BUSINESSEUROPE

SPEAKING NOTES

18 October 2010

ECONOMIESUISSE EXECUTIVE COMMITTEE
18 OCTOBER 2010

AGENDA EU 2020

PHILIPPE DE BUCK
DIRECTOR GENERAL OF BUSINESSEUROPE

Dear President,
Dear Director General,
Distinguished members of Economiesuisse,
Ladies and Gentlemen!

BUSINESSEUROPE represents more than 20 million companies in 34 European countries. We are very proud to have amongst our members more than "just" the EU-27 countries, but all important European states. Let's not forget:Switzerland is the second export partner of the EU after the US and before China. And your country is the EU's fourth biggest import partner after China, the US and Russia.

economiesuisse is undoubtedly a key pillar of BUSINESSEUROPE. President Gerald Bührer as a member of our Council of Presidents, Pascal Gentinetta, as member of our Executive Bureau. Not to forget about the many people in your organization who actively contribute to defining the messages given to the EU institutions by BUSINESSEUROPE. I want to take this opportunity to thank all of you: First of all to thank for taking the extra time and additional burden to be e active in economiesuisse. Federations are effective and authentic if entrepreneurs and companies' representatives engage in it. And thank you for your commitment, and support in BUSINESSROPE. It's great to have such strong, constructive and reliable member like economiesuisse!

So no doubt I am very pleased to be in Zürich today in order to discuss how BUSINESSEUROPE sees the state of economy and what needs to be achieved.

Ladies and gentlemen,
We have just heard from Professor Baltensberger the consequence of the economic crisis for Europe.

THE CONFEDERATION OF EUROPEAN BUSINESS a.i.s.b.l.
AV. DE CORTENBERGH 168
BE-1000 BRUSSELS
BELGIUM
VAT BE 863 418 279
TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL: MAIN@BUSINESSEUROPE.EU
WWW.BUSINESSEUROPE.EU

Europe is truly at a crossroads.

In 2008 and 2009 we were faced with an unprecedented global financial and economic crisis. Just when we started to recover, the public debt crisis started. And now that we see signs of recovery we must be cautious not to create the next crisis by shying away from dealing with the problems facing us.

There are good reasons to remain optimistic.

Firstly, despite the difficulties, European companies have been able to participate in the revival in global trade and industrial activity. This has helped to secure many jobs. Even better: thousands of European companies have started to create new jobs. Some of them are already facing difficulties to find qualified personnel.

We expect up to 2% growth in 2010. The situation will be far better than expected at the start of this year. Figures vary from country to country. Germany, which is set to grow by 3.5 % this year, should remain a factor for dynamism. For other countries, the consequences of the crisis will be longer-lasting. However, there is definitely a broadening of the sources of growth in Europe: Poland, Slovakia, Sweden and your country are all expected to grow by more than 2% in 2010. And the balance between export, consumption and investment is also improving.

Secondly, we are rather lucky on the labour market front too: news are generally better than previously expected. The EU unemployment rate fell below 10% threshold in August. The pursuit of this positive trend cannot be taken for granted in 2011. Unemployment is still high. The US economy is weak. Fragilities in the financial sector and the poor state of public finances remain matters of concern.

Strengthening the American economy is the job of the US. For us, Europeans, the questions is: How will we reduce the “home-made” risk factors? Those which undermine our growth and employment prospects ?

I will not surprise you with my answer: we will only be able to reduce these factors by reforms. Reforms in different areas such as labour market, Research and Development. Reforms that really change things and release our untapped potential. Such reforms are not necessarily painful.

Pursuing sound policies in good times helps to face bad economic weather. The experience of Germany shows that competitiveness can be restored:

- if wage moderation prevails
- if investment in innovation is encouraged
- and labour market and social security reforms are implemented.

Ladies and Gentlemen,

Government and central bank interventions played a crucial role in alleviating the financial, economic and public debt crisis. The massive stabilisation programme for the euro area has restored confidence. BUSINESSEUROPE fully recognises this. But state intervention has reached its limits. The deterioration of public finances has become a cause of financial instability. And we must make sure that it doesn't trigger the next crisis.

We need to address the real reasons behind the ongoing market scepticism. First of all, the lack of competitiveness of some European countries. And second, the weak governance of the Eurozone.

There is no doubt that we have to cure the birth defect of the current Stability and Growth Pact For years, financial markets heard politicians pay lip service to addressing structural macro economic imbalances in Brussels but witnessed delays in implementing the necessary reforms in their home countries.

Europe can no longer afford this "conspiracy of kindness". The European Council must put real pressure on those who do not deliver on the engagements taken collectively. And the Commission must be a more outspoken "whistle blower."

We can obtain stronger discipline within existing Treaty rules:

- If we give new auditing powers to Eurostat.
- If we transpose the Stability and Growth Pact rules into national law through measures like the German debt brake,
- If we broaden the concept of fiscal sustainability.
- If we reinforce the surveillance of national economic policies.
- If we impose gradual penalties for Member States which fail to comply,
- and if we work on a system to address sovereign debt crisis.

Another stumbling block on the path to a sustained economic recovery are the remaining structural weaknesses in financial markets.

Despite the promises made by the G20, financial markets are not fixed yet.
At EU level, three important decisions were taken recently:

- the agreement on BASEL III,
- the agreement on a new supervisory system and
- a new proposals on credit derivatives.

