UNICE
THE VOICE OF BUSINESS IN EUROPE

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MEETING WITH
UNICE PRESIDENT, ERNEST-ANTOINE SEILLIÈRE

ECONOMIC SITUATION AND OUTLOOK

UNICE is currently finalising its forecasts for 2006 and 2007, which will be presented in its Spring Economic Outlook to be released on 13 March.

Preliminary indications from our survey of national business federations confirm that Europe is on track for a modest economic recovery this year. Despite mixed signals in Germany and France at the end of 2005, the business climate has improved in recent months and real GDP growth forecasts for 2006 have been revised slightly upwards from our last assessment in October 2005.

Indeed, the conditions for an upturn in 2006 remain in place in Europe. On the external side, there are more indications of dynamic global growth providing support to European exports, while sound corporate profitability, relatively favourable financing conditions and improved labour markets should set the path to a gradual strengthening of domestic demand. However, private consumption remains an important source of uncertainty. At the current juncture, UNICE doubts that there is sufficient confidence to support a significant pick-up in consumer spending while depressed productivity growth should continue to put a cap on income developments.

Against the background of an only modest strengthening of domestic demand, growth in Europe could fall back in 2007, in line with an expected softening of the global expansion. Overall, the picture that will emerge from our Spring forecast will be that of a hesitant upswing, largely dominated by downside risks (oil prices, global imbalances, etc.).

THE STRATEGY FOR GROWTH AND JOBS

The European Commission adopted its Annual Progress Report on the Growth and Jobs Strategy on 25 January including the assessment of the 25 National Reform Programmes. UNICE believes that the Commission's report offers a good basis for policymakers throughout Europe to deliver on the Strategy for Growth and Jobs. The great majority of UNICE member federations positively assesses the National Reform Programmes. However, almost all federations make a negative evaluation of actual progress in implementing national reforms over the last year.

The four actions proposed by the Commission to be taken in partnership between the EU and the national level at this year's Spring Summit;

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- investing more in knowledge and innovation;
- unlocking the business potential, particularly of SMEs;
- responding to globalisation and ageing,
- and moving towards an efficient and integrated EU energy policy

are putting the right focus on Europe's most urgent needs for reform. But they must be perceived from the angle of how they can create more growth and jobs.

Contacts UNICE has had with the Austrian Presidency indicate that Member States are not too keen on concrete commitments at this Spring Summit, e.g. concerning the setting of national spending targets for R&D to fulfil the overall EU goal of 3% of GDP to be spent on R&D. This attitude is a cause for concern.

Key now is the practical implementation at national level of the actions identified in each National Reform Programme but especially in Germany, Italy and France. Success is dependent on Member States' commitment and the way the European institutions monitor the practical implementation of the actions identified to move forward the Strategy for Growth and Jobs at European and at national level.

In this context, it is important to recall the role of the various Council formations ahead the preparation of the Spring Council. UNICE asks Vice-President Verheugen why the ECOFIN Council has taken the leadership. In UNICE's opinion, as the Competitiveness Council must be the guardian of Europe's competitiveness, the ECOFIN Council is in charge of the monitoring and evaluation of the overall reform process to be taken. Close collaboration between the two Council formations must be put in place.

N.B. UNICE is currently preparing a position on the state of play of the renewed Lisbon Strategy for Growth and Jobs. Furthermore, an open letter signed by all UNICE Presidents will be sent to President Barroso, Chancellor Schüssel and all Heads of State and/or Government ahead the Spring Council on 23 March.

SERVICES DIRECTIVE

In the aftermath of the plenary vote by the European Parliament on 16 February, UNICE reacted with great disappointment on the many changes approved which deprive the directive of much of its value.

Due to the misleading new labelling of the proposal as a social directive in some quarters, the directive has been greatly undermined, reducing considerably its scope and diminishing the level of legal certainty, essential for service providers and their customers.

The Parliament's amendments, although some provide helpful clarification, many undermine the directive by reducing its scope further, introduce more legal uncertainty and diminish the administrative simplification effect of the directive creating a risk of increased red tape. Also provisions relating to labour law and industrial action are of concern for UNICE.

