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2nd Session: “Europe’s “Internal Dynamics”

MODERATOR: MARIO MONTI, PRESIDENT BOCCONI, BRUEGEL
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- [BUSINESSEUROPE represents more than twenty million companies. Our members are 39 national industrial and employers’ federations from 33 countries. All our federations work together to improve growth and competitiveness in Europe, while seeking to promote the prosperity and development of European companies].
- Let me start with a reminder: companies have always believed in the European project, and they have supported it for the benefits that it brings for society as a whole. The Treaty of Rome was the foundation stone of one of the most prosperous and secure regions in the world. Peace, stability, creation of an internal market in which persons, services, goods and capital can move freely, economic and political integration, common currency and international standing are some of the advantages of Europe which speak for themselves.
- But Europe has changed and the world has changed over the last fifty years. Europe is currently facing a double challenge:
 - its governance
 - its competitiveness
- Let’s take the first one: the institutional challenge.
- The governance of the EU has been shaken by the negative referenda in France and in the Netherlands. The challenge today is to solve the EU institutional problems arising with 27 members.



- It is not the first time the EU has gone through difficult times but it is probably one of the worst. The EU has survived crisis but the current situation is unprecedented since the European project has lost the backing of a large portion of EU citizens. The crisis comes at a time when the EU is confronted with enormous challenges linked to globalisation, enlargement, demographic ageing and technological change.
- The period of reflection launched one and a half years ago has transformed itself into a period of slumber which we need to shake off now with concrete proposals. It is now time to deliver!
- You can argue that it is not up to business leaders to find the political solutions but it is our duty to call for these solutions urgently. We have debated this within BUSINESSEUROPE.
- We had the choice between two ways of reacting:
 - 1) one possible response being indifference: after all we have the acquis communautaire, part of the Internal Market in place. Companies can concentrate on meeting the challenges of adjusting to change and succeed in a globalising economy.
 - 2) the second possible response is genuine impatience to solve the institutional crisis. Progressive European integration has had major effects on growth and jobs in Europe, and we can only win by moving forward in the constitutional debate.
- We have unanimously chosen the second response for the following reason : by not solving the institutional crisis, we run the risk of losing what we have achieved today. Nothing can be taken for granted. We must ensure that the EU has the tools to preserve what it has and to move forward.
- This is why business demands actions to reinvigorate the European Union. A European Union that is capable of swift and decisive action, when this is required. A European Union that is able to negotiate on global issues. A European Union that can coordinate national initiatives. A European Union that takes action to achieve the objectives of tomorrow.
- Efficient functioning of the EU institutions is key for the success of the enlarged EU. Taking appropriate actions to improve the efficiency and transparency of the EU institutions while preserving the “Community method” must be a priority of the EU. The EU decision-making process must be adapted to its current membership. For BUSINESSEUROPE, the general rules should be simple qualified majority voting, for a very simple reason: we believe that this is the only way that a Union with twenty-seven (and more) members can function.
- The Commission must remain the central organ of the European institutions through its power to take initiatives and in its role as guardian of the treaties. In order to optimise its functioning, its size must be reduced. The objectivity of



Commissioners to defend common interests and to reject national interests is fundamental.

- Similarly, we believe that the current system of presidencies rotating every six months does not foster the Union's long-term work. It must therefore be changed in order to strengthen the presidency's role and means of action. The stability of the EU Presidency must be ensured. The credibility of Europe in foreign affairs requires a stronger voice.
- In this context, we strongly support the action launched by Chancellor Merkel to define a strategy on how to move forward in the next months to solve the crisis while retaining the institutional content of the draft Constitutional Treaty.
- The second challenge is restoring Europe's competitiveness and growth potential.
- Current economic conditions offer a unique opportunity to do so. After a strong year 2006 (3% growth and 3 million new jobs in the EU), the European economy is set to continue on a recovery path this year, before stabilising around its growth potential. The pace of job creation is particularly encouraging at present and we estimate that more than 8.5 million new jobs will be created in the EU over the period 2006 to 2008.
- But this renewed optimism should not lead policy-makers to become complacent. Productivity is stalling at around 1.5% and a forecast for growth next year of 2% in the euro area and 2.4% in the EU leaves little room for comfort.
- But these forecasts are not carved in stone. If improved economic conditions are used to move forward the EU growth and Jobs agenda, then there is a chance that the EU economy sees an entrenched growth revival in the years ahead.
- BUSINESSEUROPE identifies six priority actions to make Europe more competitive in a globalised environment.

Implement the reforms for growth and jobs

More growth and jobs continues to be the central challenge for the EU. For that we need stronger national ownership of the Lisbon Strategy and its objectives. While initiatives to implement reforms for growth and jobs are taking shape in all Member States, too many reforms are still not fully implemented or have not fulfilled companies' expectations. The pace and the scale of reforms must be stepped up considerably. While some Member States, especially the Nordic countries, continue to foster world-class economic structures which rank them among the world's most competitive, others and especially the large continental Member States are still struggling to adapt their economic structures to today's challenges.

It is vital for Europe's future prosperity to keep up the reform momentum. Efforts must be particularly increased in the policy areas of labour market regulation, education, better regulation and sustainable public finances.



Reinvigorate integration of the Internal Market

The Internal Market, one of the great successes of European integration, is not yet complete and its integration process needs to be reinvigorated by further liberalising markets.

Less and, when needed, lighter regulation is necessary. Subsidiarity must be fully respected. Impact assessment and less red tape are vital for doing business in Europe. Member States on their side must refrain from gold-plating EU legislation.

