



THE PRESIDENT

Mr Hervé NOVELLI
Minister of State to the Minister for the
Economy, Industry and Employment
139, rue de Bercy
75012 Paris
FRANCE

Brussels, 16 September 2008

Competitiveness Council, 25 – 26 September 2008

Monsieur le Président,

European companies face a rapidly growing number of headwinds. The Competitiveness Council on 25-26 September is charged with an agenda that has the potential to offer decisive remedies to companies' most urgent concerns. However, BUSINESSEUROPE once again calls upon the Competitiveness Council to make a more significant contribution to the ongoing discussions on climate change, particularly with regards to the criteria for the allocation of free allowances for sectors exposed to international competition under the Emissions Trading Scheme (ETS). In the absence of a substantive international agreement, the definition of such criteria will have a major impact on European industry and should hence be at the heart of the Competitiveness Council's reflections.

Regarding the Council agenda, I would like to draw your attention on the following issues.

1. Entrepreneurship, SMEs and the Small Business Act

Vibrant entrepreneurship is a key driver behind growth and job creation in Europe. Yet, its dynamism is seriously impeded by obstacles preventing SMEs in particular from unleashing their potential.

BUSINESSEUROPE therefore has high expectations for implementation of the recently unveiled European Small Business Act (SBA) that will strengthen SMEs throughout their lifecycle. In particular we advocate a rapid alleviation of the overall burden on entrepreneurs by improving the administrative, regulatory as well as fiscal environment and by upgrading SMEs' access to finance.

2. Industrial Policy

I would like to express companies' general support for the promotion of sustainable consumption and production and sustainable industrial policy in the EU. If implemented correctly, the Commission's Action Plan will boost eco-innovation and new environmental technologies. By so doing, we will reduce the environmental footprint of production, broaden the choice of sustainable products for consumers and open up new business opportunities for European companies.

However, in order to avoid further distortions to competition and the functioning of the internal market, fundamental principles, which are listed in the annex, must be respected. It is key to pay closer attention to those principles, in particular regarding eco-design requirements, product labelling and incentives as well as Green Public Procurement.

3. Better regulation

Better regulation must remain a priority to ensure that simplification, impact assessments and administrative burden reduction generate concrete results. BUSINESSEUROPE strongly supports the 25% target for reducing administrative burdens by 2012 and is convinced that a transparent and independent process with earlier stakeholder involvement will lift job creation and growth.

Concerning ~~Access to Law+~~ access to Law+, companies highly appreciate better, easier and more efficient access to existing legal databases and information about national transposition measures of internal market legislation.

4. Research and Development

BUSINESSEUROPE embraces initiatives that rapidly transform the European Research Area (ERA) into an effective market for R&D and an attractive hub for research on the global stage. Business is looking forward to Council conclusions that:

- accelerate the achievement of a single labour market for researchers,
- help to develop world-class research infrastructures, and
- boost knowledge-sharing.

BUSINESSEUROPE supports in principle the search for new approaches facilitating joint programming. The ERA should be shaped together with industry and contribute substantially to the success of the broad-based innovation strategy, decided by the Council of the European Union in December 2006. Furthermore, the ERA should encourage public-private cooperation and partnerships and effective knowledge transfers from public research organisations to industry.

We look forward to a fruitful collaboration with the French Presidency on an ambitious competitiveness agenda for Europe. You will find more detailed comments regarding the issues raised in the annex to this letter. I would be happy to meet you at your best convenience to exchange views on these and other matters.

Yours sincerely,

(original signed by)

Ernest-Antoine Seillière

Annex

1. Entrepreneurship, SMEs and the Small Business Act

BUSINESSEUROPE welcomes the proposal of a Small Business Act for Europe as a renewed and strong impetus to the development of integrated and coherent policies for SMEs and sets the following priorities:

- **Create a more SME-friendly environment**

EU and Member States must take better account of the specificities and constraints of SMEs in lawmaking and when drawing up new policies. This requires first and foremost real implementation of the 'Think Small First' principle at EU and national level.

A better environment also means that Europe needs to become more entrepreneurial. Europeans are still less inclined than US citizens to take the risk of setting up their own business. Considerable progress needs to be made to integrate entrepreneurship education into school and university curricula more systematically.

- **Lift the remaining obstacles in the Internal Market**

Remaining barriers in the Single Market represent an unfulfilled economic potential of between " 275 and " 350 billion. Administrative, regulatory and tax obstacles hinder in particular SMEs that wish to develop cross-border activities. Adoption of the European Private Company statute is a priority, since this will provide SMEs with a more simplified, flexible and clear framework which will reduce administrative and financial costs when they cross borders.

- **Strive towards more flexible labour markets and skills enhancement**

In order to stimulate job creation, it is essential for SMEs to have access to a variety of contractual agreements. Stringent employment protection legislation hampers the creation and growth of new businesses. The Commission should therefore put additional pressure on Member States to implement more flexible labour legislation.

