

23 October 2008

MEETING OF MR IVARS GODMANIS, PRIME MINISTER OF LATVIA, WITH MR ERNEST-ANTOINE SEILLIERE, PRESIDENT OF BUSINESSEUROPE

29 OCTOBER 2008 AT 13H30

1. International relations

BUSINESSEUROPE fully supports EU policy designed to stabilise the situation in the Caucasus following the events in Georgia. The remarkable management of the crisis by the EU President Nicolas Sarkozy has helped solve the situation and enabled Europe to speak with a single voice.

This conflict has damaged relations between the European Union and Russia, the European Union's third largest trading partner for exports. European companies are far and away the biggest foreign investors in Russia: in 2007 we exported products worth more than € 89 billion and services worth € 18 billion (i.e. € 23 billion more than our exports to China) and invested € 17 billion in Russia (or three times the level of our investments in China).

In order to reassure investors, the Russian government should reiterate its commitment to joining WTO. Such a gesture would show that Russia wants to play a constructive role in global economic governance and pursue its economic reform plans. It would also strengthen the credibility of Russia's wish to negotiate an ambitious bilateral agreement with the EU.

2. Economic situation

The economic slowdown in industrialised countries and the turmoil on financial markets are weighing heavily on economic prospects. In our recently unveiled Autumn

Economic Outlook, BUSINESSEUROPE forecasts growth in 2009 to reach 0.4% for the EU and 0.2% for the euro area. Both investment spending and employment levels are expected to contract significantly in 2009, for the first time since 1993. Lower commodity prices, weak economic activity and rising unemployment will contribute to a decline in euro-area inflation from 3.4% this year to 2.4% next year. In the current climate of uncertainty, we need clear undertakings from European decision-makers.

It is essential to improve coordination of financial market supervision in Europe and to ensure that effective mechanisms for cross-border management of the crisis are in place.

While it is necessary to draw the right conclusions for regulation of the financial system, and in particular the role of rating agencies, it is crucial to act calmly and to avoid overhasty and counterproductive measures.

SMEs are the worst affected by tighter lending conditions and we therefore consider it essential to facilitate their access to finance, notably through the instruments available from the European Investment Bank.

European companies support the ECB's massive injections of liquidity as well as its monetary policy, considering its credibility to be a major asset in the current circumstances.

Concerning budget policies, the Stability and Growth Pact must be respected by all Member States. More generally, it is absolutely essential to implement all the undertakings given in the framework of the European growth and jobs strategy, which is still the right framework for reinvigorating the European economy.

3. Governance of the European Union

It is all the more important to demonstrate leadership in European governance in the current economic climate. After the disappointment of the Irish referendum,

BUSINESSEUROPE is pleased that the ratification process is continuing, and urges the five countries that have not yet done so to complete ratification without delay. If the Lisbon treaty is not fully ratified before the next Commission takes up office in November 2009, a unanimous Council decision will be needed to set the smaller number of Commissioners, as agreed in protocol 10 to the Nice treaty.

BUSINESSEUROPE has firmly supported the Lisbon treaty which has been rejected by Ireland but has been or is being ratified by all the other Member States.

European companies count on the French EU Presidency and forthcoming Czech EU Presidency to ensure that the European institutions which emerge from the upcoming changeover can function in accordance with the Lisbon treaty.

4. Energy and climate

In order to secure an adequate supply while reducing CO₂ emissions, Europe's future energy model will have to make full use of all technological resources: energy efficiency, renewable energies, nuclear energies or advanced energy technologies such as carbon storage.

Latvia has successfully developed, in the past decades, a large potential of renewable energy supply, in particular hydro power and biomass, with beneficial effects for energy supply and the CO₂ intensity of Latvia's economy.

The future of nuclear power in Europe is also a crucial issue for Latvia, as together with Lithuania, Poland, and Estonia, Latvia is considering to participate in the *Visaginas* nuclear power plant in Lithuania to replace the Soviet-designed *Ignalina* Nuclear Power Plant. Latvia faces a potential energy shortage because in 2009 Lithuania will shut down *Ignalina*.

The smooth operation of the internal energy market is a guarantee for better competition and thus better prices. Unbundling of production and transmission activities

must stimulate competition and make it possible to realise the interconnection investments needed to establish the large European energy market.

A much more active external energy policy should seek to diversify energy imports, reduce some Member States' massive dependence on a single gas supplier and develop constructive dialogues with key producer countries on security of supply issues. The decisions that could be taken on climate policy during the French Presidency will be of crucial importance for the future of European industry. A deal on the whole package (including Emission Trading, renewables, CO₂ emissions for cars, effort-sharing) is still planned for the European Council on 11/12 December.

The Commission's proposals for the European Emission Trading Scheme (ETS) will prompt a movement among energy-intensive companies exposed to international competition to relocate. These proposals will lead to a siphoning off of 60 to 70 billion euros a year due to the auctioning of allowances and the resulting increase in electricity prices. In the absence of an international agreement, BUSINESSEUROPE calls for 100% free allocation to manufacturing industry, on the basis of benchmarks.

Latvia, like many ex-socialist European countries, experienced a massive de-industrialisation in the 1990s. Therefore, and due to its energy structure (a lot of gas, hydro, biomass) the effects of the ETS on the Latvian economy should be not as strong as on other Member States' economies.

The mechanism for border adjustments or the mechanism for carbon inclusion are not compatible with WTO rules. They will trigger retaliatory measures and create unwelcome paperwork.

That is why an international agreement engaging all CO₂ emitter countries is the only route that can lead to climate preservation. The conferences in Poznan (December 2008) and Copenhagen (December 2009) are the forums in which such an agreement should be negotiated and concluded.



5. Social policy

The fall in the active population by 2 million in 2020, 12 million in 2030 and 50 million in 2060 is the greatest challenge to which the European Union must respond. Increasing productivity at work, improving skills and establishing “flexicurity” are responses to this challenge. But these actions will not be enough. A European pact on immigration and asylum has been adopted by the European Council. The creation of a European blue card scheme is under discussion. The French Presidency has very rightly given priority to this complex of themes and BUSINESSEUROPE hopes that they will remain high on the EU political agenda.

Elsewhere, BUSINESSEUROPE and the European Trade Union Confederation have issued a joint advice in favour of a revision of the European works councils directive. We call on the Council and the European Parliament to take account of the social partners’ proposals, maintaining the balance found in order to render the text acceptable to both employers and trade unions.

BUSINESSEUROPE supports the balanced approach adopted by the European Court of Justice in the Viking, Laval, Rüffert and Commission vs. Luxembourg cases. This ECJ jurisprudence makes it possible to reconcile workers’ rights with the smooth functioning of the internal market, while complying with the letter and spirit of the European treaties and the posting of workers directive 96/71/EC. Thus, BUSINESSEUROPE opposes any revision of the treaties or the said directive but supports the Commission’s initiative which aims to improve administrative cooperation and the exchange of information on postings of workers. The European social partners have accepted the offer of the European Commission to undertake a joint analysis on the legal, economic and social consequences of the ECJ rulings.

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