

MEETING WITH MR ALEXANDR VONDRA, DEPUTY PRIME MINISTER FOR EUROPEAN AFFAIRS OF THE CZECH REPUBLIC

30 APRIL 2008, 9:15 HOURS, PRAGUE

BUSINESSEUROPE PRIORITIES

ECONOMIC ISSUES

Economic situation and policy challenges

The global economic environment has deteriorated rapidly since the eruption of the credit crisis in August 2007. In spite of the sizeable headwinds that have caused downward revisions of growth forecasts for 2008, BUSINESSEUROPE considers that excessive pessimism regarding the European economy is misplaced. Six reasons support the cautiously optimistic EU GDP growth forecast of around 2% for this year (1.6% for the euro area).

1. Growth in the EU has been close to 3% over the past two years, strengthening Europe's internal market.
2. EU labour markets have improved markedly and structurally, with 10 million jobs created over the last three years.
3. Restructured corporate balance sheets allow companies to better withstand financial market turmoil without scaling back investment too much.
4. Demand for European products is still sustained by the dynamism of emerging and oil-producing economies.
5. European companies should be less affected by high energy costs due to their better energy efficiency and the dampening effect of a strong currency.
6. High household savings, a less vulnerable housing market and a less exposed banking sector contribute to a rosier outlook in Europe compared with the US.

However, this cautious optimism depends on the right policy decisions. For BUSINESSEUROPE appropriate responses must involve:

Appropriate monetary and fiscal policies

- It is essential that inflation returns to levels consistent with price stability.
- Governments must remain committed to fiscal discipline, most notably in countries where insufficient consolidation efforts have been undertaken in recent years.

Structural reforms

The EU and its Member States should implement reforms agreed under the Lisbon strategy, with a focus on:

- Increasing competition in particular in retail, transport and energy markets, resulting in lower inflation, more competitiveness for companies and more purchasing power for consumers.
- Boosting innovation and skills development by drawing on a better coordination of EU and national policies. The potential in this regard remains immense, since reaching the 3% of GDP target for R&D spending could increase the EU's real GDP growth by 0.5% a year for a decade.
- Implementing flexicurity principles in national labour market strategies in order to enhance adaptability, to provide new forms of security and to modernise social protection systems.

A global agenda to sustain growth

Efforts should be made to forcefully engage Europe's partners in order to:

- encourage firmer positions regarding the alleviation of exchange rate imbalances;
- stimulate objective and well-balanced discussions on the response to ongoing financial market turmoil, avoiding hasty regulation and protectionist reflexes.

At European level, this requires to better coordinate positions among Member States and ensure a strong role of the Eurogroup President at the international level, in full respect of the Treaty provisions and of the European Central Bank's independence.

INTERNAL MARKET

Completion of the Internal Market and better enforcement

The Internal Market is a key tool for realisation of the Lisbon agenda and it is driving economic growth as barriers to the free circulation of people, goods, services and capital are progressively dismantled. However, it is estimated that remaining barriers in the Single Market of 30 countries represent an unfulfilled economic potential of between 275 and 350 billion euros. Therefore, serious efforts must be deployed to lift remaining barriers and complete the Internal Market. A high priority must also be given to the correct enforcement of the Single Market in Member States, through instruments that ensure that legislation works better in practice.

The Commission's Single Market Review Package provides a good basis for reinvigoration of the Single Market but its success will depend greatly on the ability and the ambition of national governments to take up their responsibilities. We urge the Commission and Member States to define a follow-up action programme, specifying levels of competence (EU, national, regional or local), tasks, precise timelines and targets.

Transposition of the services directive

National transposition and administrative implementation of the services directive also merit special attention. A high quality implementation of the directive is important. Real benefits can be delivered for companies through reduction of red tape, alleviation of administrative procedures, the creation of points of single contact as well as better cooperation between competent authorities and the use of e-procedures.

Consumer policy initiatives

New legislation on consumer contracts should not result in more burdens for companies and should strike the right balance between the interests at stake and ensure legal certainty. Legal clarity and compatibility of consumer legislation with other Community legislation is of paramount importance as well as providing enough guarantees that national laws will not be able to depart from the EU provisions contained in the new directive.

The issue of collective redress is of great concern for BUSINESSEUROPE. EU judicial collective actions may lead, even if progressively and indirectly introduced, to the import of some features of the US system which would negatively impact on EU companies' competitiveness.

Reform of patent system in Europe

Reform of the patent system in Europe is a priority for BUSINESSEUROPE. A lot of work has been accomplished by the Portuguese and Slovenian presidencies on the issue of a common patent litigation system for Europe and there will be a small window of opportunity in 2008 to reach an agreement on the patent dossier during the French presidency. In this context, it is important that the requirements of European business are taken into account. Any new litigation system must bring real improvements for companies compared with the current situation and deliver the highest quality, cost-effectiveness, legal certainty and reliability. BUSINESSEUROPE also supports the Community Patent; but stresses that it must fully meet users' needs in terms of costs, quality and legal certainty.

