

FINAL DRAFT

25 September 2006

\*\*\*\* *Check against delivery* \*\*\*\*

**DI's Annual Conference « Mission Possible »  
26 September 2006  
13h30 – 18h15**

Time slot: 25 minutes (14h00 – 14h30)  
(after 5 minutes of a short movie-clip introducing the speaker)

**Address by UNICE President Ernest-Antoine Seillière**

***“OPERATION EUROPE”***

President, Ministers, Ambassadors,  
Dear Fellow Entrepreneurs,

Let me first express my gratitude to the Confederation of Danish Industries for inviting me to take the floor on the occasion of DI's annual conference 2006. I would like to congratulate you on the excellent programme that we will have this afternoon and notably on the excited and provocative title gave to this meeting: *“Mission Possible”*. I am convinced that during today's constructive debates on how Denmark can become one of the world's most competitive societies we will also learn about how Europe can become the most competitive and dynamic knowledge-based economy in the world.

As President of UNICE I will try to inspire the upcoming debates giving you an overview of how the business community is working to complete the targets of the *“Operation Europe”*.

**UNICE, THE VOICE OF BUSINESS IN EUROPE**

UNICE represents more than 20 million companies. Our members are 39 central industrial and employers' federations from 33 countries, which means that I am bringing you up the vision of the European business community.

All our federations, including the Confederation of Danish Industries, work together to achieve growth and competitiveness in Europe, while at the same time promoting prosperity and development for European enterprises.

With the support of my fellow colleagues, UNICE is calling for a boost to Europe promoting a new strategy of communication based on 6 policy priorities which we think are the answers to the stagnate of the European economy:

1. Implement the reform for growth and jobs,
2. Integrate the European market,
3. Govern the EU efficiently,
4. Fight national protectionism,
5. Take advantage of the opportunities of enlargement and
6. Reform European social systems to make them sustainable.

Let me take one by one for some more comments:

1 – Implement the reforms for growth and jobs:

As you know, in March 2000 in Lisbon, heads of state and governments have defined a very ambitious but very accurate 10-year strategy based essentially on the improvement of Europe's competitiveness. We know that after the mid-term, we are very far from the goals set in Portugal.

The gap with our competitor countries has even widened since then. Over the last five years, growth in the Euro area was 1.3% against 2.6% in the US. Moreover, the so-called "emerging" economies are overtaking us: in 2005, the size of China's GDP had reached the size of the Eurozone's. Barroso's Commission has refocused the Lisbon Strategy to concentrate it on growth and jobs. This was what UNICE was asking for when we published our "*Business vision for Europe – growth, jobs and prosperity for our future*" in 2004.

But even a refocused strategy can only be successful if the member states themselves decide to proceed to the necessary structural reforms. Some have done it due to the difficult circumstances they had to face, such as Finland for instance, which went through a turnaround after the collapse of the Soviet Union in the early nineties. Now this country is considered as one of the most competitive in the world. But when I met for the first time with the Prime Minister of Finland, Mr Vanhanen – and current President of the European Council – beginning of July, he mentioned he needs for his country to pursue the effort of reforms.

As the business community, we should therefore urge all the national governments, from the member states as well as from the associate countries to act and adapt their policies in order to be able to face the global competition, the technological challenges and the ageing demography. I feel encouraged when Chancellor Angela Merkel who will be next President of the Council declared very recently that "*the biggest lie of all would be to say that (Germany) needs no, or only very limited, changes*". "*Change is necessary*" she said "*because the world is changing*".

## 2 – Integrate the European market

The integration of the European market creating one single market for people, goods, services and capital is essential.

It creates synergies companies need, it offers a larger choice to customers, it is an appropriate answer in a global world competition. It has created approximately 2.5 million jobs over the last 15 years. However, if Europe wants to move ahead of the global competition, we now need to move up a gear, and create a market in which companies can move as freely as, for example, in the different states of the US.

It is therefore that we were so anxious to create a single market for services. Looking at the efficiency of the services sector in the US, it becomes clear that huge productivity gains can still be made in European services. This is certainly easy to understand in a country such as Denmark. We have now a proposal for a service directive that is far from perfect, but it is also now up to us to make the best of it.

## 3 – Govern the EU efficiently

The governance of the EU has been shaken by the negative referenda last year in France and in the Netherlands. The challenge today is to solve the EU institutional problems arising with 25 members today, 27 and more tomorrow.

We all know that this is not the first time the EU is going through difficult times but it is probably one of the worst. Even if we have survived the empty chair days, the eurosclerosis years, budgetary crisis and the Commission resignation, the current situation is unprecedented since the European project has lost the backing of a large portion of EU citizens and companies. The crisis comes at a time when the EU is confronted with enormous challenges linked to demographic ageing, technological change and globalisation. The most difficult thing now is to recover European citizens' and companies' confidence in the European Union project.

