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**UNICE ACTION PLAN**  
**FOR ECONOMIC AND STRUCTURAL REFORM**

The new economy and the speed of the communications revolution are creating new challenges and opportunities for businesses, but policy makers have been slow to respond to this. Europe's employment performance remains disappointing. It is generally accepted that the EU must accelerate structural reform of all its markets, and indeed this will be a main theme of the forthcoming Lisbon summit. The summit will be an opportunity to give the necessary political backing to an ambitious long-term goal: *"make the EU the world's most dynamic and competitive area, based on innovation and knowledge, able to boost economic growth levels with more and better jobs and greater social cohesion"* (Presidency paper for the Lisbon summit). This should be done on the basis of concrete actions and timetables. We hope that as a result, the so-called Cardiff process, which until now has been low profile, will be given greater prominence. There has been enough analysis and general declaration - what is needed is an effective action plan.

This paper sets out business priorities within the wide framework of economic and structural reforms, drawing together major themes from UNICE's recent work on competitiveness, entrepreneurship, innovation, employment and social policy, education and training, and the information society. The main elements of the action plan are attached to this paper.

### **1. To maximise entrepreneurial spirit and innovation**

Enterprise is the key to economic development, higher living standards and sustainable social progress. The EU business environment remains less supportive of entrepreneurship and innovation than that of other developed economies outside Europe. As a result, growth and development of new businesses, particularly SMEs, is held back. Throughout the life cycle of a company, there are obstacles to growth. There needs to be a better balance between the risks and rewards for innovation and entrepreneurship.

To achieve this, the key issues are to:

- Improve attitudes to enterprise, risk taking, new technologies and new products
- Release market potential by removing regulations that restrict competition and development of new markets
- Improve access to finance at all stages of business development, from venture capital through stock options to equity markets.
- Ensure employability, skills for the new market, and increasing rewards for work

### **2. To exploit fully the potential of the Internal Market**

The single market is the cornerstone of the European economy and a key factor for the improvement of both business and consumer welfare. However, in several areas of importance to business, the single market functions imperfectly or is incomplete, particularly in the service sector. Completing the single market must be an overriding priority for the next few years, since a better functioning market is also

an essential condition for EMU. UNICE would support a new target date of 2002 for completion of the Single Market.

To achieve this, the key issues are to:

- Liberalise financial services, especially pension funds, by focussing on improved access to capital markets, increased transparency of information for investors, better mobility and cross-border integration, and more efficient and liquid European capital markets
- Create an appropriate framework for Intellectual Property, in particular by adoption of a Community patent that meets users' expectations in terms of cost and enforcement.
- Facilitate cross-border activities and mobility of companies by removing current cross border company law and tax obstacles to the proper functioning of the single market.
- Introduce a single quotation passport, and private company statute for unlisted small firms
- Define a common VAT system adapted to business needs, which will simplify and reduce the costs of cross border transactions
- Safeguard reliable conditions for public procurement by finalising the legislative package, but avoiding a permanent revision of European procurement law
- Remove remaining technical barriers to trade by further improvement of the framework of Mutual Recognition agreements and the maximum use of new approach directives and harmonised standards

### **3. To maximise the benefits arising from EMU: new discipline and opportunities**

The success of EMU is vital for European competitiveness. Creation of a broad euro area of macroeconomic stability, low inflation and low interest rates benefits enterprises and consumers alike. The single currency and sound macro-economic policies will not, however, solve all problems. They must be accompanied by further economic and structural reforms. The single currency will continue to exert a discipline on public finances, and will highlight areas where structural reform of public expenditure is needed. The monetary policy framework of EMU requires that markets be flexible enough to adjust to economic change without losing jobs and competitiveness.

To achieve this, the key issues are to:

- Reduce the size and improve the efficiency of the public sector - raise the total factor productivity of government
- Continue efforts to reduce public deficits and debts, in part by re-orienting public spending on strategic areas, such as R&D, education and training, and infrastructure
- Reform social security systems taking account of demographics, the need for financial sustainability, and the development of funded supplementary pensions provision

### **4. To put more people to work**

Europe urgently needs to bring down its excessive levels of unemployment, which are both higher and more predominantly structural than are those of other advanced economies. There are two long-term trends that need to be reversed: the fall in the activity rates of the workforce, and the growth in the overall tax burden. Tightening of labour markets and skills gaps in key areas such as information technology lead to a paradoxical co-existence of unemployment and unfilled job vacancies. An

integrated approach to labour market reforms, acting to improve both demand and supply of labour, is important in this context.

To achieve this, the key issues are to:

- Reform labour market regulations that unnecessarily restrict entrepreneurship, slow down innovation, and discourage employment creation
- Provide security to individuals through employability rather than excessive regulation, and equip them with the education and skills required for the new economy
- Lower overall costs of employment, in particular by reducing indirect labour costs which weigh most heavily on low skilled workers, without merely shifting the tax burden from labour onto other factors of production
- Establish an environment in which it pays to work - reduce high marginal tax rates of personal income tax

## **5. To stimulate the expansion of the information and learning society**

Over the next few years, the development of the information society, and of electronic commerce in particular, is expected to radically transform the business and trade environment, globally as well as within the Single Market. The new technology will have an increasingly large impact on all sections of society, and UNICE welcomes the Commission's e-Europe initiative as recognition of this. Currently lagging behind other economies, Europe's ability to catch up will determine its future competitiveness and success in new job creation.

