

**ANNUAL CONFERENCE OF THE ESTONIAN EMPLOYERS' CONFEDERATION –
KITE FLY 2006
GUEST SPEAKER: ERNEST-ANTOINE SEILLIÈRE, UNICE PRESIDENT**

“WHY BUSINESS CARES ABOUT EUROPE”

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VENUE: KUMU – NEW ART MUSEUM OF ESTONIA

TIME SLOT: 20-MINUTE SPEECH

Speech “Why business cares about Europe”

Ladies and gentlemen,

I would like to begin my presentation thanking the Estonian Employers' Confederation – ETTK – for this invitation to the “Kite Fly” conference in this my first year as President of UNICE. I am very pleased to have the opportunity to celebrate with you the 88th anniversary of this organisation.

EU IN CRISIS

- 2005 was not a good year for the European Union (EU). In economic terms, economic growth was low and the negative referenda in France and the Netherlands on the Constitutional treaty created one of the worst institutional crises the Union has had in its 50 years of existence.
- Furthermore, the EU is having identity problems, which manifested themselves in uncertainties about how to treat, for example, the Turkish EU candidacy and other enlargement issues. The same can be said concerning the discussions on the financial perspectives 2007-2013. We have to celebrate the agreement reached in European Council last December but we also have to admit that this kind of controversial discussion has a very negative effect on public opinion and on the relationship the Union wants to have with its citizens. The new EU budget is not the ambitious instrument for the growth and jobs strategy that UNICE had called for, but at least it is a step in the right direction.
- In this context, the convergence of all these problems raised a number of questions in the business community: what is happening in Europe?, why do companies care about Europe?

- Since I assumed the UNICE Presidency last summer, I have identified two responses within the business world:
 - A rather passive and indifferent answer: acceptance that a period of reduced EU efficiency is acceptable: there is a tendency towards business as usual. In fact, I do not know of any company board that met in 2005 to discuss the EU crisis.
 - But there is another view, which we at UNICE share: looking at the rest of the world, we see that Europe will fall behind if we go on like this. And that would mean that European companies will suffer in the future. Therefore we believe it essential that the European project goes on. There is currently a risk of Europe coming to a halt, and of past achievements like the Euro or the Internal Market suffering seriously. If this happens, we will have a problem.
- It is clear that the European Union's main task now is to recover EU citizens' confidence: Europe must not come to standstill. If Euroscepticism spreads to the point that nobody believes it is important for the EU to progress further, the main achievements of 50 years of European construction would be called into question.
- We expect a lot from the Austrian Presidency: It would be wrong for the Austrians to wait rather than trying to solve the situation. If in a company there is a problem, it cannot be dodged either. Just like a company cannot function without a stable structure, the EU needs a solid governance structure.
- There is also a risk of nationalistic reactions to the EU crisis. Politicians no longer speak about Europe as Europe is currently seen as a "hot potato", and politicians are waiting for it to cool down.

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, 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. The major priority of the Austrian EU Presidency, that UNICE certainly shares, is 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, how to create more jobs, an increase in R&D and recommendations on energy policy. It will be also very helpful to identify 2 or 3 self-commitments to be put into practice by the 25 member states.
- We hope the Spring EU Council will take concrete decisions to turn words into actions, not necessarily with the development of new targets, but implementing the existing programmes that will count in the short term. 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 REFORMS:

- 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.
- UNICE considers that these programmes generally identify the right priorities, particularly in countries with more pressing needs such as Germany, France and Italy. However, they suffer from a general lack of new

initiatives and their objectives often remain too vague. At any rate, success will only be measured in the light of actual implementation, and in this regard, the business community remains particularly cautious in view of the recent disappointing track record. The surveillance of reform progress will need to be improved and would be greatly facilitated if governments would clarify reform targets and provide details on timing, responsibilities and, where appropriate, financing of the measures.

- Success depends on the delivery of the actions announced in them. UNICE with its Member Federations will closely follow up the National Reform Programmes. At European level, EU institutions must now develop appropriate surveillance mechanisms of national reform.

Estonian National Reform Programme

- The UNICE Economic Outlook, which will be published on 13 March, surveys among our members federations to have an overview about their feelings concerning their own National Reform Programmes. The Estonian federation qualified it as “ambitious” and having a look into the content we can only agree with this assessment.
- It seems that the Estonian reform programme identifies and responds to the main challenges facing Estonia as a fast growing economy and that it is integrated, coherent and clearly structured. The two key challenges are, first, R&D and innovation and second, employment, both extremely important for business concerns. Among other positive elements of the Estonian programme we have the plan to improve the working of the labour market, reduce undeclared work, modernise labour relations and improve the working environment
- Furthermore, it is important to notice the wish of the Estonian Government to focus further on increasing private R&D investment and to develop a more comprehensive active labour market policy.

(It is important to recall that the Estonia's economic transition to a market economy started from a very low position with respect to per capita GDP and productivity. Employment declined significantly during the transition, but drastic economic reforms have led to over 6% real GDP growth during the last decade. Rapid productivity growth has been reflected in a sharp increase wages. As a result, per capita GDP rose rapidly to 51% of the EU average in 2004. The employment rate in 2004 was 63%. Unemployment has fallen rapidly (9.2% in 2004).

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

- Last December, European Heads of State and Government confirmed the need to accelerate progress in addressing the revised Lisbon Strategy, through a substantial enhancement of the EU's research efforts led by the Seventh Framework Programme. UNICE fully endorses this need for urgent and more coherent action at the European level and by member states.
- 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". UNICE fully endorses these recommendations, to facilitate an innovative Europe which places innovation-friendly markets at its core. The core recommendations are that a Pact for Research and Innovation is needed to drive the agenda for an Innovative Europe. The high-level group report also asks 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. What Europe needs is to reinvigorate and create an innovative Europe and in doing so move towards meeting Europe's Lisbon Strategy objectives.
- 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.

Unlocking business potential, in particular of SMEs

- SMEs are the backbone of Europe's economy. We therefore urge the Spring Council to take this issue up. The actions foreseen on entrepreneurship education, access to finance, taxation (the Home State Taxation initiative), better regulation and internationalisation of SMEs have our support but we reiterate the business community's request to work with the EU institutions as early as possible in policy initiatives to make the Partnership for Growth and Jobs a success.

- Businesses in general, but especially SMEs, are choked by overregulation – at the EU as well as at the national level. At 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 regarding 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

- 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. As we clearly said in our press release just after the plenary vote, this is not the services directive Europe needs!. We have to see the big opportunities the services directive provides to all EU member states.
- 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.

- Although some provide helpful clarification, many of the Parliament's amendments 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 advocate 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.

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 demonstrates our common interest in together facing the challenges of globalisation, technological progress and demographic ageing. The work programme for 2006-2008 is now finalised and in the process of being approved by the statutory bodies of each organisation.
- UNICE and the other European social partners believe that their new work programme should focus on Europe's major economic and social challenges, in order to ensure that the social dialogue at European level deals with the major concerns of Europe's workers and employers.

BETTER COMMUNICATION:

- Finally, I would like to mention probably the biggest challenge European political leaders are facing.
- 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. 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. That is why I have invited all UNICE Presidents to a special meeting on 7 April to discuss with them how to enhance the visibility of UNICE and secure effective communications.
