

UNICE DAY

TUESDAY 17 OCTOBER 2006

EUROPE


➤ WHY DO COMPANIES
CARE ABOUT EUROPE?

HAVE A STRONG SAY IN THE DEBATE ON EUROPE



UNICE
THE VOICE OF BUSINESS IN EUROPE

WHAT IS UNICE?



UNICE represents more than 20 million small, medium and large companies. Active in European affairs, UNICE's members are 39 central industrial and employers' federations from 33 countries.

UNICE actively promotes and represents business interests in Europe. It advocates a favourable and competitive business environment to foster sustainable economic growth.

UNICE has been active in European integration since 1958. UNICE is also an active partner in the European Social Dialogue provided for in the Treaty on European Union since 1993.

YES TO EUROPE, WHEN IT DELIVERS!

Companies are not giving up on Europe. National borders are too narrow for business today and European integration offers vast and unexploited opportunities.

More than ever, companies expect European decisions that strengthen rather than hamper their position in increasingly global competition. But time is running out. They will eventually lose patience if promises are not kept.

First of all, truly integrated EU markets, extended in all respects to new member states, are a major asset in globalisation and must be at the core of the EU growth and jobs strategy. Unfortunately, internal market completion is still a long distance away and commitment is eroded by short-sighted national interests.

It is also vital that Europe pursues an ambitious external trade policy, ensuring better access to new markets and a resolute fight against protectionism. With WTO negotiations in stalemate, the EU cannot sit and wait. It must vigorously seek to resume and finalise discussions on acceptable conditions.

But to unlock EU competitiveness in the face of globalisation and demographic ageing, nothing seems more

important today than real implementation of structural reforms. Key objectives are to regulate less and better, foster innovation, support workers' adaptability and ensure sustainable public finances. On all these subjects companies expect EU institutions to play their role and exert pressure on member states falling short of their objectives.

The world is changing fast and Europe must keep up the pace or risk irrelevance for the business community. Governments need to sort out the current institutional crisis by agreeing new rules and instruments to govern efficiently a Union of 25, and more in the years ahead.

Europe must also bridge the gap with citizens with an effective communication policy, and in this campaign it can count on companies to promote its agenda for a competitive Europe.

Two and half years are left for President Barroso's European Commission to turn solemn declarations into measurable outcomes, and show that Europe understands, and really cares, about companies. UNICE Day is a unique chance for business leaders to put this message across.

Philippe de Buck
Secretary General

Ernest-Antoine Seillière
President



WHY DO COMPANIES CARE ABOUT EUROPE?

JÜRGEN THUMANN, PRESIDENT OF BDI, CEO OF HEITKAMP & THUMANN GROUP

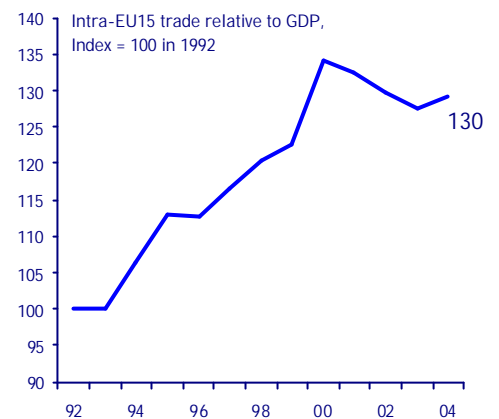
"EUROPE HAS BROUGHT SIGNIFICANT ADVANTAGES AND OPPORTUNITIES TO OUR COMPANIES. NOW LIBERALISATION OF MARKETS SHOULD BE ACCELERATED TO MAKE BETTER USE OF THE INTERNAL MARKET'S POTENTIAL. OUR OVERRIDING OBJECTIVE MUST BE TO CREATE MORE GROWTH AND JOBS."

FACTS

A fully-fledged internal market offers great opportunities

- The internal market is one of Europe's most ambitious projects, and a cornerstone of its prosperity
- Over the last 15 years, heightened competition and improved access to markets and financing have already resulted in deeper trade integration (see chart 1) and more economic growth
- However, the internal market still remains fragmented in key areas and is threatened from within by national protectionist pressures

Chart 1: More trade integration in Europe since 1993

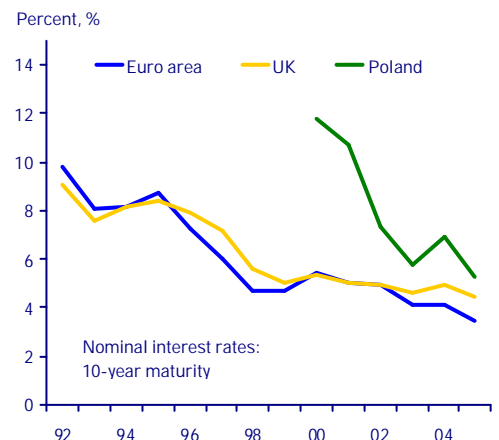


Source: UNICE based on Eurostat and WTO data

Economic stability makes it easier to run a business

- Monetary union and the coordination of national economic policies have contributed to more stable conditions for business
- In particular, growth and inflation volatility has declined in Europe, while exchange rate risks have been drastically reduced
- This has contributed to an environment where firms have both the visibility to plan investment and favourable financing conditions to carry their plans forward (see chart 2)