SMEs experience difficulties in accessing skilled labour. To reinforce and leverage their competitive advantages, an increase in productivity in technology-intensive production and sectors is necessary. Improving Europe's higher education attainment with a special focus on science, technology, engineering and maths disciplines is essential for Europe's economic prosperity.

- **Ease SMEs' access to finance**

The financial needs of SMEs are at their greatest during the start-up and growth phases. In these situations, companies are often considered a high-risk investment and banks are reluctant to provide financing. In spite of the growing importance of alternative sources of financing, many SMEs still depend to a large degree on banks and traditional loans. Integration of financial markets in the EU, development of venture capital markets and facilitation of cross-border investments, further development of innovative instruments for financing such as

loan guarantees and mezzanine finance need to be pursued to provide SMEs with better and more varied access to finance.

- **Foster innovation**

SMEs are a key source of innovation as they carry out nearly a quarter of business R&D in Europe. Boosting innovation will therefore contribute to raising the competitiveness of SMEs and European enterprises in general. Member States should continue to work on creating a dynamic innovation climate. In particular the innovation capacity of European SMEs should be strengthened by putting in place a more competitive patent system in Europe in terms of costs, quality and legal certainty. In addition, appropriate information and advice must be more widely available to SMEs through one-stop shops. Finally, bureaucratic barriers that render access to innovation programmes difficult must be reduced.

2. Industrial Policy

The Commission's Action Plan for Sustainable Consumption and Production (SCP) and Sustainable Industrial Policy (SIP) needs to respect a number of fundamental principles in order to create a genuine win-win situation for the environment, the consumer and industry.

- **Place emphasis on the three pillars of sustainability**

The definition of *sustainability* should not be limited merely to *environmental sustainability* but should include *environmental*, *social* and *economic sustainability* on an equal footing.

- **Base actions on scientific evidence**

Evaluation and any action, especially on product labelling, should be based upon sound scientific evidence.

- **Apply lifecycle thinking encompassing all relevant environmental aspects**

Lifecycle thinking, which incorporates all environmental aspects that occur from cradle to grave of a product, must be fostered in order to promote overall continuous improvements of product performance.

- **Pursue dialogue with stakeholders in a transparent manner**

The approach must take on board all relevant parties, stakeholders and actors in the supply chain in a transparent process.

- **Ensure cost efficiency of measures**

Cost efficiency must be the guiding principle for identifying actions to promote SCP and SIP. In addition, prior cost-benefit and impact assessments should be complemented with analyses on the capacities of the economy as a whole and of companies to bear additional costs without having to relocate production outside Europe.

- **Implement lean policies**
Only coherent and consistent policies without overlapping legislative requirements or excessive bureaucratic and administrative burdens can be the basis for a positive legislative framework for investment in the EU.
- **Safeguard consumer benefits**
Future policy actions should safeguard benefits consumers enjoy in the internal market, i.e. a wide choice among a broad variety of different products with different technologies and at competitive prices.
- **Ensure a level playing field**
A level playing field of fair competition and proper enforcement of existing legislation are prerequisites for a stimulus for the industry to constantly improve its sustainability and to turn challenges into opportunities and societal welfare.

3. Better Regulation

In order to accelerate the delivery of tangible results for European companies within the Better Regulation initiative, decisive and rapid progress in key areas must be made.

- **Make better progress on simplification**
Progress on simplification is too slow due to the complicated legislative procedure. The Council and European Parliament should refrain from introducing amendments that will undermine the simplification objective. Inter-institutional working arrangements should be improved to ensure that simplification proposals are dealt with more rapidly without creating new burdens.
- **Measure and reduce all costs**
The target of reducing administrative burdens by 25% by 2012 is an important step in the right direction of delivering concrete results for European companies. Member States should act decisively to reach this objective and all Member States should set a national target. As a next step, the administrative costs of all pieces of Community legislation should be measured and focus should not only be on administrative costs, which are narrowly linked to information obligations, but also on the more varied and substantially higher compliance and enforcement costs which cover all costs of complying with legislation. Lastly and importantly, new legislation should not undermine the reduction target.
- **Assess the impact of amendments**
The 2003 Inter-Institutional Agreement and the 2005 follow-up Common Approach to Impact Assessment set out that the Council and European Parliament should carry out impact assessments on their substantive amendments to Commission proposals since these can significantly alter the scope and consequences of the original proposal. The Council and Parliament should make better progress with respect to systematic impact assessments on amendments.

- **Ensure independence in the process**

Independence in the process of impact assessments and administrative burden reduction is important to ensure that the right decisions for growth and jobs are taken. The review carried out by the Impact Assessment Board is a step in the right direction in this respect and has contributed to better quality assessments. However, given the importance of critical oversight, and to firmly embed impact assessments in the system, an independent agency for quality control is needed, in accordance with the conclusions of the 2007 Spring European Council and European Parliament resolutions.

