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GLOBAL EUROPE - CHALLENGES FOR THE EUROPEAN ECONOMIC ARCHITECTURE PHILIPPE DE BUCK, DIRECTOR GENERAL OF BUSINESSEUROPE

- Distinguished members of the General Assembly, ladies, gentlemen,

Thank you for inviting me to your Annual Meeting.

It is always a pleasure to visit Finland, and I am honoured to have the possibility to address and share views with you today on the European Union.

The Confederation of Finnish Industries is a central member of BUSINESSEUROPE and we have always had very strong relations and support from you, from Helsinki, but also from Brussels. We were by the way very happy that your President, Ole Johansson, accepted to join our Group of Vice-Presidents last January.

- It is with Brussels and its **institutions** that I would like to start.

It is now almost a year and a half, since February last year, since the new European Commission took office. 2010 was a year in which the new Commission had to become acquainted with European environment and policies. What happened within the eurozone did not give them the time to go through a learning curve. They had to act immediately.

It has shown that the European Commission has a key role to play. With its president, Jose Manuel Barroso or its members, such as your Commissioner for economic and monetary affairs, Olli Rehn. But the Commission also has to regain its authority. It will have to learn to cooperate with the other institutions as the Council and the European Parliament.

We have a new European Parliament, for two years now. A Parliament, that, with the entry into force of the Lisbon Treaty, on 1 December 2009, saw its power strongly increased. This is positive for democracy, and at the same time means more negotiations on key dossiers.



Free-trade agreements and foreign investments treaties cannot be concluded without its approval.

The Council has also been reinforced. A new figure was created. The permanent EU Council President, Herman Van Rompuy. We are in close relationship with him and his staff.

The message from BUSINESSEUROPE to the Council is that we broadly support the measures it has taken so far.

- The EU is twofold: economically it is doing better, but the economic governance remains weak. If we want a managed eurozone, we have to strengthen the governance.

First the **economy**.

In 2009 we went through a very severe recession.

In 2010 we started to get out of the crisis. In 2011, if we look at the overall economic situation in Europe, we are doing even better.

Europe came out of the crisis sooner than expected in 2010. The recovery in 2011 has so far been stronger than anticipated.

BUSINESSEUROPE has recently published its spring **Economic outlook**. We predict real GDP growth in 2011 to reach 1.8% in the EU 27 and 1.7% in the euro area. This is confirmed by the European Commission into 2012.

This is of course an average picture. Some member countries are experiencing now pre-crisis growth rates. Others are underperforming drastically.

Finland is doing well, with a real GDP growth in 2010 of 3.1 %, and growth of 3.5% foreseen for 2011. Unemployment will decrease compared with 2010 from 8.4% to 7.7% in 2011. One of the reasons – from my point of view at least – is that because Finland is one of the most innovative countries in the world. It is a forward-looking country, not afraid of change.

Let us have a look at employment trends in the European Union.

Between 2005 and 2008, **11 million new jobs** were created. Unemployment reached its lowest level at 6.7% at the beginning of 2008.

In 2008 the financial crisis started.

The European Union, its companies, its workers, have been hard hit. Companies across many sectors also faced enormous difficulties. But at the same time, companies have done whatever they could to limit job losses. I pay tribute to them for those efforts.



The EU labour markets have been less hit than we originally predicted. Of the 11 million new jobs created before the crisis, **5.5 million jobs have been preserved**. EU employment decreased by 0.6% between 2007 and 2009, while it decreased by 2% in the US.

The EU framework on flexicurity put in place before the crisis has proven its effectiveness. The countries that have implemented flexicurity reforms are the ones that better perform nowadays.

According to our Spring economic outlook, **1 million new jobs** will be created in 2011, the vast majority of which in countries which have a stronger competitive position and sounder public finances, i.e. Poland, Luxembourg, Lithuania, Finland, the Netherlands, and Germany.