Chart 2: Stability also implies lower interest rates



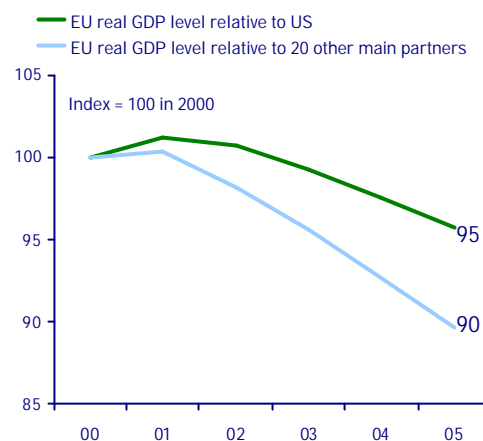
Source: Eurostat

PRIORITIES

Europe must do more to free up companies' potential

- The early Lisbon pledge in 2000 to transform the European economy into the most competitive in the world has run into the sand
- Instead, Europe as a whole has drifted further behind (see chart 3) and has proved both unprepared and unwilling to reform
- Noting the persistence of high unemployment and weak growth, heads of state agreed in March 2005 that the EU's top priority was to develop a more ambitious and coherent strategy for growth and jobs
- But progress on the ground is disappointing and the European business community remains sceptical of a real political drive for reforms

Chart 3: Europe is falling behind in a dynamic world economy



Source: UNICE based on EC AMECO and IMF data

Fiscal discipline is a prerequisite for growth in an ageing society

- With demographic pressures building up, high public deficits only raise negative expectations, leading households to save more and businesses to invest less
- Recent trends in Europe show this correlation between loose fiscal policies and weakening growth potential (see table 1)
- To consolidate the current economic recovery, member states, backed by effective Community surveillance, will need to demonstrate strong resolve to put their fiscal house in order

Table 1: Growth and fiscal consolidation come together

Growth potential since 2000

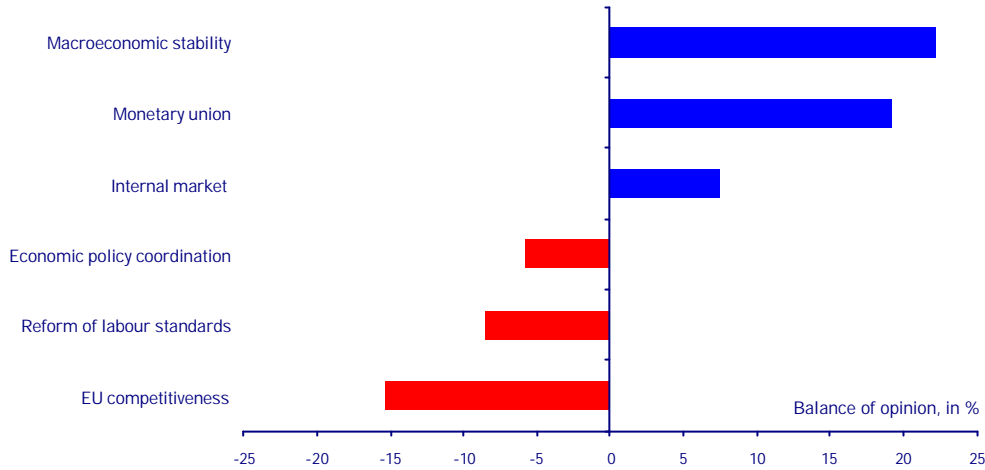
		up	unchanged	down
Structural fiscal balance since 2000	up	ES PL DK CZ SK LV EE CY EU-10*	BE AT	NL SI MT
	down	LT	UK GR SE	DE FR IT FI PT IE HU LU EU-15*

* average

Source: UNICE based on EC AMECO data

“What companies say...,,

Perception of EU main achievements and failures



Source: Business poll for UNICE Day - based on a panel of 320 companies across Europe

Note: The following replies received a more balanced opinion: better regulation, territorial cohesion, support to technological progress, common trade policy, Trans-European Networks, environmental protection standards

What UNICE expects

1 Implement the reforms for growth and jobs

2 Integrate European markets

3 Govern the EU effectively and efficiently

4 Fight national protectionism

5 Take advantage of the opportunities of enlargement

6 Reform European social systems to make them sustainable

Six priorities put forward by the UNICE Council of Presidents in Vienna in June 2006

WHY DO COMPANIES CARE ABOUT THE SINGLE MARKET?