It is not up to business leaders to find the political solutions, but it is our duty to call for these solutions urgently.

## 4 – Fight national protectionism

The fight against national protectionism is part of the internal market strategy. I think it is important to underline this, especially because we have seen some attempts from larger countries to protect their companies against mergers and acquisitions coming from outside.

The concept of “national champions” is not the answer, nor is the intervention of governments in business mergers. It is up to stakeholders – taking into account the interest of the company – to take that kind of decision. It is also in this context that I would like to touch on the WTO negotiations. For our countries the failure of the negotiations is unacceptable. We are an open economy; we export a lot all over the world. With around 20% share in global imports and exports Europe's economy participates in the world development and, moreover, its own future prosperity depends on it. We are therefore in favour of a multilateral approach, but one that really opens

the markets for goods and services. It cannot be accepted that agricultural problems dominate trade issues. It cannot be accepted that important emerging economies don't want to open more their market access. We still do hope that the Doha Round can be finalised on acceptable conditions. It is generally accepted that a successful outcome of this Round would increase EU exports by 2.5%. But already now we have urged the Commission to start the examination of a bilateral approach and negotiate free trade agreements with some countries or regions.

#### 5 – Take advantage of the opportunities of enlargement

The enlargement to the 10 new member states has been positive for the economy, also the Danish one. There are still currently more exports from West to East than the opposite. There were more jobs created in the West from the increase of exports, than losses as a result of delocalisation of activities. Therefore, we are convinced that enlargement is a win-win situation. It has and will continue to bring benefits to all Member States if we manage it properly and do not allow our strategic choices to be guided by short-term thinking or unfounded fears. This is also the conclusion of a DI report published in April 2006: enlargement has paved the way for more jobs in Europe.

#### 6 – Reform European social systems to make them sustainable

Finally the sixth priority is the reform of the social systems. We need not debate whether there is more than one social model in Europe, what is important to accept also for the business leaders is that, when there is economic growth, when productivity improves, part of it must be used to create more solidarity and to support the social welfare. But today the sustainability of the social systems is at stake. Given the rapid ageing of Europe's population, it has been calculated that government debt in the EU15, which is currently at 45%, would explode to 180%, if nothing was changed. Each member state, each European country must tackle this challenge on its own. But a delay in one country has consequences for the others. Because it is also proven that sound macroeconomic policies foster growth rather than the opposite.

### **OVERALL THEMES: THE GOVERNANCE OF THE EU**

Let me dedicate a few minutes to enter into the core of the Governance of the European Union. As I already mentioned, the crisis of confidence that Europe is going through is deep-seated and that its consequences could be broader than the constitution issue and could stand in the way of progress on important reforms that are urgently needed.

At a time when the entire world is being buoyed up by healthy economic growth, the European Union needs initiatives to reaffirm the mission of a pan-continental organisation.

The convergence of problems that the Union is being confronted – lack of political leadership at EU and national level, a gap opens between public opinion and the European project, the unsustainability of some social systems – have direct consequences in European companies' competitiveness. The EU is not adapting fast enough to globalisation and economic growth is lagging behind that of most other

economic powers in the world. When I go around I feel that business leaders balance between two attitudes: 1) one possible response is that of complete indifference. After all, companies demonstrate on a daily basis their capacity to conquer markets, adjust to change and succeed in a globalising economy. 2) The second possible response is genuine impatience. We are all convinced that progressive European integration has had major effects on growth and jobs in Europe, and that we can only win by moving forward in the constitutional debate.

As a first step, we, European business, urge Member States to ensure that there is better dialogue between citizens and government on EU goals and projects and needed reforms. Governments should engage in national campaigns on the added value of Europe and the benefits for all. Better communication on controversial topics such as the services directive, the challenges of globalisation, and the need for social and economic reforms is key to understand the European project but they should not be mixed with the Constitutional debate as it was in the past.

We are sure that it is in the interest of business for Europe to be properly governed. It is for governments to decide how to do this and get us out of the governance confusion we are in. This should be done on the basis of the shortest possible timetable.

*Why in the interest of business? Let be clear:*

- *in order to be able to take the necessary decisions to make Europe competitive in the globalised world for growth and jobs;*
- *in order to build Europe as a strong and able actor, vis-à-vis the United-States, Japan as well as China, India, Brazil, and Russia, in particular for the issues of international trade, energy and climate change.*
- *in order to guarantee and strengthen the economic acquis communautaire: the internal market, the euro, the common trade policy;*
- *in order to promote innovation, education and modernisation of social systems, to make them sustainable.*

We want to convince European and national policy makers of that and we have invited them to join us in our largest annual demonstration – the UNICE Day – to take place in Brussels on 17 October. I will personally ask President Barroso if Europe cares about companies. I am not expecting only a positive answer that I am sure I will have; I am expecting a strong commitment with concrete actions and imaginative ideas.

