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TODAY PUBLIC POLICY INSTITUTE CONFERENCE: “ENTERPRISE, EUROPE AND THE CRISIS”

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VALLETTA

ADDRESS BY ERNEST-ANTOINE SEILLIÈRE, PRESIDENT OF BUSINESSEUROPE

Ladies and Gentlemen,

I would like to start by thanking our host tonight, Helga ELLUL, President of the Malta Chamber of Commerce, Enterprise and Industry.

Helga, this is for me the opportunity to congratulate you on the successful merger which has given birth to an enlarged and even stronger business organisation, the Malta Chamber of Commerce, Enterprise and Industry. Congratulations also on your appointment at its head! Not to forget Ray MUSCAT, Director General of the MCCEI, with whom we will also continue the good collaboration have enjoyed in BUSINESSEUROPE.

I would also like to thank very much the organisers, Martin SCICLUNA, CEO of Today Public Policy Institute, and Daniel RONDEAU, Ambassador of France to Malta. I am honoured to have been invited to present the views of BUSINESSEUROPE to this audience of high-level Maltese policy-makers and representatives of the Maltese business community.

Before turning to the topic of today’s conference “Enterprise, Europe and the Crisis”, let me briefly recall who we are: BUSINESSEUROPE is the Confederation European Business. Through our 40 member federations in 34 countries across Europe, we represent more than 20 million small, medium and larger companies.

The Malta Chamber of Commerce, Enterprise and Industry – actually at that time its predecessor – was an active member of BUSINESSEUROPE even before your country joined the European Union in an historic enlargement to ten “new” Member States. Ever since, the fruitful involvement of our Maltese member federation has mirrored the successful integration of your country in the European Union and the eurozone.



Over the past four years, Malta, like the other “newcomers”, has contributed a great deal to EU growth. Faced with increased competition from emerging trading blocs, important reforms have successfully been put in place. This has led to productivity gains, increased foreign direct investment and export diversification into new dynamic sectors. This pro-activeness has allowed your country to maintain a growth rate above 3%.

Yes, we had sustained growth in the last few years: thanks to the availability of private equity; thanks to very low interest rates; thanks to an unprecedented period of strong world growth. This benefited Europe at large as an open and export-oriented economy. Unemployment was – and still is – at a historically low level. Never before were so many jobs created: 10 million over the past three years alone.

Today we are entering a different era.

Crisis. This is certainly the word that has been on everyone’s lips over the past months – be it of policy-makers, businessmen or citizens. Indeed, there can no longer be any doubt about the depth of the financial and economic crisis. It is there and is affecting every segment of the economy, globally.

In my contacts with the Prime Minister, the Minister of Finances and the Governor of the Central Bank today, I have had the opportunity to learn more about the particular situation of Malta. Thanks to banks’ conservative approach to lending and a well-regulated financial services sector, the domestic financial system has, so far, been sheltered from the negative impacts of the crisis. But we can fear that Malta, a small open economy, largely dependent on trade and tourism, will not remain unaffected by the global economic slowdown.

Enterprises. In my capacity of President of BUSINESSEUROPE, I am in daily contact with business organisations and business leaders from across Europe. Of course, companies feel the severity of the situation and they are scaling back investment. The situation on labour markets has started to deteriorate. Indeed, unemployment is rising at the fastest pace since 1993. Based on the European Commission’s latest forecasts the number of unemployed will increase by 4 million this year. This proves incontrovertibly that when there is no growth, there are fewer jobs.

Business confidence has hit the lowest level since 1985. So has citizens’ confidence in a system which – so they have been told – has run out of control. Indeed we can see that real dysfunctions have occurred:

- Existing monetary or exchange rate policies led to excessive liquidity on money markets.
- Regulation was inappropriate or even absent for certain areas of activity.
- High yields were achieved without any accurate assessment of the risks, either by market participants or by regulatory and supervisory authorities.
- Macro-economic policies were inadequately coordinated and structural reforms were insufficient.



This has led us to where we are today. An unprecedented degree of intervention by national governments through rescue plans, bail-out of banks and recovery programmes was necessary, to prevent the banking system from collapsing but also to re-launch the economy.

Today, even in difficult circumstances, I notice that the open market economy is not under fire as such. And it should not be. It is considered – and indeed it remains – the right system for job creation, growth and prosperity.

In Europe, we have a social market economy based on a social model that we defend. The question that everyone should ask is: how do we safeguard the essence of this European model?

Europe. I believe the experience of past months has shown the value of the EU to mitigate the effects of the financial crisis. The European authorities generally, but the ECB in particular, have played their roles on time and with huge means. The euro as a currency has won its spurs: without the euro, the chaos would have been enormous. The engagement of the ECB today and its prudence yesterday must be recognised and praised.