LAURENCE PARISOT, PRESIDENT OF MEDEF, PRESIDENT OF IFOP GROUP

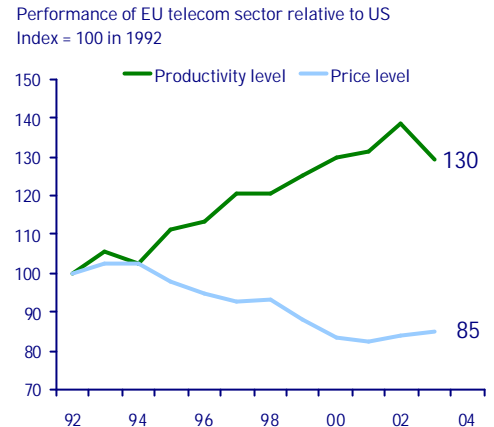
"BECAUSE EUROPE HAS BECOME THE HOME BASE FOR MANY OF OUR COMPANIES. ONLY WELL-ORGANISED EUROPEAN MARKETS WITH CLEAR AND SIMPLE RULES CAN HELP US BECOME STRONG AND COMPETITIVE IN THE COMING YEARS."

FACTS

Competition is the engine of growth and innovation

- Free and undistorted competition helps the most efficient companies to strive and replace the unproductive ones. This results in more economic growth, innovation and job creation
- European market integration has already made significant progress in this direction, generating around 0.2% additional growth per annum and creating 2.5 million jobs
- Among the benefits, the opening of key network industries has yielded significant welfare gains for companies and consumers alike. For instance, in the telecom sector, increased competition has contributed to Europe outperforming the US in terms of higher productivity and lower prices (see chart 4)

Chart 4: Market opening generates value

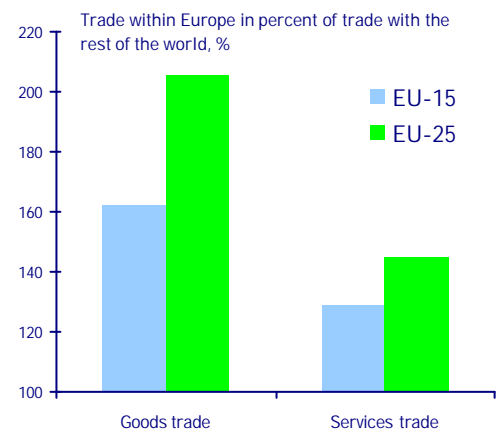


Source: UNICE based on GGDC data

A strong internal market is an asset in today's global environment

- The internal market contributes to a more efficient allocation of resources and to developing strong comparative advantages to compete at the global level
- In this regard, enlargement has breathed new dynamism into the internal market, extending its scope and significance (see chart 5). This is a major opportunity to foster European competitiveness in the face of fast-moving globalisation
- However, much remains to be done in the services sector, where trade integration within Europe remains largely underdeveloped (see chart 5)

Chart 5: Enlargement gives new depth to internal market

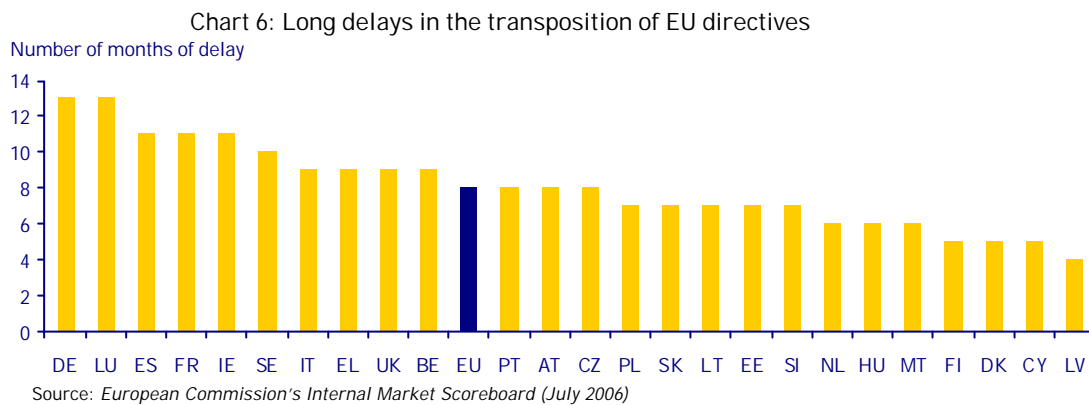


Source: UNICE based on WTO data

PRIORITIES

Consolidate the internal market

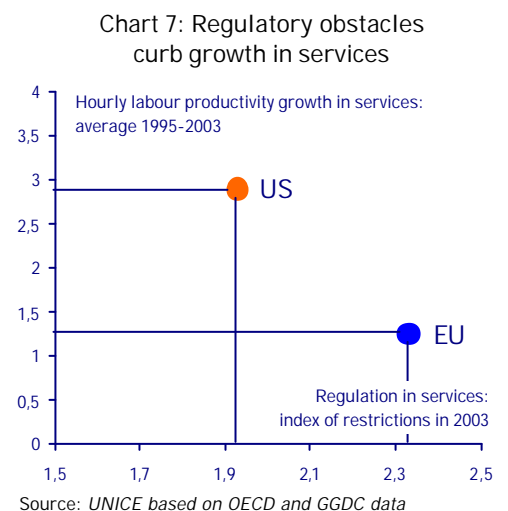
- Implementation of internal market directives needs to take a significant step forward, by cutting down infringement cases and significantly reducing delays in transposing EU directives, which often remain excessively long (see chart 6)



