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**EPC BREAKFAST POLICY BRIEFING:
GUEST SPEAKER: ERNEST-ANTOINE SEILLIÈRE, UNICE PRESIDENT**

“BUSINESS PERSPECTIVES ON EUROPEAN COMPETITIVENESS”

BRUSSELS, 25 JANUARY 2006, 08H00-09H30, AT CROWNE PLAZA EUROPA HOTEL

TIME SLOT: 20-MINUTE SPEECH

- Welcoming address by Mr Hans Martens, EPC Chief Executive (~2-3 minutes)
- Mr Seillière's ~ 20-minute speech
- Q&As from the audience

Speech “Business perspectives on European competitiveness”

EU in crisis

- The European Policy Centre, in one of its recent publications, has rightly labelled 2005 the “annus horribilis” for the EU. The EU is undergoing a political crisis. In many ways, this crisis is a consequence of the economic difficulties our continent is currently facing.
- I took over as UNICE's President in July 2005, when the French and the Dutch citizens had just rejected the proposed Constitutional Treaty for the EU. During my first six months in office I could sense growing uncertainty among European businessmen and citizens about the future of Europe in the face of an ever faster moving global economy with emerging giants like China and India, and in the face of a rapidly ageing population. The grim negotiations on the Financial Perspectives 2007-2013 last year spawned doubts as to whether the EU is capable of responding to the economic and social challenges of the 21st century.
- Now at the beginning of the New Year, it seems that the political and economic climate has slightly improved. The business climate has been warming up in recent months, especially in Germany. The EU growth rate of 2.1% for 2006 which UNICE forecasts in its Economic Outlook is still moderate but it provides a better basis for tackling the policy challenges that lie ahead. In December a Council compromise was found on the Financial Perspectives. It is not the best solution for Europe's problems but at least it has proved that the EU is still capable of acting. However, the decision on the Financial Perspectives is peanuts in comparison with the political and economic decisions the EU still needs to tackle.
- On the political side, we need to cut the Gordian knot and move forward with the Constitutional Treaty. It is not for business to give political recommendations. But political crisis and economic crisis are inextricably intertwined. The political crisis of the EU hampers business confidence in the future of Europe. UNICE is a confederation of companies, whose home market is the European continent. We need a strong EU to create the conditions for this market to prosper.

- The current governance framework of the EU is untenable in an EU of soon 27 and more Member States. Without coherent institutional governance the EU's most remarkable achievements such as the internal market, the common trade policy and even the Euro could come under threat. Therefore, we urge European leaders to solve the institutional dilemma. The June European Council must make a clear-cut assessment of the current situation, and agree on a method and a timetable for improving European governance. The Austrian Chancellor, Mr Wolfgang Schüssel, whom I visited last week in Vienna, is well aware of that. In our discussions it was he who pointed out that according to the Nice Treaty a discussion about the institutions has to be organised anyway in view of the enlargement of the EU to Bulgaria and Romania.
- UNICE shares Chancellor Schüssel's views on the need to pay particular attention to the public debate concerning the Constitutional Treaty and to involve as much as segments of the civil society and in particular Europe's youth.

Competitiveness as top priority

- The root of Europe's problems is our lacklustre economic performance. Since 2001 our economy has been in the doldrums. 20 million unemployed Europeans, almost half of them long-term, leave no doubt that there is something wrong with our economic and social model.
- Europe's competitiveness is on a downhill slide. Our economy is squeezed between the highly productive US on the one side, and the emerging economies India, China but also Russia and Brazil on the other. These countries are catching up fast, which is first of all good news for the economy, as this means more prosperity in the world, cheaper products and services for everybody, and new market opportunities for European companies. But this global economic shift is also shaking up Europe's economic structure. Whole sectors in Europe have to reinvent themselves. Europe as a whole can only win from globalisation if we embrace it. We must take up the challenge and play the game.
- In principle, this situation has been recognised by European leaders. The Lisbon Strategy in 2000 put competitiveness at the heart of Europe's ambitions. Last year European Heads of State and Government explicitly focused the Lisbon Strategy on creating growth and jobs, by concluding that: *"Europe must renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of human capital."* (Spring European Council Conclusions 2005)
- The message was confirmed by the European Council in Hampton Court last October, and when I met Austrian Chancellor Schüssel last week, he confirmed to me that his major priority during the Austrian EU Presidency would be to breathe life into the renewed Lisbon Strategy for Growth and Jobs. Chancellor Schüssel intends to concentrate the next Spring Summit on a more active SME policy and how to create more jobs by better access to finance and an increase on R&D; an assessment of the National Reform Programmes which the identification of 2 or 3 self-commitments to be put in practice by the 25 member states; and recommendations on energy policy and the services directive.