European Private Company Statute

The adoption of the European Private Company (EPC) statute is a priority for BUSINESSEUROPE. This tool should provide SMEs with a more simplified, flexible and clear framework which will reduce administrative and financial costs when they cross borders. In addition, the EPC statute should work as a real "European label" that will help SMEs reinforce their mobility in the Internal Market and their presence in international markets. The EPC should be framed as an EU regulation proposing a legal form available to all natural or legal persons, on a voluntary basis.

Common Consolidated Corporate Tax Base (CCCTB)

Currently, there are 27 different systems in Europe for calculating a company's taxable earnings, making it costly and burdensome for businesses to operate in several member states. The potential benefits of a CCCTB would be the removal of double taxation related to conflicting tax claims, the reduction of compliance costs by allowing

for a single compliance with a single set of rules in a single location (one-stop shop) and the assurance of net taxation through consolidation. To achieve these aims, the CCCTB has to be optional and allow for consolidation from the outset. It has to resolve transfer pricing problems and should not involve tax rate harmonisation or the introduction of a minimum rate. It has to be comprehensive and exclusive, i.e. exclude parallel domestic taxation. Finally, the CCCTB must be designed to allow for a coherent application in the various Member States.

VAT

While BUSINESSEUROPE supports the fight against VAT fraud, certain of the proposed measures, such as the general reverse charge mechanism, could result in a complete overhaul of the VAT system on the basis of very limited impact assessment. The revision of the Invoicing Directive by end-2008 (in particular with regard to e-Invoicing) should significantly reduce compliance costs for business in the VAT area. As regards the general debate on reduced VAT rates expected for the third quarter of 2008, BUSINESSEUROPE remains sceptical that this is the best tool to achieve social, cultural or environmental objectives but might support its application in specific areas. It is of primary importance that the use of reduced rates does not undermine the smooth functioning of the VAT system nor distort competition in the Internal Market.

ENERGY AND CLIMATE-CHANGE-RELATED POLICIES

EU Emission Trading Scheme

BUSINESSEUROPE has supported the European Council's 2007 decision to reduce EU emissions by 20% and stressed that any solution should maintain or even strengthen European industry's competitiveness. The review of the Emission Trading Scheme proposed by the European Commission on 23 January contains a number of elements which are set to endanger Europe's competitiveness:

- the conditions for companies to have access to free allowances (as opposed to auction-based allowances) are left uncertain until 2010;
- the combination of a strengthened Emission Trading Scheme with high renewable targets will have strong direct and indirect impacts on energy-intensive industries, which play a key role in eco-innovation;
- the Commission proposal maintains severe restrictions on the use of credits generated by CDM (Clean Development mechanism) and JI (Joint Implementation) projects as a means for companies to comply with their obligations;
- the threshold to opt out of the Emission Trading Scheme for small installations is too low and should be lifted to 25,000 tonnes/year of greenhouse gas emissions.

The new proposal will have a huge impact on the European economy. It will now be crucial that the competitiveness of European industry is maintained and not affected by unduly large direct and indirect cost increases. It is essential to establish predictable conditions to protect Europe's industrial competitiveness well before 2010.

International negotiations on climate change mitigation

The adoption of the Bali roadmap in December 2007 was an important step forward which opens up an opportunity for a truly global agreement. BUSINESSEUROPE will now work with the EU and other Contracting Parties to prepare COP-14 in Poznan in December 2008. Key elements for an international post-2012 climate change strategy include:

- Search for a post-2012 cooperation architecture guided by the 2°C objective and the understanding that reductions of such magnitude can ultimately only be achieved through joint global effort. Climate and development diplomacy must aim to persuade key developing countries also to open themselves to an international climate policy with clear objectives.
- A realistic long-term goal for reductions in greenhouse gas emissions should be set based upon an analysis of credible scenarios that is flexible in order to respond to new scientific assessments and that will encourage innovation.
- Policy-makers should show openness towards development of international sectoral approaches for controlling industry emissions. These approaches could facilitate the emergence of a truly global response to the climate problem which will reconcile economic growth with the curbing of emissions.
- A Significant increase of public support for research, development and demonstration, including public private partnerships and the removal of barriers to market-driven innovation. Ensure a significant increase in the deployment of low carbon and energy-efficient technologies. International technical product standards have a key role to play here.
- Expand and expedite the use of flexible tools such as JI (Joint Implementation) and CDM (Clean Development Mechanism). To this end, nations should ensure that official development assistance is consistent and supportive of voluntary technology transfer to developing countries, respecting Intellectual Property Rights.
- Actively support low-carbon energy technology in EU, and partnership with other developed countries and industrialising countries including renewable energies, carbon capture and storage (CCS), clean coal with CCS and nuclear.