- Internal market barriers for SMEs need to be removed as a matter of priority. This requires real application of the mutual recognition principle for non-harmonised products and drastic cuts in tax compliance costs, which are estimated to account for up to 30% of taxable income for SMEs
- For all companies it is also crucial that EU competition policy takes account of the requirements of global competitiveness and applies uniform and predictable rules

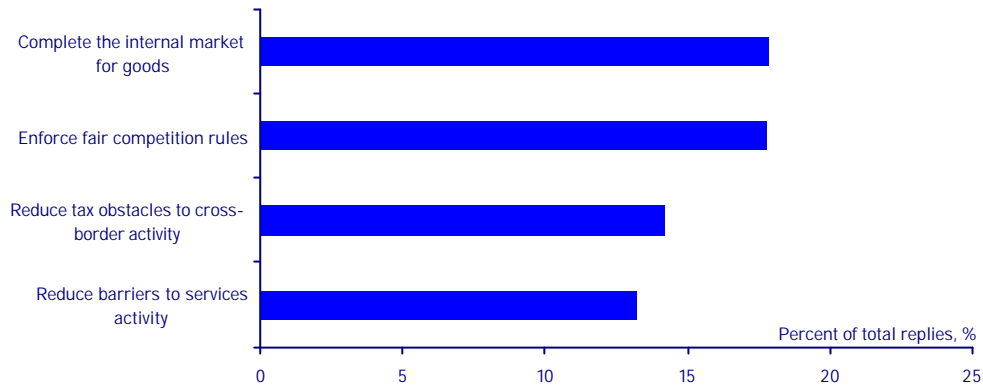
Make the integration of services and energy markets a reality

- Over-regulation and stifled market access in the services sector are currently a major factor limiting Europe's innovation and growth capacity (see chart 7). A truly pan-European service market would foster job creation not only in services but throughout the economy
- Despite its disappointment with the debate on the services directive, business want to make the most of it and ensure effective transposition in member states
- Liberalisation of the energy market is also vital to help companies remain competitive in an environment of rising commodity prices. This notably calls for full implementation of electricity and gas market directives and deeper interconnection of energy networks



“What companies say....”

Main priorities for the internal market



Source: *Business poll for UNICE Day*

Note: The following answers scored lower in the ranking of priorities: financial market integration, network industries, mobility of workers, public procurement

What UNICE expects

1 Strong action for the enforcement of internal market law by all stakeholders

2 More market access for SMEs by reducing the cost of complying with different tax systems and national product standards

3 Making the most of the services directive to boost growth and jobs

4 More efficient European network industries, especially in energy

WHY DO COMPANIES CARE ABOUT A EUROPEAN GROWTH AND JOBS STRATEGY?

MICHAEL TRESCHOW, PRESIDENT OF CONFEDERATION OF SWEDISH ENTERPRISE, CHAIRMAN
OF THE BOARD OF ERICSSON AND ELECTROLUX

"THERE HAVE NEVER BEEN AS MANY BUSINESS OPPORTUNITIES AND THUS JOB OPPORTUNITIES AS TODAY. THE PROBLEM IS THAT WE LACK ENOUGH PEOPLE WHO ARE WILLING TO INVEST, START AND RUN BUSINESSES. IT IS NOW UP TO THE EU AND MEMBER STATES TO PUT IN PLACE THOSE FAVOURABLE CONDITIONS THAT ARE CONDUCIVE TO CREATING MORE AND BETTER JOBS."

ARNDT KIRCHHOFF, CHAIRMAN AND CEO OF KIRCHHOFF AUTOMOTIVE GMBH & CO. KG,
CHAIRMAN OF UNICE'S ENTREPRENEURSHIP & SME COMMITTEE

"SMEs NEED A STRONG INTERNAL MARKET, A MORE BUSINESS-FRIENDLY ENVIRONMENT AND MORE FLEXIBLE LABOUR MARKETS TO SUPPORT THEIR EFFORTS TO GROW, CREATE NEW JOBS, INNOVATE AND REMAIN COMPETITIVE."

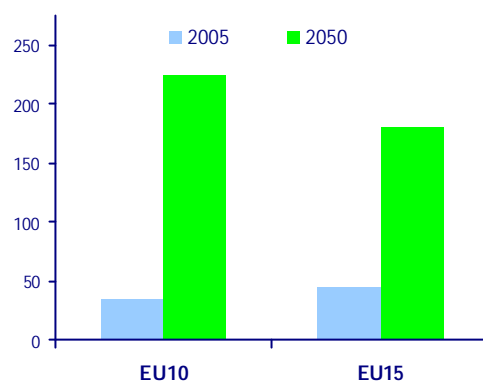
FACTS

Member states face common challenges

- **Fast globalisation brings tremendous opportunities, but Europe is struggling to adapt and enjoys too few of the benefits**
- **The reluctance to confront the consequences of an ageing society can only contribute to weak confidence today while leading to more painful adjustments in the future. Social systems will need significant reforms to prevent their collapse under financing pressures (see chart 8)**
- **Recognising the importance of tackling the challenges of globalisation and ageing by developing new policy priorities at EU level will give member states the best chance to deal with them successfully**