- So whatever you may think about the EU, you definitely cannot accuse its political leaders of not making enough solemn declarations to make Europe more competitive. But where do we go from there?

Implementation of reform:

- The key word of the growth and jobs strategy in 2006 must be: implementation. If this year again no deeds follow the words, the credibility of European leaders will be seriously questioned.
- The main work will have to be done at national level. In the wake of the renewed Lisbon Strategy for growth and jobs, Member States have drafted “National Reform Programmes”, in which they outline the national reform policies they intend to carry out to fulfil the Lisbon goals.
- These Programmes are in general of good quality, but again it all depends on the delivery of the actions announced in them. UNICE with its Member Federations will closely follow-up the National Reform Programmes, EU institutions must now develop appropriate surveillance mechanisms of national reform.
- The situation in each Member State is different and in consequence the necessary reform policies are different. Let me therefore just make a few remarks from a European perspective:
- The EU needs especially the big countries to carry out reform - Germany, France, Italy. This should also be made clear in the Spring Summit.
- Yesterday (25 January) the Commission published its Annual Progress Report to prepare the Spring Summit in March 2006 on the Lisbon Strategy. It also states that *“the time has now come to deliver on our commitments”*.
- UNICE gave support to the partnership commitment between European and national level expressed in the Commission 2006 Progress Report and endorsed the actions identified for more growth and jobs, in particular the one for unlocking business potential and the efforts to alleviate the legislative burden for business which must be reflected at both European and national level.
- The report proposes as one of its priorities that all Member States set adequate national spending targets for R&D. All 25 Member States have already made research and innovation a key priority in their National Reform Programmes. But it is not only the quantity but much more the quality of research expenditure that is important. Europe is world-class when it comes to pure research; however, turning research into marketable products and services is often done outside Europe, because the entrepreneurial initiative is missing.
- On the macro-economic side, budgetary discipline is key for sustainable growth in Europe. Member States have confirmed that in their National Reform Programmes, but are often short on details of how they intend to reduce budget deficits. The rules of the Stability and Growth Pact must be rigorously respected.

- When it comes to labour market reforms, there has recently been a lot of talk about “flexicurity” – combining flexibility of labour markets with social security. This can best be achieved by protecting people rather than protecting jobs. The Scandinavian countries provide good practices in this area. In general, the best social protection one can have is a job.

EU policy priorities:

- While the most important reforms must be carried out at national level, the EU level can support growth and jobs in Europe with the right policy measures:

Research and Innovation Programmes

- The Commission intended to support EU research and innovation with substantial budgetary funding. However, the Council compromise on the Financial Perspectives 2007-2013 allocates far fewer resources to the 7th Framework Programme for R&D and to the Competitiveness and Innovation Framework Programme than initially foreseen by the Commission. We therefore appeal to the European Parliament to make sure in the inter-institutional agreement that the objectives of these programmes can be maintained and if possible even improved.
- Following the recommendations of a high-level group on research and innovation in Europe, the European Spring Council wants to conclude a “pact for research and innovation”. One of the recommendations of the report is to “create a culture which celebrates innovation”. A change in culture must go beyond the European Council and must involve all opinion leaders in our society. When I look at the suspicion with which European society looks at, for instance, GMO products I feel reminded of those people who in the 19th century wanted to stop the development of railways because they were convinced that the speed at which the trains were running would be harmful for the human body.

