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**PKPP LEWIATAN CONFERENCE  
PANEL DISCUSSION ON THE “ECONOMIC PERSPECTIVES FOR EUROPE”**

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**SPEAKING NOTES**

**AN ECONOMIC UPTURN IS UNDER WAY, BUT AROUND WEAK GROWTH POTENTIAL...**

- Let me start with a few words on the state of the European economy today [...]
- First some good news: the business climate is warming up, especially in industry, and this leads most observers to expect relatively robust growth in the first half of 2006.
- Germany is benefiting strongly from the current upturn, at least according to the level of business confidence which is at an all time high since reunification.
- The reason for this improvement is quite clear: it is a booming global economy that is partially spreading to Europe
- The IMF last month revised its global growth forecast for 2006 upwards to 5%, with a particularly strong outlook for China and India, significantly better prospects in Japan and a US economy that is slowing down but still very robust.
- This vibrant global environment is supporting European exports and is encouraging firms to invest more. However, this is probably not the end of Europe's economic miseries
- Beyond the impressive export performance of Germany, Europe as a whole is loosing export market shares and barriers to domestic-driven activity make it difficult to exceed 2% growth even during a recovery phase.
- This is unfortunately confirmed by the European Commission forecasts released yesterday (8<sup>th</sup> May), showing growth in the eurozone reaching an unimpressive peak at 2% this year, before falling back again in 2007 to 1.8%.

## **WHAT'S WRONG WITH THE EUROPEAN ECONOMY?**

- Europe's poor economic performance largely stems from its lack of preparedness to cope with the two pressing economic challenges: globalisation and ageing
- First on globalisation: this process is taking an extraordinary dimension today and will deepen further in coming years. But institutional rigidities make it difficult for companies to start a new business to adapt or to innovate under rapidly changing conditions
- The main barriers to growth in Europe relate to:
  - Inflexible labour markets reducing the ability to reap more benefits from globalisation and rapid technological progress
  - Burdensome regulations and market segmentation, in particular in the services and energy sectors
  - Lack of support to entrepreneurship and SME growth
  - Insufficient link between research and market innovation
  - High labour taxation becoming increasingly costly in the face of rapid globalisation
- Overall, businesses are slowed down in their reaction to market forces and are prevented from moving to more productive segments of the market.
- In today's environment, the result is clear: the European economy is increasingly exposed to foreign competition, in particular from Asia, and is becoming a second-class location for global investment, including in research and development activities
- The second major challenge that Europe faces is ageing. The size and age structure of Europe's population will undergo dramatic changes in coming decades with profound economic, budgetary and social consequences
- The Commission recently estimated that under a "no policy change" scenario, growth in Europe could fall to around 1% by 2050, while public expenditures would blow up to unsustainable levels (ageing-related public spending would increase from 17% to 25% of GDP by 2050).
- It is obvious that social and economic systems will need significant adjustments if we want to preserve the European Social Model

- But again, governments are delaying the necessary measures, thereby creating a significant uncertain about economic prospects in Europe. This is encouraging households to spend less and businesses to think twice about investing in Europe

## HOW TO RESTORE EUROPE'S COMPETITIVENESS

- The policy priorities to move Europe out of the current economic crisis are relatively straightforward:
  - Move towards a more knowledge-based economy
  - Modernise labour markets by promoting flexibility and security through lifelong learning
  - Ensure sustainable public finances and social systems in an ageing society

- These priorities are the backbone of the European growth and jobs strategy. It is now time to move from declarations to actual reforms.

### 1) REFORMS FOR GROWTH AND JOBS MUST BE IMPLEMENTED, NOT ONLY TALKED ABOUT

- In the wake of the renewed Lisbon Strategy, 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 generally identify the right priorities, but we now strongly urge governments to turn their commitments into reality.
- Actual implementation of reform plans need to be actively supported at EU level by better governance and improved surveillance. More specifically,
  - We strongly urge the Commission to develop its benchmarking tools and to promote best national practices more vigorously
  - On its side, the Council should inject more peer pressure into its assessment of reform progress
  - Finally, governments should clarify their objectives and provide a clear timetable for implementation

### 2) REMOVE OBSTACLES TO THE INTERNAL MARKET

- Reinforcing the European internal market is another positive response to globalisation and is a crucial contribution to strengthen domestic growth in Europe.

- UNICE asks for a vigorous defence of the internal market objectives and calls the European Commission to take action against member states which infringe existing internal market directives.
- Regarding services, the Commission's amended proposal certainly improves the outcome on the vote of the Services Directive in the European Parliament. However, we are still concerned about the reduced scope of the directive and the legal uncertainty concerning certain articles dealing with the freedom to provide services.
- Before deciding any position, the Council should take into account the legal and economic consequences of the proposed changes to the Commission's initial proposal.

### 3) DEFINE A STRONG ENERGY POLICY FOR EUROPE

- Soaring oil prices and the EU's growing dependency on oil and gas from insecure regions highlights the need of a strong European energy policy.
- Europe can no longer afford the luxury of 25 energy policies developing without reference to a shared strategy. We very much welcomed the EU leaders' endorsement of the Commission's proposals regarding a strengthening of energy cooperation within the EU.
- Member states nevertheless rejected the idea of a single European energy regulator and insisted on keeping their national sovereignty in the choice of energy mix.
- Rather disappointedly, EU leaders avoided talking about cross-border mergers and energy protectionism. A truly open energy market must be established without delay but so far progress has been largely insufficient.
- Resorting to protectionism will eventually backfire. We hope that the summit's commitments will turn into reality and that governments strive for European objectives as their own.

### 4) THE EU IS NOT EFFICIENTLY GOVERNED

- Last year's failed referendums on the constitutional treaty in France and the Netherlands created one of the worst institutional crises that Europe has had to face in its 50 years of existence.

- The EU must now regain the confidence of citizens and improve its capacity for action at all levels.
- To do this, the EU must tackle its institutional reform and find solutions to solve problems arising from 25+ member states. The EU must be efficiently governed so it can also play a prominent role in the international arena.
- Europe must not come to a standstill otherwise there is a risk that Europe moves backwards and that the main achievements of 50 years of integration are called into question.

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