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CONFEDERATION OF ICELANDIC EMPLOYERS (SA) AND FEDERATION OF ICELANDIC INDUSTRIES (SI), HILTON REYKJAVÍK NORDICA, 16 SEPTEMBER 2011

WHERE IS EUROPE HEADING? EUROPEAN BUSINESS OUTLOOK

PHILIPPE DE BUCK, DIRECTOR GENERAL OF BUSINESSEUROPE

Distinguished chairmen of the Confederation of Icelandic Employers and the Federation of Icelandic Industries,
Ladies, gentlemen,

It is a real pleasure to visit Iceland and to be in Reykjavik today.

I am honoured to have the possibility to address and share views with you today about the current shaken economic and political situation in Europe.

But first of all, I would like to thank the **Confederation of Icelandic Employers (SA)** and the **Federation of Icelandic Industries (SI)** for today's invitation and for the excellent programme that has been organised for my first visit to Iceland. But most of all for their commitment to BUSINESSEUROPE.

SA and SI are full members of BUSINESSEUROPE and we have always had strong relations and support from them, in Reykjavik and in Brussels. And this cooperation is also strengthened by SA's President, Vilmondur Jósefsson, who is a member of our Executive Bureau.

What is the mission of BUSINESSEUROPE?

We represent private business. We do this at European level but more and more at global level.

Our membership is larger than the EU - Iceland being an example. We cover 35 countries and have 41 members. Our main mission is to advocate for business-friendly policies. It is to influence the complicated decision-making process, it is also to create worldwide networks for open and free trade.

Let us now turn to the **economy**.

We have had a better than expected recovery in Europe: after 2% growth in 2010, we were expecting a 1.8% growth for this year. But economic activity has slowed down significantly during the summer months.



The recent decline in sentiment may have a limited impact on the final GDP growth figure for 2011. But there is uncertainty about the sustainability of the recovery. Growth forecasts for 2012 are under greater pressure. Hesitant political and economic actions to solve the sovereign debt crisis have created uncertainty and instability. And of course, doubts about growth and debt sustainability, accompanied by political indecision, can be observed across the Atlantic as well.

Luckily, emerging economies continue to show strong growth though. Even some in the EU, such as Poland.

We are at an historic moment in the European Union. We are at a critical moment in the eurozone. Market volatility is blamed. But markets are expressing their impatience to see “clear communication” and a “clear commitment” to safeguarding the euro and to strengthen the financial sector.

It is important that the political leaders take strong measures. This commitment is key to secure economic stability and long-term growth.

Therefore our focus is on effective economic governance, on finalisation and implementation of all the decisions that have been taken. We place particular emphasis on:

- The ratification of the treaty to establish the European stability mechanism, replacing the temporary European Financial Stability Fund.
- Strengthening of commitments to structural reform, through both revisions to the Stability and Growth Pact and the establishment of the Euro Plus Pact. We need to ensure that EU member states have strong commitments to reform at national level, in order to improve economic coordination, fiscal strength and competitiveness.
- This means above all a strong role for the Commission in enforcing Member States commitments if necessary.

Finally, our aim is to focus on both short-term economic prospects, including crisis management proposals, and long-term structural reform prospects as outlined in the programme that each member state has defined for itself.

Challenges of the Euro

Europe is at a crossroads and we must ensure that we choose the right path.

In this critical situation for European countries, we must campaign strongly for European unity and we must defend the pillars on which the European Union is built.

The **Euro** is one of these pillars. The euro – implemented in 17 countries – was a political miracle, a technical feat and, so far, an economic success. It has kept inflation under control and most importantly, acted as a spur for growth by increasing trade, competition and productivity. We, as business, have been very supportive.



It is not the Euro that is the source of the crisis, but extensive government borrowing. The Euro is not the reason of the Greek, Irish and Portuguese difficulties. It is their own national policies. Because, as very often at European level: important decisions to foster integration are taken. But the indispensable conditions are not met. If you have a common currency, you have to have a closely coordinated economic and fiscal policy.

So, there is an urgent need to reduce excessive debt across Europe. But this must be done in a smart way, reducing wasteful expenditure while supporting productive investment, rather than just increasing taxes. A way that strengthens national economies, focusing on growth enhancing reforms. We know from experience – and you know it even better – only growth can solve the problems in a sustainable way.

One example which encompasses all these points: the **Euro Plus Pact**, whose principles should be implemented, and which would allow deeper integration.

How can we foster growth? The recent past has again confirmed it: the strength of European companies is measured by their exports.

International trade undoubtedly has a role to play and represents a priority for BUSINESSEUROPE.

It is also a strong pillar for boosting EU competitiveness and growth. A study by the Bruegel think tank has again stressed the following: the more export-oriented a company is, the stronger, the larger and the more competitive it will be.

A successful trade policy must deliver real market access for European companies, enabling them to grow and boost employment.