Unlocking business potential, in particular of SMEs

- SMEs are the backbone of Europe’s economy. We therefore welcome the SME focus of the Commission Report and urge the Spring Council to take it up. In particular, we urge as many countries as possible to take part in the Home State Taxation initiative by the Commission.
- Businesses in general, but especially SMEs, are choked by overregulation – on the EU as well as on the national level. On EU level, the institutions have woken up, and especially Vice-President Verheugen has started good initiatives to improve and simplify EU regulation. However, no concrete simplification of EU regulation has yet seen the light. Efforts in all institutions need to be stepped up to deliver on the simplification promise, so that Europeans will sense a real alleviation on administrative burdens soon.
- Impact assessments of new EU regulation are key for a better regulation framework in the future. European business upholds the view that an independent body would be best suited to take charge of and carry out impact assessments.

Achieving an efficient energy market

- The latest gas dispute between Russia and Ukraine illustrates the need for closer cooperation in Europe on energy matters. To date the energy issue has mainly been discussed at national level. Given Europe's growing dependence on imports, we need a discussion on how national and EU policies together can address the challenges facing security of energy supply. The European Union must enter into strategic partnerships with major potential suppliers and into an energy dialogue with third countries. Energy therefore must take a significant role within the common security and foreign policy.
- Only greater integration of national markets and effective unbundling can bring the required improvements to competition in the internal energy market. National governments need to step up efforts to implement market opening measures, also by increasing interconnection capacity. Some Member States are actually in breach of EU legislation for not yet having implemented the relevant EU directives.

Services Directive

- Agreement must be found on the Services Directive in a way that creates a genuine internal market for services. A properly implemented Services Directive could create as many as 600,000 additional jobs in Europe.
- Ahead of the EP Plenary vote, UNICE is struck by the fierce opposition from trade unions to the directive which has as one of its main priorities the creation of new jobs and opportunities for the over 19.5 million unemployed in Europe.
- UNICE hopes the Parliamentary plenary vote will endorse the main thrust of the compromises reached in November by the Internal Market and Consumer Protection Committee of the European Parliament. This was an important step forward in the creation of the EU market for services. The plenary vote should endorse this compromise and in particular the amendments that:
 - ensure that the legislation of the service provider's country of establishment remains the main pillar and that derogations are fully justified and strictly necessary.
 - respect the horizontal character of the proposal and its broad scope;
 - ensure that the directive sets out a balanced and clear distribution of the control and supervision competences of the authorities of the country of establishment and those of the country where the service is provided
 - concerning labour law, UNICE is opposed to a total exclusion of labour law from the scope of the directive but agrees that the services directive should be without prejudice to the matters covered by directive 96/71/EC on posting of workers and the relevant aspects of the Rome Convention on law applicable to contractual obligations.

Social Dialogue

- Before concluding, I would like to mention a word on EU Social Dialogue. The Social partners – UNICE/UEAPME, CEEP and ETUC - adopted in March 2005 a joint declaration on the mid-term review of the Lisbon Strategy, which proves our common interest in together facing the challenges of globalisation, technological progress and demographic ageing. The work programme for 2006-2008 is now finalised.

Yesterday, UNICE and the others social partners have reached an agreement on the draft programme. This has to be accepted by the statutory bodies of each organisation. I'm quite positive that we, the social partners, can demonstrate that the Social Dialogue is still alive at EU level

- UNICE and the other European social partners believe that their new work programme should focus on Europe's major economic and social challenges.

Better Communication:

- Finally, I would like to mention probably the biggest challenge European political leaders are facing. There is a dilemma in Europe: a large academic consensus of what needs to be done to get Europe back on track is confronted with widespread public fears of economic reform.
- More than half of respondents of a 2005 Eurobarometer survey which covered all 25 Member States are afraid that European integration may lead to a loss of social benefits. More than three quarters are anxious about job losses due to relocation to foreign, low-cost countries.
- These are alarming figures. We must all together make an effort to convince European citizens of the benefits of globalisation and economic integration of Europe. This cannot be done in Brussels alone. As long as the Lisbon Strategy for Growth and Jobs is known as the "Brussels" Strategy, we will not succeed.
- We must together come up with facts on the benefits of European and global integration. The European Policy Centre has published in the past good reports in this respect and we count on you to continue the good work.
- UNICE as the voice of business in Europe will, together with its national members, continue to make the case for economic reform, in order for Europe to provide its people with what they need most: growth and jobs.