Chart 8: Unsustainable social systems in most parts of the EU

Net public debt forecasts under no policy change, percent of GDP



Source: Standard & Poor's Sovereign Ratings (2006)

Best practices in the EU are a good guide for reform

- **The EU's overall economic scoreboard is disappointing as compared with the US, but some member states have managed to deliver remarkable results in specific policy areas (see table 2). European success stories can inspire change in countries most in need of rethinking their economic and social models**
- **Deep economic interactions across member states also vindicate the need for effective EU surveillance of national reform programmes. Indeed, ambitious reforms involve positive spillovers across countries while a lack of them creates imbalances within the Union at high collective cost**

Table 2: Good practices can be found in Europe

	EU	US	Best EU
INNOVATION			
ICT investment - percent of GDP	2,6%	3,7%	3,5% - Finland
Business R&D expenditures - percent of GDP	1,2%	1,9%	2,7% - Sweden
Triadic patent per million inhabitants	35	63	114 - Finland
Researchers per thousand employed	2,8	7,5	10 - Finland
Business birth rate	8,3	10,1	13,2 - Estonia
LABOUR MARKET			
Older workers participation rate	45%	63%	73% - Sweden
Youth unemployment rate	18,5%	11,3%	7,9% - Denmark
Long-term unemployment - percent of total unemployment	46,4%	11,8%	22,4% - UK
Tertiary education attendance - percent of people aged 25 to 34	26%	39%	40% - Sweden

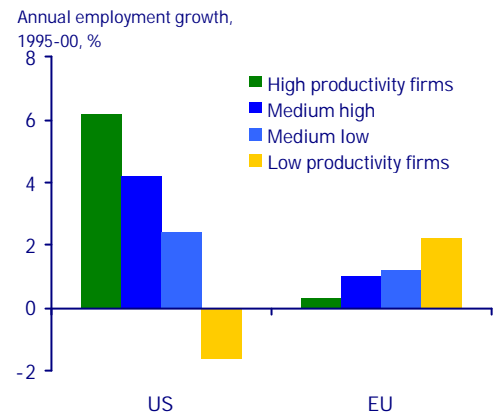
Source: UNICE based on OECD and Eurostat data

PRIORITIES

Improve the business environment and foster innovation

- In stark contrast to the US, companies generating strong productivity gains in Europe are not those creating more jobs (see chart 9). This paradoxical situation highlights the many obstacles that European entrepreneurs face when trying to seize new business opportunities
- SMEs are essential to support Europe's innovation capacity. EU policies should particularly focus on improving their environment through better regulations, easier access to finance, and less obstructive taxation systems
- To complement a more supportive business environment, Europe needs a strong and coherent innovation policy that prioritises public resources for research and tertiary education, and puts in place an efficient patent system

Chart 9: A troubling fact about the EU economy

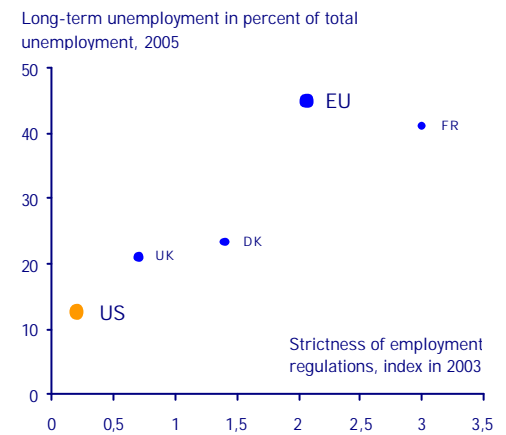


Source: McKinsey Quarterly (2005)

Modernise social systems and support workers' adaptability

- Social systems will have to adapt in an ageing society and provide more incentives for people to enter and progress on the labour market
- It is time to turn job security into employment security. Europe's high unemployment problem will not be resolved by keeping strict employment protection rules (see chart 10)
- Instead, people should be empowered with the appropriate skills and motivation to adapt and embrace future opportunities
- This modern paradigm of employment security comes with flexible labour markets, effective training, lifelong learning and activation strategies

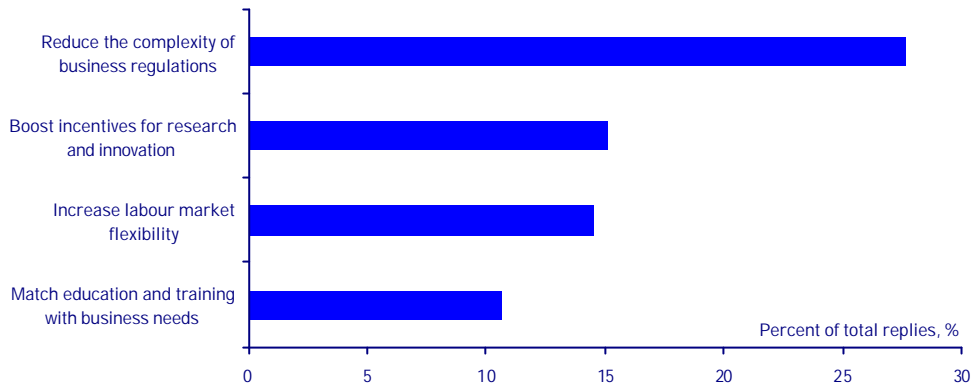
Chart 10: Strict regulations are a barrier to full employment