But one of the most pressing hindrances to cross-border business activities is the negligence of Member States in enforcing Internal Market legislation: more market surveillance and better application of the Mutual Recognition principle are required.

Fight national protectionism

Thanks to an open market economy with free competition within the EU, national markets have opened up to each other. However, notwithstanding the free movement of persons, goods, services and capital, protectionist reflexes can still be observed. Europe must strongly combat this tendency. The European Union must also remain committed to international trade liberalisation by strengthening the WTO trading system and by facilitating trade and investment relations with major trading partners.

Take advantage of the opportunities of enlargement

Enlargement has breathed new dynamism into the internal market. From a business perspective, this is a major opportunity to sustain competitiveness in the face of fast globalisation.

Now, I shall elaborate a bit more on the two last priorities.

Economic governance of the EU

Is the economic governance framework of the EU helping to move towards higher growth in Europe?

Monetary policy: ECB policy appears to be broadly appropriate

- First of all, I take the opportunity of President Trichet's presence to make one message very clear: we don't share the view that the euro or the way the ECB conducts its monetary policy is responsible for the economic difficulties of the eurozone economy.
- For the business community, the euro is an undisputable success, fostering an environment of reduced financial risks, greater transparency and favourable financing conditions that support investment.



- Part of this success is directly related to the ECB's strong institutional independence and clear mandate, which has allowed it to rapidly establish its credibility and to anchor inflation expectations at a low level. This is a major achievement and it should be more clearly acknowledged than it currently is in some political circles.
- Regarding the current policy stance of the ECB, I am less anxious than president Trichet about inflation risks, but current interest rate levels still seems broadly appropriate to support the recovery. This said, in a global environment pushing for further euro appreciation, we ask the ECB not to go too far in its tightening cycle.

Fiscal policy: faster progress needed in the recovery

- More fundamentally, key priorities to sustain the current upturn over the years ahead is to put the fiscal house in order and to make progress with structural reforms.
- Deficits in excess of 3% are becoming very rare these days. This is partly to to the credit of the revised Stability and Growth Pact but mostly a consequence of the fiscal dividends of the recovery.
- A more critical test for the new Stability and Growth Pact will be imposing fast progress in this upturn towards balanced budgets and sustainable declines in public debt. Efforts in this direction are considered to be insufficient in a majority of member states and with demographic pressures building up, time is rapidly running out.
- Beyond deficits and debt concerns, the quality of public finances is also crucial. In coherence with the Growth and Jobs strategy, resources must be directed in priority towards growth-enhancing spending such as education, training, research, innovation and infrastructures.

Structural reforms in the Eurozone

- There is a particular sense of reform urgency among euro area countries, not only because growth is still lagging compared with the rest of the EU but because competitiveness divergences within the euro area are rising at a worrying pace.
- There are two dimensions to the euro area that needs to be considered. First, the euro provides shelter. This is good because it reduces financial and exchange rate instability. At the same time, this cocoon effect implies that crises can run deeper before they become really apparent (this is the case, for instance, in Italy where rising public debt and declining competitiveness would have been sanctioned a long time ago).
- Second, structural problems in one country have significant effects on the rest of the euro area. For example, the lack of labour market flexibility or of competition in the services sector is not only bad for growth in individual countries; it also contributes to imbalances between them (through the excessive price and wage inertia it generates). This comes at a collective cost.



- This euro area dimension of the EU growth and jobs strategy has to be acknowledged and reflected in national reform programmes and taken into account in the Eurogroup multilateral surveillance.

Reform social systems to make them sustainable

- Europe might have 27 different social systems but we have common values. We seek to combine competitiveness and social protection. We are proud of this system and keen to promote it but it needs to be adapted to be sustainable.
- Demographic ageing will have a significant impact. In 2050 there will be two persons of working age for every pensioner, compared with the current ratio of one-to-four. This does not only mean fewer people contributing to the systems of social protection and more depending on it, leading to ever greater pressure on public spending. In addition, economic potential growth rates are also set to decline with the ageing of the population, mainly owing to the reduction in the working-age population. Immigration from third countries is needed to compensate for demographic ageing but will not suffice. The source of growth will undergo dramatic changes and will come essentially, if not entirely, from productivity gains in the next decades.
- Policies aimed at boosting productivity and employment growth must be placed at the core of labour market and social security reform strategies. The experience of some Member States shows that there are ways to have both more inclusive labour markets and strong productivity growth.
- The concept of flexicurity is at the heart of efforts to restore a positive link between competitiveness and social protection.
- In essence, flexicurity is about moving away from a job preservation mindset into a job creation mindset. It requires comprehensive national strategies with the right mix of economic and social measures to foster job creation and help people to maximise their chances on the labour market. This means
 - flexible labour law with smart rules on protection against dismissals and a variety of employment contracts to answer different needs of companies and workers together with a strong commitment to fight undeclared work,
 - effective active labour market policies, which presupposes that public authorities have created the necessary budgetary margins to allow such an investment, and
 - an employment-friendly social protection system and in particular an unemployment insurance which links rights and obligations for the unemployed as opposed to giving unconditional passive income support.

Depending on the national context and traditions, the detailed ingredients of this mix will vary. There is no one-size-fits-all model of flexicurity to be implemented across the EU.



The EU level can play a useful role by defining common principles and pathways in order to facilitate discussions and policy developments at the national level.

Conclusion

- Europe is on the right path in terms of economic recovery and the reform process
- Companies are doing their best to remain competitive
- But there is no time for complacency, the institutional debate should be overcome and the reform process must be speeded up