The conclusion of the Doha Round is our top priority. BUSINESSEUROPE will be once again in Geneva next week to repeat this. Our chances of being heard are small. Today, bilateral relations are becoming more important. We must work on improving relations with key trade and investment partners, such as United States, China, Russia and Japan. We have to invest in relations at G8/G20 level. We strongly support the ongoing negotiations between EU and other countries or regions of the world: with South Korea it has been concluded; with India, with ASEAN countries, Mercosur, Canada and Japan negotiations are still under way. It is process and, we hope, progress.

Besides growth, we need job creation. The “quest for jobs” as our American friends call it.

Evidence shows that **job creation** has continued in those countries that introduced structural reforms on time. Evidence shows that those countries that have accumulated strong imbalances have seen a deterioration on their labour markets.

Member States must take the necessary measures to bring down unemployment and avoid it becoming entrenched. We call this reform **flexicurity**.



Providing security through training, activation and modern social security systems as well as improving labour market flexibility is indispensable to move away from job security to employment security.

In order to improve European employment policies, BUSINESSEUROPE will have to discuss the new pro jobs programme with the European Trade Union Confederation, ETUC (*which is the European umbrella organisation for national Trade Unions, and the main partner of BUSINESSEUROPE in the European social dialogue*).

Let us say a word about the **single market** which is a corner-stone of European integration which is a necessary condition for EU companies to face global competition. The good thing of the single market is that your country is part of it. Therefore you can benefit from it.

For goods, a lot has already been achieved. There is free movement for most of the products. But there is insufficient harmonisation of requirements for placing products on the market, for instance different labelling rules. Quality requirements are higher in some member states.

For services we are only at the beginning. Europe is highly dependent on the services market which accounts for around 70% of EU GDP. But the famous services directive still has to be implemented. I recognise the efforts for this complex undertaking. But I am worried about the delays. Complete implementation is urgent. We will also support political action to enlarge the scope of this directive.

But apart from goods and services there are other key elements to secure a single integrated EU market. These have been listed in the single market act. Everything that is related to public procurement: this concerns 17% of GDP. Everything that is related to intellectual property. Everything that is related to consumer rights or to contract law. Everything that is related to the digital industry.

Last, but not least, the unitary patent, which creation came from a recent enhanced co-operation of 25 member states. This will undoubtedly cut down red tape and costs, boost the competitiveness and innovation of European companies and further enhance the single market.

When we talk about the single market, our focus is also devoted to **small and medium-sized enterprises** (SMEs). Nine out of ten companies are small and medium-sized. They provide two out of three jobs. They are the driving force for growth, job creation and innovation.

It is key for growth that small and medium companies are at the heart of the policy agenda. "Think small first" is the Commission slogan. We agree but add to it "think BIG". Compared with the United States, our SMEs are smaller and weaker. The aim should be to make them bigger and stronger.

Another important point I would like to address is **competitiveness**, as a result of **innovation and skills** development.



I visited yesterday some of your most innovative companies, and I have to say, I have seen a lot of innovation in your country, not only in the fisheries and energy sectors. I have seen that smaller companies are also able to introduce innovation despite limited R&D resources. You know that very well from your location. Your companies have to be innovative to survive. From what I have seen so far, this is a success.

Innovation is the driver of economic development. It is a main contributor to competitiveness at the global level. It is also the answer to the great challenges European society faces such as climate change, energy security, public health, mobility, food security.

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.

Europe has excellent capacities for generating new ideas and inventions. Yet, it is still suffering from an **innovation deficit**. This means that it experiences difficulty in turning research results into marketable products effectively and rapidly.

Together with innovation, the “**skills for tomorrow**” are crucial for economic growth and for a country’s competitiveness.

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.

There will be a contest for talents, and economies with the best performing school systems will be the winners.

Before concluding, I would like to say a few words on Iceland and the European Union.

In 2009, your country presented its application for membership to the European Union. Since then negotiations for accession have started.

It is obviously for the Icelanders to decide whether or not to join the European Union.

Let me simply say that you are already contributing significantly towards the single market of the EU in several forms: renewable energy, fish exports, aluminium exports and tourism. However, with the accession negotiations getting underway, and chapters being finalised, the option for a strategic political and geographical expansion of the EU towards the North becomes an increasingly tangible possibility. And European business would certainly welcome a deeper integration and a stronger relationship with Iceland through an even more integrated single market. But it is for Iceland to decide.

Conclusion

It has been said very often that the European Union – and wider Europe – is at a crossroads. I hope we manage to follow the right path.



Urgent short-term measures need to be taken.

You have had recent experience of what this means.

At the same time European countries need to take measures to enhance their competitiveness. This cannot be done overnight, but has to be achieved over a period of years.

The sooner structural reforms are put in place, the better. This is particularly true for Greece and Portugal, but also for Italy and Spain. In this respect, Iceland has shown the way: your country has emerged from the difficulties of the last few years and shown resilience in putting its economy back on track.

Thank you for your attention.

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