Source: UNICE based on OECD and EUROSTAT

“What companies say...,,,”

Main priorities for the EU growth and jobs strategy



Source: *Business poll for UNICE Day*

Note: The following answers scored lower in the ranking of priorities: labour taxation, SMEs financing, sustainable public finances, intellectual property systems, low inflation

What UNICE expects

1 Effective progress in better regulation at both EU and national level. Think SMEs first for all new regulations

2 A coherent set of policies to boost incentives for, and better links between, research and innovation

3 A more adaptable and better educated work force to sustain future growth and jobs

4 A more efficient system of economic governance at EU level

WHY DO COMPANIES CARE ABOUT THE EU COMMON TRADE POLICY?

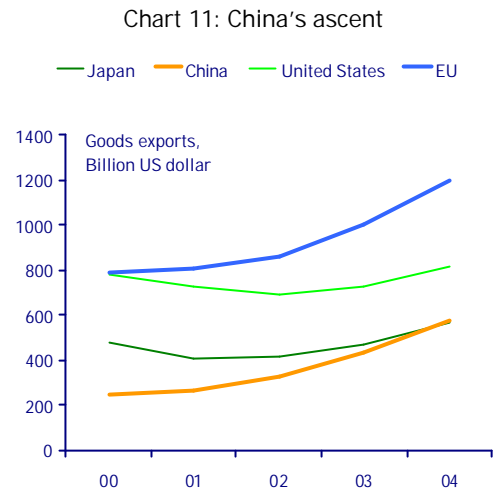
CHRISTOFFER TAXELL, PRESIDENT OF EK, CHANCELLOR OF ABO AKADEMI UNIVERSITY

"IN ORDER TO REAP THE BENEFITS OF GLOBALISATION, COMPANIES NEED A STRONG EU IN THE TRADE POLICY ARENA TO PUSH FOR LIBERALISATION AND IMPROVED INTERNATIONAL TRADE RULES. A SUCCESSFUL DOHA ROUND AND COMPLEMENTARY BILATERAL TRADE AGREEMENTS WILL LEAD TO A MORE OPEN GLOBAL MARKET FOR THE BENEFIT OF ALL COUNTRIES."

FACTS

New trade giants are catching up but Europe can retain global leadership

- Exports of manufactured goods from China have already matched those from Japan (see chart 11), while India currently accounts for more than 40% of global outsourcing in software and back-office services
- But Europe can remain a leading player in globalisation if it is able to speak with one voice. Its share in global trade is high and stable at around 20% and it currently assumes leadership in 10 out of the 20 largest exporting sectors, including pharmaceuticals and chemicals



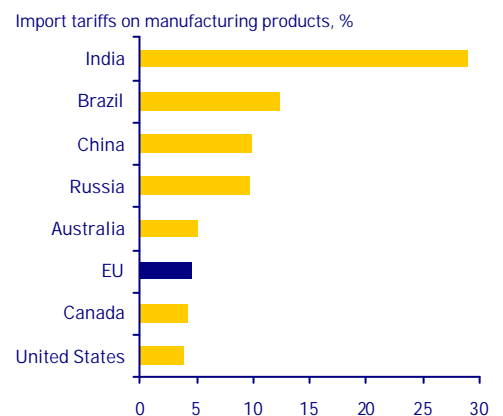
Source: UNCTAD

PRIORITIES

Business needs more market access outside Europe

- European business urgently needs to expand export opportunities in high-growth markets. This is crucial to safeguard future competitiveness
- EU trade policy can make a decisive contribution, by negotiating the removal of trade barriers and thorough convergence of standards and regulations
- The average industrial tariff level is 10% in China and 30% in India, compared with 4.4% in the EU (see chart 12). Moreover, the percentage of tariff lines affected by non-tariff barriers is 13% in the EU compared with 22% in Brazil and 93% in India

Chart 12: Trade barriers limit access to fast-growing markets

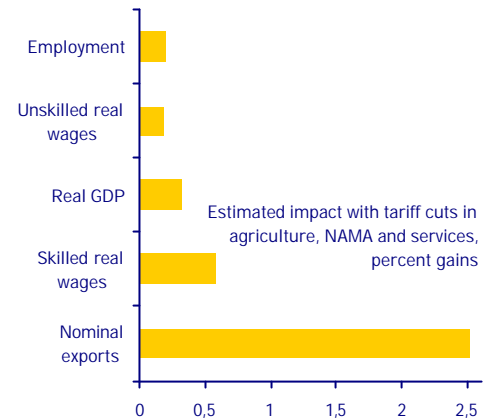


Source: UNCTAD

The EU must negotiate far-reaching trade agreements

- **Multilateral agreements are the backbone of the international trading system and it is highly regrettable that the Doha Development Agenda (DDA) negotiations have reached a deadlock this summer**
- **A successful DDA could yield significant exports, jobs and income gains for Europe (see chart 13), but it is a particularly crucial opportunity for the poorest nations. WTO negotiations must rapidly resume**
- **If in line with WTO rules, bilateral/regional initiatives are complementary to the multilateral approach. They should be negotiated according to economic criteria addressing the real barriers faced by companies worldwide**
- **With the risks of mounting protectionism, business supports an EU policy actively promoting free trade, and ensuring that agreed rules are properly enforced by all trading partners**

