive and flexible in a few areas that matter, like energy and labor. In Energy, bad policy and a lack of investment has created a cost structure that is twice as high as the U.S. And, labor flexibility has boosted growth in Germany and is showing promise in Spain.

Europe has set a goal of 20% of GDP in manufacturing, which is exactly right. However, this will not be achieved unless there is more appreciation for productivity, incentives to invest and engaging the workforce.

Fourth: Lead in Innovation

For GE innovation is not abstract – it's the core of our company. GE wasn't born on the floor of a stock exchange or in the minutes of a board meeting. It was born in Thomas Edison's laboratory. Science and innovation have been the part of our blood for generation.

Today, technological innovation is driven by the convergence of digital technologies and industrial machinery. There's no such thing as an industrial company that isn't also a software company. This a trend that is really accelerating.

The Industrial Internet, for example – what some call the "internet of things" or Internet 4.0. – could generate over €2.8 trillion in productivity gains in Europe over the next 20 years. And GE will lead

the way, and we plan to build Industrial Internet capability in Europe, working with European partners and clients as we look to the future.

But to get there, to harness the potential of innovation, there are some obstacles we've got to get out of our path. Europe vs US needs to harness an innovation culture.

An innovation culture requires partnership between the public and private sectors. Public investment in R&D – both basic and applied – generates new technologies and new sources of jobs and growth. Europe's investment in R&D remains low in comparison to some of its global competitors.

The financial sector also needs to bolster access to venture capital. This is required to provide start-ups with the capability to get off the ground. We need all companies – large and small – to take more risk in innovation to drive growth.

We need to stop regulation from blocking industries before they form. Investment in the Industrial Internet is "on fire" in the U.S. It is way ahead of Europe, but you can catch up and you must. But, I sense that innovation is getting slowed by fear of regulation or the lack of a single digital market.

To innovate, we must upgrade the workforce. Even as unemployment remains painfully high, there are many vacancies in Europe that cannot be filled. To address this, we need greater investment in education – both for trades and sciences.

Fifth: Have the Confidence to Compete Globally

To lead in the future – and create jobs – Europe needs access to global markets. There is a tendency here to pretend that markets like China and India don't exist, or can be "regulated away" in a competitive world. That's not how it works.

Trade will be important in Europe's re-industrialization. Germany is proof that economic recovery is driven by the exports of manufacturers. I know I am probably preaching to the converted here but bilateral agreements like the TTIP hold great potential for all the partners involved.

The more barriers we remove, the more trade we foster, the more business we create between the US and EU – the stronger our respective positions will be for us to compete around the world. The reverse is true as well: protectionism against each other weakens us both at a time when we are in a fierce competition in a global economy. So, we've got to make sure that TTIP negotiations do not lose momentum.

There is a mistaken impression that TTIP and other trade deals are put in place to aid large multi-nationals like GE. This is just not true. We believe in free trade as a matter of economics; but GE will be just fine without it. We have already achieved a strong local footprint in 175 countries around the world that we built up over the last 50 years. Rather TTIP will open up global markets for every small and medium business. If you like SME, you must believe in trade.

Europe is uniquely positioned to capitalize on trade. A weak Euro has made you more competitive. At the same time, a weakened commitment to exports from the U.S. – as witnessed by our EXIM debate – positions Europe to receive more investment from global companies.

GE is Investing

We are betting on a positive future for Europe through our major investment in the Alstom Alliance. Alstom has struggled to persevere in the hyper-competitive power and grid markets for years. The European power market has been weak; out of 215 heavy duty gas turbines sold around the world last year, only three went to Western Europe. Alstom has not been able to make the same commitment to investment in innovation, financing or global reach. We will change all of that. Our customers have been supportive of the deal, because it gives them a reliable, high-tech supplier. It will give us the chance to bring innovation back to the energy business in Europe.

GE is committed to the right deal, it will be transformational for our company, and we can't wait to get started. We have complementary technologies, complementary geographies, and we've discovered that the Alstom and GE cultures are very similar. There are even more synergies than expected. We're constructively working though the regulatory process in 20 countries around the world.

Making Europe a leader in energy innovation is possible. But it takes a global vision, scale and hard work, not charts or speeches. In this room, we must believe that we can win in all markets, from Brazil to India. And, we must be able to compete against new energy industrial models forming around the world.

It was about nine months ago that I went to our facility in Belfort, France to tell our employees there about the deal. Belfort is symbolic in the GE-Alstom Alliance – it's an industrial campus shared by both companies. Today, 90% of what we build there is exported.

When I meet employees at Belfort, they are clear about their expectations for me – fill the factory. A factory at full volume means job security. They expect me and us to invest in the technology and innovations that will fill those factories. Even more than their political leaders, they know their future is in Africa, Latin America, the US, Mexico and around the world. They also know we are competing for those projects with determined competitors. That's what our investment in Alstom is about. Creating a strong, long-term competitor in the global energy market, that wins projects everywhere in the world.

Lastly, Leadership Counts

I led President Obama's Council on Jobs and Competitiveness. We gave recommendations in four areas: infrastructure investment, growing SMEs, regulatory reform and improving education. Since then, I have seen the same needs in every country I've ever visited around the world.

Tonight I have spoken about practical and economic reasons for change. I doubt you have heard anything radically new. Maybe I can offer you a different context, but you know the right answer. Growth requires leadership.

So, let me end by saying that the main reason why I am here tonight is that I really like Europe and I like Europeans! After more than three

decades in business, we really like you guys. Sure, I still hate soccer, cricket and Formula One. But, I have learned that if we can win here, we can win anywhere.

But, the region at times is losing the hearts of young European talent. Several times each month, I teach our young leaders, many of whom are from Europe. As a company, we aspire to build a common culture while respecting the sovereignty of markets and the fact that every individual has a "home." Our teams love their countries, and they are loyal to GE. While they think GE can compete, they are less sure about their home region. They want innovation, not bureaucracy; competitiveness, not protectionism; institutional accountability, not speechmaking. Let's lead them together.

I know that "Europe will not be made all at once, or according to a single plan." Great progress has been made. It takes more than words on a page – more than negotiations and deals and treaties – to forge markets and connect economies. It takes a willingness to believe in the possibility of something bigger, and to recognize that our interests are, more often than not, aligned. And even then, it's not enough. Then you've got to prove it. You've got to invest, you've got to grow and you've got to create jobs.

You can count on GE to do our part. We have been consistent investors in good days and bad. We are extremely optimistic about a faster-growth Europe that is working for all.