- **Increase transparency and involve stakeholders earlier in the process**

Impact assessments and corresponding opinions by the Impact Assessment Board are only published once the legislative proposal is adopted by the Commission. Stakeholders should be involved earlier in the process, taking into consideration their representativeness, and get the opportunity to comment on an impact assessment before it is finalised and before the legislative proposal is adopted in order to address shortcomings in the assessment directly to the Impact Assessment Board.

- **Report and compare progress on better regulation at national level**

All Member States should set national targets for the reduction of administrative burdens generated by national legislation and refrain from gold-plating European Directives. They should also carry out effective impact assessments on national initiatives. In order to monitor progress on better regulation at national level, there should be regular reports about national developments and comparisons of progress.

4. Research

While major improvements are about to be implemented to reinforce the European Research Area as an effective market for R&D, BUSINESSEUROPE would like to stress that efforts still have to be made on the following issues:

- **Link the European Research Area to challenges European society is facing**

The European Research Area should be a framework for research programmes with a broad scope, addressing challenges which European society is facing: energy supplies, climate change, food security, ageing populations, etc. This requires broadly based innovation strategies with ambitious pan-European objectives, determination and flexibility to react to changes in the scientific, policy and industrial agenda. These horizontal programmes should enjoy joint financing from the EU's research budget on the one hand and funds from relevant Commission DGs on the other.

- **Foster effective public-private cooperation and partnerships**

Efforts are still to be made to ensure that the European Research Area encourages effective public-private cooperation and partnerships, without excessive red tape. As recently advocated by the Commission, this will require a trust-based approach and risk-tolerant rules on research funding.

- **Ensure effective knowledge transfer**
Effective knowledge transfer should be a top priority for the European Research Area. In this respect, the Commission's recent intellectual property code of practice is an important step forward. As a next step, the restrictions on collaborations between companies and publicly funded research organisations in the EU rules on State aid for R&D and innovation need to be supplemented with clear operational guidelines.
Structures to support continuous professional development, networking and the sharing of best practice in the field of knowledge transfer need to be developed.
- **Implement effective mechanisms**
The European Research Area should deliver real results and benefits for the Union as a whole and the industrial sectors. To secure excellence in European Research, proper access to public research resources and results must be ensured, especially for smaller and younger companies.
- **Improve the interface between education, research and innovation**
Efforts must be enhanced to develop innovation, entrepreneurial and research-friendly education systems with a view to ensuring a sufficient supply of an adequately skilled workforce. Greater autonomy for universities together with a broad framework for graduate and post-graduate qualifications, training and lifelong learning will help to improve this interface. Moreover, the EU should coordinate more effectively actions on research, innovation and education.

5. Climate change and allocation criteria for free allowances

Concerning the ongoing discussions as regards the revision of the EU Greenhouse Gas Emission Trading Scheme directive, BUSINESSEUROPE would like to stress the following issues.

- **Evidence-based free allocation for sectors exposed to international competition**
The process of granting allowances must follow a pragmatic, evidence-based process assessing the exposure of sectors to international competition. Manufacturing industries exposed to international competition receive 100% free allocations against independently scrutinised technology or efficiency benchmarks unless and until there is an international agreement with equivalent burdens for industry outside Europe.
- **Criteria for an international agreement**
Any ratified international agreement must create comparable and enforceable carbon restraints before passing burdens such as higher emission reduction targets onto business. Criteria are needed against which an international climate agreement can be evaluated.

- **Opt-out for small installations**
The threshold up to which small installations will be able to opt out of the ETS should be raised to a minimum for all covered installations to at least 25,000 tonnes. Small installations emitting less than 25,000 tonnes per year only account for 3% of total ETS emissions. The opt-out must be possible at the request of the operator.
- **Allow for more use of CDM/JI credits**
Widening the limits up to which installations can use CDM/JI credits to comply with their ETS obligations will increase the efficiency of the EU ETS, reduce the carbon migration risk, provide a better signal to carbon market project developers and increase the contribution of the EU ETS to global sustainable development and the establishment of an international agreement on climate change.
- **Earlier dates for decisions on auctioning, benchmarking, free allocations**
European companies need predictability to invest. Therefore the dates for deciding on rules and modalities of auctioning, benchmarking and the amount of free allocations industry will receive must be set earlier than initially proposed in the directive.
- **Benchmarking**
Free allocation of allowances based on technology- or efficiency-based benchmarking is likely to achieve the desired CO₂ emission reductions in the ETS (21% by 2020 compared with 2005) at a lesser cost than auctioning the allowances. It furthermore provides incentives for efficiency leaders and stimulates investment in emission reductions. Benchmarking is vital to protect those sectors exposed to international competition.