Chart 13: Doha gains for the EU economy



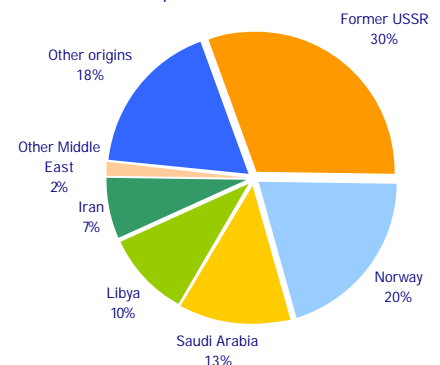
Source: CEPII (2006)

The EU also needs to strengthen the external dimension of its energy policy

- **Europe is heavily dependent on external supplies of natural gas and oil. Europe should coordinate as much as possible member states' positions vis-à-vis non-EU energy suppliers to reduce the risk of supply disruptions**
- **Energy cooperation with Russia and other neighbouring regions must be consolidated (see chart 14) while trade negotiations between the EU and its partners should encompass the energy dimension**

Chart 14: EU in need of secure energy supplies

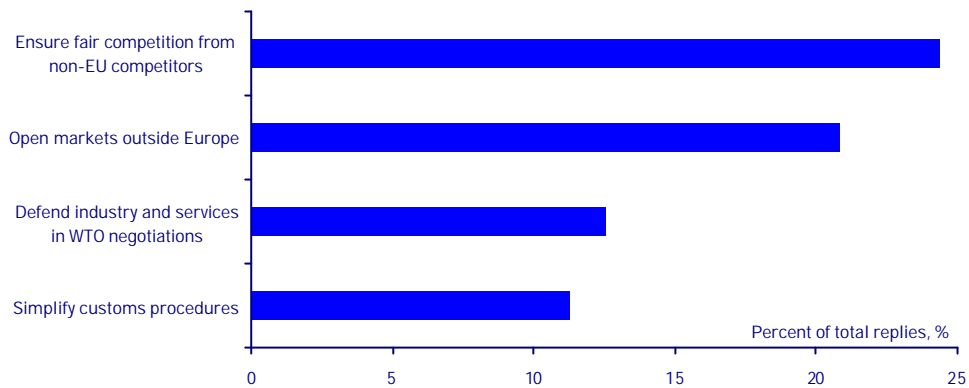
Distribution of oil imports, 2004



Source: OECD

“What companies say....”

Main priorities for the EU trade policy



Source: *Business poll for UNICE Day*

Note: The following answers scored lower in the ranking of priorities: fight against counterfeiting, defend the interest of EU companies in trade conflicts

What UNICE expects

1 A pro-active EU trade policy opening market access for companies

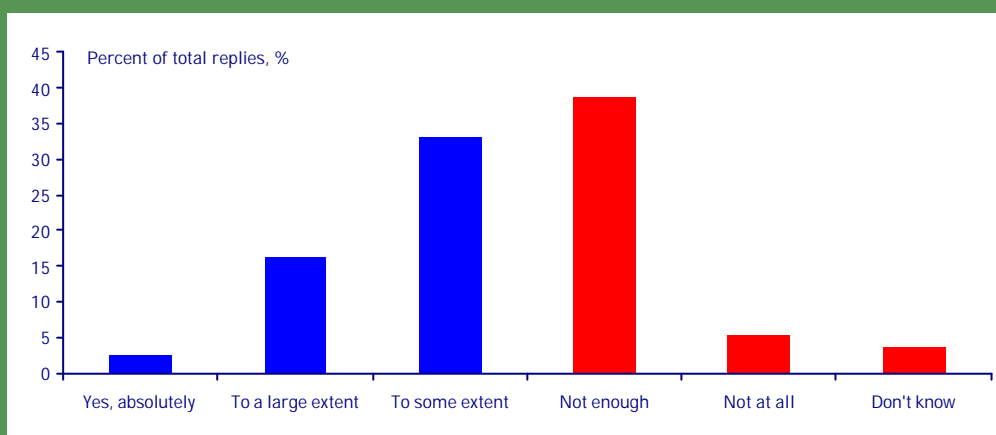
2 The revival of WTO negotiations based on an ambitious agenda for NAMA and services

3 A new bilateral/regional strategy in line with WTO rules and based on economic criteria

4 Strong action to ensure secure energy supplies

DOES EUROPE CARE ABOUT COMPANIES?

“What companies say....”



Source: Business poll for UNICE Day

LUCA CORDERO DI MONTEZEMOLO, PRESIDENT OF CONFINDUSTRIA, PRESIDENT OF FIAT, PRESIDENT OF FERRARI

“WE BELIEVE IT DOES BUT NOT ENOUGH YET. THE DEEP CHANGES THAT ARE OCCURRING AT THE INTERNATIONAL LEVEL REQUIRE AN EXTRA EFFORT TO INCREASE THE COMPETITIVE POSITION OF OUR COMPANIES. EUROPE MUST REDOUBLE ITS EFFORTS ON INNOVATION, RESEARCH AND TECHNOLOGY TO ACHIEVE HIGHER LEVELS OF GROWTH, EMPLOYMENT AND PROSPERITY.”