Member States have also taken most welcome measures, but the scope for improvement remains substantial. ***So what do enterprises expect from Europe to get out of the crisis?***

1) Reduce the level of financial stress

- The scope and size of public bank rescue plans has been impressive. Their effectiveness varies. The recapitalisation process remains incomplete and interbank guarantees are fragmented and insufficient.
- Mistrust among commercial banks persists. It has paralysed the normal functioning of the interbank market, thus preventing banks to resume their normal commercial activities. The ECB could take up role of “clearing house” for the interbank market to restore interbank lending.
- Public guarantees and risk-sharing facilities to support lending to companies should be encouraged.
- Less orthodox measures might need to be considered. These include, for example, the direct purchase of long-term government bonds, commercial paper and other corporate instruments by the ECB and other European central banks.

2) Support demand with stimulus measures

- The recovery plans have to be implemented. Each country, to the extent that it can but nevertheless in a coordinated way, should go for a 1.5% GDP plan. It must be targeted, timely and temporary as the Commission has suggested.



- There are some flexibilities embedded in the Stability and Growth Pact. They can be applied but the essence of the Pact cannot be given up. This, as we can see in some countries today, can have serious financial consequences.
- At EU level, it is critical to coordinate efforts to maximise the effects and ensure positive cross-border spillovers.

3) Speed up implementation of growth enhancing-reforms

Targeted stimulus measures and financial market reforms are fundamental to restore confidence and stimulate the economy. But the current crisis must also serve as a catalyst for deeper reforms of our economic and labour market structures.

Flexicurity principles need to be implemented urgently to create more flexibility in the system in order to provide security for both workers and companies.

- We must achieve more flexibility regarding working time: This can take various forms. Austria and the Netherlands have already taken or are reflecting on promising initiatives.
- Member States need to reduce non-wage labour costs: This will have immediate effects and certainly improve companies' incentives to hire workers once the crisis has abated.
- We must put a stronger focus on training now: The next economic upswing will not materialise if Europe fails to attract and develop innovation and skills, and companies lack a sufficiently qualified work force.

But companies do look beyond the crisis. ***So what do enterprises expect from Europe to secure sustainable prosperity?***

To make sure that European companies and workers are able to seize opportunities once the peak of the turmoil has passed, we need to make sure that Europe's global competitiveness is supported across the entire spectrum of EU policy-making. Failing to meet this challenge will allow other regions to emerge ahead of Europe.

With all the Presidents of our member federations, we have set six priorities in order to make the European Union a competitive area.

- 1) We urgently need to implement the necessary reforms for growth and jobs. This will only be achieved if a strong political commitment is restored and the credibility of the Lisbon Strategy at national level improved. We count on the next Commission to make this its main priority.
- 2) We must complete the EU single market and ensure effective enforcement of rules. Only in that way will we make possible that companies, consumers and citizens reap the full benefits of this core asset.



- 3) Hand in hand with these policies we must modernise our social systems and reform labour markets in order to meet the demands of an ageing society and the lack of skilled people.
- 4) We also attach the utmost importance to good governance of the EU and a swift ratification of the Lisbon Treaty. After the disappointment of the Irish referendum, BUSINESSEUROPE is pleased that the ratification process has continued. We urge the four countries that have not yet done so to complete ratification without delay.
- 5) In addition, the EU needs to develop a truly integrated approach to energy, environmental, industrial and competitiveness policies. The EU will not be able to consolidate its leadership without a globally competitive industry.

We face a decisive year in 2009. We want an agreement on a truly global approach on climate protection to be found at the international Climate Change Conference in Copenhagen in December.

- 6) Finally, we want to fight all kinds of protectionism in the European Union and in the world. Europe needs to reinforce its common trade policy to better promote real market opening across the world. Regulatory convergence, global financial stability and climate diplomacy should also receive necessary attention.

As BUSINESSEUROPE, we attach particular importance to the EU-Mediterranean cooperation. Here, Malta has a crucial role to play. French President Nicolas Sarkozy has given new impetus to the EU's relationship with the Mediterranean partner countries by launching an ambitious plan, the Union for the Mediterranean. However, business sends a clear warning signal to both the EU and the Mediterranean partners. The success of this project will depend largely on the successful implementation of a coherent set of economic development policies.

What we want to see above all is an improvement of the trade and investment climate as well as of the macro-economic stability in the Mediterranean region. One area that could also see significant progress is the use of effective financial and regulatory instruments. In addition, a stronger emphasis should be put on innovation and education in the Mediterranean Region. I will participate in the Mediterranean Investment Forum "Med Invest 2009" co-organised by our sister organisation, BUSINESSMED, in Beirut in a couple of weeks. This will certainly be the occasion to reiterate this message.

As you can see, we have a quite busy agenda in BUSINESSEUROPE. So do EU and national policy-makers. Times are challenging and expectations are high. But I am convinced that, if we continue on the right track, effectively implement the agreed recovery plan and further pursue ambitious structural reforms, Europe and its companies can emerge stronger from this unprecedented crisis.

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