To achieve this, the key issues are to:

- Create a forward-looking and constraint-free electronic commerce environment, adapted to the needs of users and providers alike, within an appropriate legal framework
- Reduce costs of access to and use of the new technology, especially for SMEs
- Fully liberalise telecommunications
- Ensure the prompt implementation of e-directives so that EU can be competitive

## **6. To reduce the burden of regulation and taxation**

Smaller companies in particular find it increasingly hard to exploit the benefits of the internal market in full. A priority must therefore be to reduce excessive administrative, regulatory and tax burdens on business in the EU especially for SMEs.

To achieve this, the key issues are to:

- Simplify national and Community legislation, remove unnecessary additional layers of regulation between the EU and Member State levels
- Justify all new action at EU level, and test all new EU legislation and regulation on the basis of impact assessment, cost-benefit analysis, proportionality, and its job creation or destroying potential
- Arrest or reverse the long-term trend towards an increase in the overall tax burden. The EU tax strategy must be re-cast in this framework.

## **7. To promote sustainable development through qualitative economic growth**

Sustainable development must be based on a balance of environmental, economic and social policies, which are integrated into coherent overall policy approaches. A balance must also be maintained between the legitimate aspirations of sustainable development, economic realities, societal issues and sound science.

To achieve this, the key issues are to:

- Develop an overall EU environmental policy framework in order to strengthen and motivate companies' own environmental initiatives, encourage development of new multi-stakeholder partnerships, and ensure an improved quality of legislation which can be implemented cost-effectively
- Establish guidelines for the appropriate use of the precautionary principle, based on risk assessment
- Clarify the role and conditions for the application of all environmental instruments, including voluntary agreements

## **8. Achieving the right balance between policy co-operation and competition**

In the aim of achieving a healthy balance between common EU approaches and competition between Member States in the context of a European strategy, UNICE would like to emphasise the following points:

- As integration tendencies intensify, there is greater scope for joint actions and the value-added of the European dimension, but given the institutional context of the EU, there are many areas where doing things together is neither effective nor desirable. There is no substitute for the right policy - many of today's problems are policy induced.
- It is important that the EU promotes best practice on the basis of benchmarking, not just within the EU but taking advantage of the examples set by our competitors world-wide, and more effective mechanisms to monitor implementation of agreed policies.

In conclusion, UNICE calls on European governments to seize the opportunity presented by current favourable economic conditions to undertake the necessary economic and structural reform. Action is now needed. We urge political leaders to concentrate mainly on those areas for which common EU actions are both urgent and likely to add value to national initiatives, and to set themselves concrete targets and timetables.

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<u>Life Cycle of Enterprise</u>	<u>Capital</u>	<u>Goods</u>	<u>Labour</u>	<u>Corporate / regulatory environment</u>
I. Start up	1° Venture capital availability, especially for high-tech 2° Lower taxation of retained earnings	3° Community patent 4° Patent for software (cf Green paper COM(97)314 final)	5° Remove barriers to employment for SME's / indirect labour costs (cf Employment Guidelines)	6° One stop-shop (1 week - < €500) Less red-tape Cheaper and quicker
II. Early growth.	7° Stock options €500K tax free, only taxed when cashed	8° Liberalising inputs / telecom energy / transport. Price competitive. (cf Cardiff Report 2000)	9° Availability of management skills / adapt education systems to e-economy (cf e-Europe) 10° Improve flexibility of working time in particular facilitating use of part-time and temporary work	11° European Private Company statute (EPC) for non quoted companies (UNICE) 12° Reduce administrative and regulatory burdens - one single registration number (BEST), cost-benefit analysis (UNICE)
III. Expansion	13° Financial services (cf 1999 Action Plan) 14° EIB/SME initiative 15° Interest & royalty payments tax directive (cf COM(98)67final) 16° Cross border tax loss consolidation (UNICE)	17° VAT simplification (SLIM recommendations) 18° Competitive e-commerce environment (cf e-Europe)	19° Remove barriers to university co-operation 20° Portability of financial incentives (complementary pensions, stock options)	21° Merger directive (10th) - Single market economies of scale/integration 22° Reduce state aid distorting competition (cf Cardiff Report 2000)
IV. Going Public	23° Pension funds/equity markets 24° Single quotation passport 25° Accounting standards 26° Develop internet platforms for trading or IPOs (cf Financial Services Action Plan)			27° Directive on prospectuses (cf Financial Services Action Plan)
V. Exit / Transfer	28° Transferring family firms/no tax on reserves (UNICE)			

VI. Failure / second chance	29° Tax consolidation for investors' losses			30° Bankruptcy proceedings (reduce time that creditors still have claims on bankrupt's assets)
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