THE EUROPEAN UNION AND EUROPEAN BUSINESS: A PUBLIC-PRIVATE PARTNERSHIP

1. Business contributes daily to a stronger Europe

- What companies do best is also for the benefit of Europe; that is to remain competitive, to innovate and identify new technological solutions, to provide jobs and training, and to increase the wealth of the regions where they operate
- But companies also have a vision of Europe and want to engage in the EU policy debate to support European competitiveness on a global scale. UNICE's mission is to carry this vision across to both policy-makers and the general public

2. Business is a vigorous supporter of European integration

- In a world of powerful established and emerging players such as the United States, Japan or Russia, soon to be followed by China and India, size does matter. No country will be able to shape globalisation on its own
- Companies are convinced that Europe can do much more to help them unlock their potential in this ever more global and fast-changing environment. From the discussions with business leaders or from surveys such as the one carried out for UNICE Day, there is no doubt that companies call on Europe to reaffirm and reinvigorate its quest for integration

3. But Europe must deliver on its promises

Companies expect rapid progress in six priority areas:

- **EU growth and jobs strategy** – it is strongly supported by the business community but it will only be successful if member states are fully committed. The ongoing screening of national reform progress by the Commission and Council will be crucial to show a real resolve to fill the reform gap. This in turn will decide if the current economic revival in Europe will be sustained or if we will eventually return to this cycle of weak confidence and growth observed in recent years
- **The internal market** - Europe must seek rapid completion and reinforcement to keep up with globalisation and reap the full benefits of enlargement. The debate on the integration of the services market is proof of the current obstacles, resulting in a watered-down directive that will not create the expected opportunities for future growth and jobs. Member states must take greater responsibility for the well-functioning of the internal market and resist protectionist pressure. Furthermore, business calls for rapid progress on the better regulation initiative, in terms of reduced red tape and effective impact assessments for new EU rules, and for a workable REACH recognising the requirement of global competition

DOES EUROPE CARE ABOUT COMPANIES?

- **EU governance** – Europe will eventually have to move forward in the constitutional debate to solve the present institutional mess. In the meantime, the Commission has called for less talk and more action, setting out twelve policy initiatives to deliver a Europe of results. For business, three additional tests will soon show if Europe is on the move: (1) implementation of fiscal discipline in times of stronger economic growth, (2) progress towards a truly European energy policy, and (3) preparation of an in-depth mid-term review of the EU budget starting in 2008
- **Protectionism** - the Doha round broke down in July because of narrow-minded national interests putting at risk the preferred multilateral approach to trade negotiations. Business warns against the development of protectionist pressures where everyone stands to lose and calls on Europe to strongly resist them both internally and externally
- **Enlargement** – it is a great opportunity for the European economy and a positive response to globalisation. Wider markets, better organisation of production chains, more product variety and lower prices all help to increase competitiveness and consumer welfare. Europe must better communicate the benefits of enlargement and ensure full enforcement of EU legislation
- **Sustainable social systems** – this is a common challenge for European countries in the face of demographic ageing. To safeguard the fundamental idea that economic growth and productivity improvements contribute to raising solidarity, deep reforms to social systems are needed and Europe must carry this message across. In this context, it is essential to bring more people on to the labour market by recognising that flexibility is a necessary ingredient of a modern paradigm of employment security

4. Explaining the European Union to citizens

- The EU needs the explicit support of its citizens. For this, they must know what has been done for them in the past and they need to be given access to the debate on the future of Europe
- UNICE supports investing in a European wide communications strategy that involves European institutions and leaves implementation with the member states, including national parliaments. UNICE and its federations will also campaign to make clear the benefits of European integration for companies



LET SMEs GROW!



RESTRUCTURING



BUSINESS VISION FOR EUROPE
GROWTH, JOBS AND PROSPERITY



UNICE HEADLINES



ECONOMIC OUTLOOK SPRING 2006

DOWNLOAD THESE AND OTHER PUBLICATIONS FROM WWW.UNICE.ORG

UNICE

THE VOICE OF BUSINESS IN EUROPE



Austria



Belgium



Cyprus



Czech Republic



Denmark



Denmark



Estonia



Finland



France



Germany



Germany



Greece



Hungary



Iceland



Iceland



Ireland



Italy



Lithuania



Luxembourg



Malta



Norway



Poland



Portugal



Portugal



Slovenia



Spain



Sweden



Switzerland



The Netherlands



Turkey



Turkey



United Kingdom



Bulgaria



Croatia



Latvia



Rep. of San Marino



Romania



Slovak Republic

168 AVENUE DE CORTENBERGH 1000 BRUSSELS BELGIUM

T +32 (0)2 237 65 11 F +32 (0)2 231 14 45 MAIN@UNICE.BE

WWW.UNICE.ORG