#### **THEMES RELATED TO THE LABOUR FORCE CHALLENGE**

I would like to finalise my intervention with a reference to one of the areas where Europe needs a strong commitment with concrete actions: labour market policy.

Over the last decade, potential output growth has been on a declining trend in Europe. This contrasts sharply with the performance of other developed economies. The Chinese economy will grow by some 9% this year, India by 7% and the US by 3.5% while the European Union, at the top of the economic cycle, will hardly manage 2%. Our poor performance is due to obstacles preventing companies from adapting,

innovating and employing people under fast-changing conditions. Structural reforms on both product and labour markets must be implemented vigorously to remove bottlenecks to economic growth.

Higher labour force participation and reduced unemployment made a positive but modest contribution to real GDP growth since the mid-1990s. Moreover, these achievements were partly off-set by poor productivity performance.

Denmark is considered a good pupil in the European class and you could be tempted to rejoice at your good results and let the rest of Europe struggle with its home-made difficulties. However, this would be the wrong attitude. UNICE fully shares DI's conviction that one cannot be a winning nation in a losing region. Moreover, success is never guaranteed for ever in the fast changing global economy and Denmark, like other EU countries, is faced with labour shortages creating bottlenecks for its economic growth in the short-term.

There is widespread awareness, in Brussels, that inadequate functioning of national labour markets plays a crucial role in the difficulties that the European economy is currently facing. A lot of European decision-makers are conscious that outdated and unnecessarily rigid labour regulations hamper businesses and curb productivity growth. Most people agree that high labour taxation and lack of mobility increase the adjustment costs associated with globalisation and technological innovations. Many even acknowledge, theoretically, that hours worked per person employed decline dangerously in the face of demographic ageing.

Unfortunately, things are much less consensual when it comes to drawing the consequences of this analysis and deciding on reforms in the Member States. Fears in public opinion and trade union resistance, especially in some big EU countries, are considerably slowing down necessary measures. There is not enough awareness that time is running out and that the longer they are delayed, the more difficult and painful reforms will become. Until 2015, rising employment rates could offset the decline in working-age population but after that both the size of the working-age population and the number of persons employed will be on a downward trend.

Another difficulty is the distorted picture that is often given of national reforms when comparing experiences at the European level. The way in which the Danish *flexicurity* approach is described in Brussels is a good example of that.

*It is usually caricatured into three components: 1) active labour market policies + 2) generous welfare systems + 3) highly developed collective bargaining. The other side of the coin, namely no general labour code (and therefore no law on dismissals, working time and minimum pay) + duty of the unemployed to participate in activation programmes + sound budgetary policies to create the margins for expensive active labour market policies are simply swept under the carpet.*

To increase the awareness of what are the real ingredients of successful national policies for growth and employment and help creating a stronger consensus on the solutions to Europe's problems, UNICE is currently discussing with the European Trade Union Confederation Europe's key labour market challenges with the aim of making a joint analysis backed by both sides. Arriving at a real consensus of the European social partners that it is more important to create new jobs than to protect old ones and that we should focus on how to make it attractive and easy to hire workers rather than

making it difficult or expensive to dismiss workers, as you did in Denmark, would be a real progress.

In addition to agreeing with European trade unions that flexibility is in the interest of both employers and workers, employers also must convince EU institutions to act consistently when devising EU policy measures.

For example, promoting *flexicurity* makes little sense if, at the same time, the EU legislator interferes with the social partners' freedom to negotiate on working time in the Member States on the occasion of the revision of the working time directive. Similarly, highlighting the importance of tackling the challenges of demographic ageing while maintaining a purely fictitious zero-immigration policy is self-defeating as it deprives Europe of the ability to manage the entry of third country nationals in the light of recruitment difficulties. Last but not least, accepting delaying the single market for services for fear of being overwhelmed by mythical Polish plumbers at the age of information technology by watering down the services directive is a strategic mistake.

### **TO CONCLUDE**

A lot of work needs to be done to bring Europe out of its present crisis and there is no time for complacency.

UNICE will continue to press governments to:

- demonstrate more political leadership at EU level,
- adapt the EU governance system to the new geographical limits of the European Union,
- implement necessary national reforms for growth and jobs,
- complete the Internal Market, in particular for services,
- resist protectionist temptations,
- make European social systems sustainable;

UNICE also intends to step up our efforts to convince public opinion through actions taken in the European social dialogue and direct campaigns undertaken with our member federations. We count on the help and support of Danish Industry to convince in Denmark and elsewhere that "*Operation Europe*" is both desirable and possible.

\*\*\*\*\*