UNICE will strive to advocate for a rebalancing and has urged the Commission to take its responsibility and analyse carefully the plenary amendments. Only those amendments that contribute to the facilitation of the freedoms of establishment and to provide services should be accepted. UNICE would also ask the Commission, before any decision is taken, to carry out an assessment of the economic and legal impact of the numerous changes proposed by the Parliament. The proposed directive must have practical positive effects for growth and employment in Europe.

MONETARY POLICY AND EUROPEAN CENTRAL BANK

The European Central Bank (ECB) began to raise interest rates last December and is currently maintaining a tightening bias. It left interest rates unchanged after its 2 February meeting, but is preparing the ground for a rise in March.

At this stage, business federations in most euro area countries consider that the current monetary policy stance is still appropriate, but urge the ECB to act carefully. The recovery is expected to be restrained and it would not withstand a heavy-handed cycle of interest rate hikes. We are particularly worried about risks of renewed appreciation of the euro and warn against the impact of higher interest rates on increasingly indebted consumers.

With inflation expected to remain broadly constant at about 2%, future interest rate hikes should go hand in hand with more convincing signs of an acceleration in domestic demand.

Moreover, as the Spring European summit tries to relaunch the agenda for economic reforms across Europe, the ECB should take part in the effort and signal that a credible and widespread commitment to reform has an impact on its assessment of the appropriate level of interest rates.

MACROECONOMIC DIALOGUE

1. Strengthening the macroeconomic dialogue

The Economic Policy Committee (EPC) presented its recommendations in a short note. The main proposals are;

- (i) tightening up the link between the political and technical level of the dialogue,
- (ii) increasing the efficiency of technical level meetings by limiting the number of lead speakers and
- (iii) focusing the content of the Macroeconomic Dialogue (MED) with the Spring meeting devoted to the Lisbon strategy and the Autumn meeting to the interactions between wage, monetary and fiscal policies.

UNICE welcomed these recommendations and agreed in particular with the focus on the macroeconomic dimension of Lisbon during the spring meetings.

However, we consider that the proceedings of MED discussions could be further improved. The last dialogue at the political level was a sequence of speeches that led to no obvious conclusions. We should reinstate the idea of an open discussion. For that purpose, UNICE would suggest to reduce further the length of interventions and allow the Commission, the EU presidency and the ECB to provide answers to the questions of social partners.

2. Topic for discussion during the technical meeting on 1st March and the political meeting on 13 March

The Austrian Presidency proposed to discuss *"the effects of globalisation on growth and employment in the EU"*. UNICE considers that the topic is too broad and we would have preferred instead a debate on the definition of a *"sound macroeconomic environment for long-term growth and job creation"*. This would have allowed the MED to have a more useful input into to preparation of the Spring European Council. Unfortunately, that suggestion was not taken on board.

On the issue on globalisation and growth, the message that UNICE will present during the MED discussion could be along the following lines:

- Europe's underperformance is contemporaneous to increased globalisation. Growth obstacles are more domestic than external, but this does not mean that globalisation plays no role. There are a number of institutional factors which make it more difficult in Europe to adapt and this is reflected domestically in low productivity growth and persistent high unemployment.
- Countries with stronger productivity performances during the last decade have been those with more conducive business environments. Policies that promote innovation, entrepreneurship and lower barriers to services activity and trade will have to intensify.
- A successful relocation of resources from declining to expanding areas and sectors also requires more fluid labour markets. This implies enhanced work incentives, better training, efficient job-finding assistance, more flexible labour regulations and contained labour costs, in particular for low-skilled workers.
- Structural unemployment also affects the perception of globalisation and increase resistance to change. Successful labour market reforms could rebuild households' confidence and would be a crucial contribution to restoring internal growth.
- National Reform Programmes (NRPs) are a step in the right direction, but success will be measured in the light of actual implementation. On this front, substantial progress needs to be made to turn good intentions into actions. The record over the last year has been relatively disappointing.

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