Promotion of renewable energy in Europe

BUSINESSEUROPE acknowledges the role of renewable energy sources for tackling the energy and climate challenges. However, as it will be extremely costly to reach the EU's ambitious renewable targets by 2020, the directive on the promotion of renewable energy in Europe, proposed on 23 January 2008, must allow for utmost flexibility and market-based instruments to minimise the costs of reaching these targets. The following elements of EU renewables policy are of particular importance for industry:

- All instruments to alleviate burdens for energy-intensive sectors (e.g. free allocation of emission allowances) must systematically take into account the increase in the electricity prices as a consequence of renewable energy policies.
- In order to give Member States the possibility to comply with the renewable targets at minimal cost, cross-border trading of Guarantees of Origin (GoO) must be developed. Free trading of GoO is likely to over time lead to the

optimisation of cost for renewable energy production across Europe. While national support schemes should not be disrupted by GoO trading, they should be progressively harmonised across Europe. Trading should also be designed to minimise bureaucracy costs. Countries outside the EU/EEA should have the possibility to fully participate in GoO trading

- The renewables directive needs clear and workable sustainability criteria not only for biofuels, but for also for biomass. Biofuel targets should eventually be modified if second generation biofuels do not become commercially available, and thus fail to fulfil the expected sustainability criteria. In this respect due account should be taken of the study published by the European Commission's Joint Research Centre (JRC) which questions the environmental and economic effectiveness of the 10% biofuels target.

EU legislation on Industrial Emissions

On 21 December 2007 the European Commission published its proposal on a revision of the Integrated Pollution Prevention Control (IPPC) Directive. In 2008 the Commission will in addition propose a directive to set national emission ceilings for air pollutants by 2020. While fully acknowledging the important task of reducing environmental pollution BUSINESSEUROPE is seriously concerned that these directives will impose a disproportionate cost on industry, leading to production cuts in Europe rather than to further innovation and investment in clean technologies:

- The key feature in the current IPPC system is that Member States have the flexibility to grant environmental permits by taking into account the technical characteristics of the industrial installation, geographical conditions and local environmental needs. This flexibility must be fully preserved. Unlike greenhouse gases, the emission of pollutants like NO_x, SO₂ or fine particles has different effects on health and environment depending on how and where they are emitted.
- With respect to national emission ceilings it must be ensured that, first, the upcoming directive proposal will set realistic emission ceilings after an impact assessment that closely involves industry, and that, second, industry will not have to take additional measures which go beyond the existing IPPC system.

Energy Internal Market

Several elements of the September 2007 energy package represent a positive step forward, in particular the plan to improve governance of the European gas and electricity market. However, it fails to pay adequate attention to the need to upgrade the framework conditions which play a critical role in guaranteeing the long-term supply of energy to energy-intensive industries at competitive prices. The Commission should give strategic consideration to the positive role that long-term contracts between producers and consumers can play in this respect.

An effective unbundling regime is essential to create fair and equal access to the network, while encouraging investment in new infrastructure. BUSINESSEUROPE is looking at the pros and cons of taking a radically new approach such as ownership unbundling or the ISO Model (Independent System Operator), compared with making a greater effort to ensure complete implementation, in letter and spirit, of existing

Community legislation on legal and functional unbundling. A fundamental requirement is that EU policy on unbundling does not discriminate between private-owned and public-owned energy groups.

BUSINESSEUROPE will examine whether the proposal for “Effective and Efficient Unbundling” submitted by eight member states offers a way forward to progress the achievement of the energy internal market.

INTERNATIONAL RELATIONS / RUSSIA

BUSINESSEUROPE considers Russia to be a strategic market for the future. Trade and investment relations are growing at double digit rates every year and there is ample scope for these positive trends to continue for business. However, there are concerns that bilateral economic and trade negotiations between the EU and Russia are not keeping up with the reality of business links. Consequently, BUSINESSEUROPE looks for improvements in the EU’s economic diplomacy along three key areas:

- First, we are preoccupied with Russia reversing commitments (for example increasing export duties) planned for its accession to the WTO.
- Second, we feel that there is a need for a new EU-Russia strategic economic dialogue to resolve technical trade and investment problems that hinder the abilities of companies from both economies to develop their activities.
- Third, BUSINESSEUROPE and its partner organisation in Russia – the Russian Union of Industrialists and Entrepreneurs – are calling for the rapid start of bilateral trade and investment negotiations to establish reciprocal market opening.