➤ What is the **EU competitiveness challenge**?

It is the EU growth compared to what happens elsewhere.

We all share a common goal: a strong and competitive Europe! Go for Growth!

Competitiveness also means building strategies to face international challenges.

One of our studies, the **Reform Barometer**, based on a survey of BUSINESSEUROPE's member federations, looks at the global performance of the EU-27 (as well as Iceland, Norway and Switzerland). Priorities for reforms are identified. Key recommendations are made.

This study is based on 34 key indicators covering productivity, investment, trade, competitiveness, employment, fiscal sustainability and financial stability.

We can clearly conclude from the benchmark that countries like Finland, with above-average performance, are those which are recovering today and are growing faster.

These are the countries with higher external competitiveness, robust public finances and a sounder macroeconomic environment. And these will be the countries which will create more than 80% of the one million new jobs expected in the EU in 2011.

The relation is straightforward: the more countries reform, the more competitive they are, the more jobs they will create.

The challenge is to get everybody "up to speed". Because, some running ahead and pulling the rest will only work for a limited time.

To put every member country back on its feet, institutions must play a key role. In particular, we believe that the European Ministerial Competitiveness Council can and must play a decisive role.



The Competitiveness Council is key. It not only has to manage the single market, but must take real ownership of Europe's overall competitive position. They have to work on key dossiers for business, such as the Single Market Act, the Small Business Act, the unitary patent, research and development, energy, climate policy.

BUSINESSEUROPE strongly advocates this message, which was at the core of our president's intervention last week at the European Business Summit in Brussels.

➤ What are the **challenges with the reforms?**

The difficult situation faced by Greece, Ireland and Portugal, has increased uncertainty in Europe and is putting the common currency under stress. In recent days, market tensions have again raised and spread to other countries amid fears of a reform fatigue.

But we have to acknowledge that fundamental reforms have been delayed for too long. And more important is that consolidation efforts in good times were largely insufficient.

The business community has a clear message: the euro must be safeguarded. The euro may not fall apart. The Euro must be safeguarded.

The common currency is a great achievement of European integration and had brought great benefits to companies and citizens. Its stability and credibility is of highest importance. The European Central Bank has been particularly effective during the financial crisis.

But a single currency requires a collective drive for reform. The European Parliament and Council discuss the new economic governance framework. If approved it will represent a real leap forward in terms of policy coordination of EU member states.

The famous "six-pack" proposal by the European Commission will reinforce the Stability and Growth Pact. It will develop a closer monitoring of macroeconomic imbalances. Adoption by the Parliament and the Council must now be swift before end of June and the implementation must be effective.

In this whole process, the role of the European Commission has to be central. It must ensure that member states address growth bottlenecks on their national reform programmes. Country-specific recommendations must be clear and transparent. And the Commission must not shy away from pointing the finger at those member states that are failing to implement reforms.

We believe Commissioner Rehn has been playing an instrumental role in this regard. We trust he will keep up the good work during the implementation period and ensure national reforms are effectively carried-out.

But make no mistake: all member states have their homework to do! Also your country. Our reform barometer has shown that. While some countries are clearly lagging behind, all countries have room for improvement.



Reforms are essential to restore confidence and growth in all member states. They should focus on fiscal sustainability, financial stability, competitiveness and job creation. Europe needs greater commitment towards discipline and stability, and this should translate into concrete action. According to our Reform Barometer, thanks to its reforms, Finland ranks 1st in R&D expenditure as percentage of GDP and 5th for industrial activity as percentage of total added value.

At political level less room for bargaining should be allowed in the Council.

- If we talk about reforms, I must not forget the **European social dialogue**, to which we attach great importance.

I was last week at the European Trade Union Confederation Congress in Athens.

Our message was clear: the European social dialogue has delivered tangible results over the years. Important agreements on harassment, stress at work, parental leave and flexicurity were made. But even more important: the joint labour market analysis and the common statement made on Growth Strategy. This was also the message I have sent in a recent letter to John Monks, on the occasion of his departure as Secretary General of ETUC.