These decisions will only enhance growth and employment if they do not undermine access to finance for companies. There is a fine line between new necessary regulation and putting unnecessary restrictions on companies' access to finance.

Let me give you four examples of necessary improvements to ensure that these proposals respect this fine line.

- It is essential to ensure that liquidity requirement under Basel III do not create a bias towards government debt at the expense of private equity.

- We must have transitional arrangements to dampen the negative effect of tighter capital requirements under Basel III on credit costs and conditions,

- Improved cross-border oversight by the new European financial supervision authorities must be accompanied by clear criteria for early cross-border interventions and a credibly framework for winding down banks in a crisis situation.

- And contracts used by non-financial companies to hedge a commercial risk should be excluded from the scope of the European proposal on credit derivatives.

An expert group of the Swiss government suggest to double the BASEL III capital requirements for important banks. The issue of too-big-to-fail needs to be addressed. Creditors must be made more responsible. BUSINESSEUROPE supports the establishment of .cross-border resolution mechanisms. But a stable financial system also needs a strong economy. European companies cannot be disadvantaged compared to their global competitors.

The big challenge for Europe is to be able to combine fiscal discipline and growth. To protect European living standards, we need to combine at least 3% surplus in government primary balance with 2% economic growth.

This is what the EU 2020 strategy must be about! Enhanced growth and fiscal discipline.

At **European** level, BUSINESSEUROPE and the trade unions successfully agreed a joint recommendation on the EU2020 strategy. It is a balanced text, which urges policy-makers to improve governance in the European Union. It acknowledges the need to put a brake on public deficits AND enhance growth at the same time.

Already in March, BUSINESSEUROPE explained how this can be done.

On the one hand
- better fiscal rules and institutions,
- cost-cutting measures.
- more efficient public services.
- and social security and labour market reforms

will help to limit public deficits.

On the other hand
- ambitious labour market reforms,
- more and better targeted efforts in innovation,
- well directed infrastructure investment,.
- growth-enhancing tax reforms,
- as well as better regulation to reduce red tape

will help to boost economic growth.

You would have to skip dinner if I would elaborate on all of these issues... So I only highlight one: job creation through labour market reforms.

Persisting unemployment is not only socially unacceptable, it also dampens European growth prospects.

At 20.2% % for the EU as a whole, youth unemployment in particular is a major point of concern. Young talents are our most valuable resource. This is even more true in an ageing population. We must improve quickly our ability to integrate young people on the labour market. Youth unemployment ranges from 8.5% in Austria to 41,6% in Spain. These horrendous figures are revealing the rigidities of our labour markets.

BUSINESSEUROPE does not ask to introduce a “hire and fire” policy. One lesson to be learned from this crisis is that European social safety nets have cushioned society from the shock of this dramatic economic downturn.

We want to ensure the future of our European social model by moving away from social systems that try to protect existing jobs and focus instead on helping workers to move from one job to the next as the economy evolves. Combining flexibility with security this is what Flexicurity stands for. It requires efficient education and training, modern social protection and pension systems and flexible labour laws.

We recognise the efforts that flexicurity reforms imply for our employees. But they bear huge benefits for society as a whole. Especially for those who currently cannot participate adequately in it because of they are unemployed.

Ladies and Gentlemen,

The EU 2020 strategy rightly aims at sustainable growth. It also re-iterates Europe’s climate and energy targets.

European companies have impressive track records in reducing their emissions.
Energy-intensive industries have already improved their energy efficiency by more than 20% between 1990 and 2007. Innovative European products enable emission reductions across the world. Energy efficiency remains a key element in the low-carbon equation. But contrary to what some politicians believe, the crisis has not made it easier for European companies to achieve higher emission reduction targets. On the contrary. SMEs in particular lack capital to invest in costly new technologies.

No doubt: BUSINESSEUROPE’s member companies are committed to proceed on the path towards a low carbon economy But climate change can only be tackled globally. Working towards the conclusion of a comprehensive international climate change agreement remains indispensable.

The failure of the Copenhagen conference proved that Europe’s policy strategy to lead by example through unilateral emission reduction does not work. Europe should now concentrate on creating a long-term framework for a sustainable, secure and cost-efficient energy future. We need a European energy policy which takes every energy source into account, including nuclear.

Only then will we be successful to maintain a strong and diversified industrial base in Europe. It is not helpful to divide industry artificially into “green” and other sectors. Wind turbines need steel and fibreglass. Energy-efficient houses need glass and chemical products for insulation.

Yes, European companies are world leader in so called "green" technology. And we want to defend this position. But European entrepreneurs <u>are</u> and <u>have to be</u> much more than that. We must be able to sell all kind of products and services at competitive prices on world markets.

Ladies and gentlemen,

European business supports the EU 2020 agenda and does its utmost to improve prosperity in Europe. The European project has brought tremendous benefits for companies and citizens alike. The Single Market and the Euro are invaluable economic and social assets. They do not only bring benefit the 27 Member States. They are key growth drivers for our European neighbours and main trading partners. At BUSINESSEUROPE we work hard every day to ensure these historic achievements are cherished and developed.

In business you need reliable partners. You can count on BUSINESSEUROPE to defend the interests of Swiss companies and of all the enterprises affiliated to our 40 member federations!

* * *