BUSINESSEUROPE

BRIEFING NOTE

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BRIEFING NOTE FOR PHILIPPE DE BUCK
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Challenging Times:

We certainly live in challenging times, from the perspective of European companies. The EU is in the midst of the **deepest recession** on record:

- EU GDP growth has contracted by 2.5% in the first quarter of 2009. Due to this worse than expected first quarter, GDP is expected to shrink by around 4.5% in 2009.
- The manufacturing sector is acutely affected, with industrial production and goods export to non-EU countries down 20% at the end of the first quarter compared to 2008. Intra-EU trade contracted even more severely, by 25% over the same period.

There are of course some **tentative signs of stabilisation** on the horizon:

- Recent confidence indicators suggest that the most brutal deterioration of economic activity might be behind us. However, one should avoid excessive optimism. Growth is not expected to return before the start of 2010.
- Europe appears at present more severely hit than the US. Plausible reasons are the EU's exposure to global trade, the slower effect of stimulus measures and higher dependence of the European corporate sector on debt financing.

And it is certainly true that some **emerging companies have managed to weather the storm** of the financial crisis much better than the European Union.

- India is forecast to have a 5% growth rate in 2009. This would be the envy of the European Union even at the best of times but even more so when we predict a contraction in the European economy of almost the same number (4.5%)
- There are certainly a number of factors, related to its enormous growth potential and the ingenuity of its entrepreneurs that contribute to this impressive figure.

However, it is important to note that India and other emerging countries are **not immune from this crisis**. 5% growth represents a considerable slowdown that will have real consequences. The fall in international trade is also impacting India and a return to very high growth will not happen without an international recovery.

So **India and the European Union need to work together** and with other major partners to ensure that we can all make our way back to dynamic growth and prosperity.

What are the major messages now for leaders seeking to achieve a way forward? At BUSINESSEUROPE we advocate working along the lines of a 4-pillar strategy:

- The first is to restore companies' access to finance. Without access to finance for companies and households there will be no economic recovery. Through the G20 process the Indian and European Heads of state and government have worked with their counterparts to reaffirm their wish to save the financial system together. There are no separate European, American or Asian answers.

- The second pillar concerns the recovery programmes. In Europe, discretionary measures to support the recovery currently amount to 1.2% of GDP this year, and automatic stabiliser will add another 2% of GDP. This seems adequate – also compared to other world regions.

- What is critical now is a better coordination of national programmes and assurances that the money will be spent wisely, on smart investments in infrastructure, R&D and labour market functioning and on measures to ease companies' cash flow.

- Thirdly, the EU needs to accelerate its structural reforms. We must not overlook the long-term challenges we are facing. Short-term emergency measures must be consistent with the long term. Skills development and improving the adaptability of our labour markets remain a high priority. Rapid and tangible progress when it comes to reducing existing administrative burdens and carefully assessing the effect of new legislation is of course key.

- This also holds for measures to support the sustainability of public finances. Our members are concerned about rising deficits and public debt. The exceptional circumstances justify this. But we think that 2012 should be the deadline for excessive deficits.

- The fourth pillar is to resist protectionism. The G20 leaders have been explicit on this point. No country has been immune from pressures to protect industry. We have seen measures in the United States, China and Latin America. But European and Indian business must also deliver this strong message to their own governments: If we want to get back to the high growth paths of the last decade, globalisation is the only vehicle. Shutting up shop to international trade in today's world of globalised supply chains and export-led growth would be, quite simply, a disaster.

- But resisting protectionism does not only mean avoiding new market closing measures, it also means making sure that our ongoing efforts to create new global markets for our goods and services are not derailed:

- Our top priority must remain reaching an ambitious conclusion of the **Doha Round** of global trade negotiations. A major contribution to the economic recovery could be made if a Doha deal was achieved. In 2008 we came close to an outline deal. With a serious effort this is in within our collective reach.
- BUSINESSEUROPE is very pleased to see the positive indications from Minister Sharma on this issue and looks forward to working with him. We are also very pleased that the new leadership in the United States is looking positively at Doha.
- European companies understand that all sides have concerns they need to see addressed before an agreement can be reached. Indeed they have real improvements they would like to see in a number of areas of the talks.
- But what we need now is to set in place a roadmap to turn this goodwill into action. BUSINESSEUROPE hopes that trade ministers will soon put us on track to deliver.
- Of course the EU and India also have work to do bilaterally and BUSINESSEUROPE fully supports an ambitious EU-India free-trade agreement. The EU and India complement each other in their diversified economic structures. An FTA will be a win-win for all.

- Clearly, we this process has moved more slowly than we would like but I think that now, with the new Indian government in place we can, in the next few months, bring this process constructively forward so as to get a good deal ready, if not this year, then certainly well before the end of 2010.

- The business community is ready to do its part to support and advance the negotiations and CII and BUSINESSEUROPE have already worked together on this issue. We hope that our governments will take us up on this offer of support.

- As for the agenda, BUSINESSEUROPE support an ambitious package that will mark a new chapter in EU-India economic relations. In our view if we wish to add real dynamism the agreement must be both deep and wide. It must therefore provide for:
    - **deep liberalisation of trade in goods and services**. BUSINESSEUROPE insists that the major export interests of both sides are included in this deal. Major sectors cannot be excluded.
    - improving business conditions in **investment**.
    - protecting **intellectual property rights.**
    - tackling **regulatory cooperation and NTBs**.
    - dealing with **trade facilitation.**
    - including disciplines on government procurement.

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