Why is it important to engage in social dialogue activities? Because it is for both sides an opportunity to exchange views, to discuss and when we reach an agreement, a chance to play a decisive role in EU policy-making on employment and social affairs.

But this role has to come with responsibility. It is with the duty to find practical and achievable solutions to the real concerns of companies and workers. It is time today to take into account the rapidly changing economic environment.

Europe's future prosperity will only be granted by making structural reforms.

We count on trade unions commitment to reform, with us, the labour markets in order to maximise economic growth and employment in Europe and safeguard our social systems.

Implementing reforms is not a liberal agenda aiming to attack social rights. It is the direct consequence of the world we live in, made of opportunities, but also challenges. The populism all our Europe shows that the communication failed. It is also our role to communicate about the benefit of the EU integration.



➤ What are the challenges on **innovation and skills**?

We believe that **innovation** should be encouraged in all its forms, be it innovation in technology, in design, in services or in business models, such as hi-tech start-ups.

The European Commission's Innovation Union Scoreboard 2010 published in February 2011 ranks Finland in third place on the basis of a composite innovation index after Sweden and Denmark and just ahead of Germany. Finland is particularly strong in private sector RDI expenditure, patent publications, patent revenues from abroad, and international scientific publications.

Together with innovation, "**skills**" are crucial for economic growth and for the competitiveness of European countries.

The lack of Science, Technology, Engineering and Mathematics-skilled labour (the so-called STEM skills) will be one of the main obstacles to economic growth in the coming years. It is estimated that up to 700,000 ICT staff will be lacking in Europe by 2015. This sector accounts for 50% of total productivity growth in the EU.

Our recent study "**Plugging the skills gap - the clock is ticking**" focuses on STEM skills. It underscores the importance of governments in setting the right framework for collaborations between companies and education institutions.

A stronger commitment and more joint efforts are needed from governments and other stakeholders to raise the attractiveness of STEM educations. Education institutions should open up more to partnerships with companies. There are good examples of such partnerships that we should learn from.

In Finland, for instance, the faculty of science of the University of Helsinki coordinates an umbrella organisation consisting of representatives from Finnish technology industries, chemical industries, forest industries and other stakeholders. Together, these members arrange science fairs, support the lifelong learning of teachers and develop new teaching material.

European business is committed not only to raise the attractiveness of STEM educations but also its quality. However, more needs to be done and companies must not stand alone in taking on this responsibility. When assessing the performance of European 15-year olds in science, the EU is performing poorly compared to the South-East Asian economies like Japan, Singapore and Korea that are found at the top. Finland, the only European country on this level, is the exception [*PISA study, December 2010*].

This is simply not good enough for the European economy which set out to be the world's most competitive knowledge economy.

The economies with the best performing school systems will be the winners in this global race towards technological development and competitiveness.



➤ **Conclusions**

How can we face the challenges for the European economic architecture today?

To tackle these challenges, we must put high on the agenda policies aimed at strengthening Europe internally and making it play a leading role in the world:

- Economic integration and stronger internal market, including a true digital single market
- Innovation as a key for growth
- EU budget as a supportive tool for research and development
- “Competitiveness proofing” for existing and new regulation
- Focus on SMEs, for example by reducing over-regulation
- Social dialogue to be continued and improved
- Opposition to protectionism, removal of trade barriers, conclusion of free-trade agreements and market access
- An effective energy policy as well as an effective climate policy.

These are priorities that I could see in your publication “**EK’s EU Policy Recommendations up to 2015** on “**How Europe can stimulate growth**”.

Let me say that these are common priorities for EK and BUSINESSEUROPE, on which we will work together.

The EU has been shaken, but decisions are being taken.

EU institutions must be respected.

Thank you for your attention.
