BUSINESSEUROPE

SPEAKING NOTES

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OVERCOMING THE CRISIS:
TOWARDS A POLICY PROGRAMME FOR SUSTAINABLE RECOVERY

TOWARDS SUSTAINABLE GROWTH AND EMPLOYMENT: THE EU BUDGET AND THE EUROPE 2020 STRATEGY

ADDRESS BY PHILIPPE DE BUCK
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Importance of the Euro:

- The Euro is a key pillar of the European construction. The common currency led to wide benefits for European competitiveness:

  – **Trade costs** within euro zone **decreased**. This has saved businesses up to €25 billion in currency exchange costs (as much as 0.3% to 0.4% of GDP);

  – The single currency **increased competitiveness**, inducing firms to trade higher volumes and establishing newly-trade good channels. Today, trade among euro area countries is around 2 to 3% higher thanks to euro;

  – Before the euro, volatile interest rates meant unpredictable costs. With the euro, **inflation has come to a lower and more stable level**, stabilising also interest rates. **This facilitates both investing and planning business strategies**;

  – A **rise in Foreign Direct Investments within the currency area** has been observed. For example, intra-euro area FDI flows as a share of total euro area FDI increased from 35% in 1999 to 45% in 2006. The euro creates also a larger market where foreigner investors can access;

  – **The strength of the single currency**, wherein inflation is kept under control, **reduces the import costs for companies** belonging to the Euro Area. For instance, oil price is relatively cheaper, as it is traded in dollars.

- All of these advantages facilitate both investing and planning business strategies.

Time to implement structural reforms at national level

- BUSINESSEUROPE's reform barometer has concluded that countries that have accumulated large debt and competitiveness imbalances before the crisis are facing more severe structural adjustment challenges.

- For instance, **good performing countries**, such as Austria, Finland, Germany, Netherlands, Poland, are expected to **create** a great part of all **new jobs** in the EU in 2011. A much less benign picture of labour market trends is presented for countries scoring below average in our Reform Barometer. This is the case of Ireland, Portugal, Greece, and Spain.

- Countries that failed to close the gap with the best performing countries and to undertake the necessary adjustments will now have to do so in difficult circumstances.

- Member States must take decisive actions to:

  1. Reduce public indebtedness by **eliminating inefficiencies**.

  2. Simultaneously, it is fundamental to **maintain growth enhancing investments** in innovation, skills, technology and modern infrastructure.

  It is therefore not only about reducing public indebtedness, but doing so in a smart way to shift resources to productive uses.

- We can no longer delay implementing difficult structural reforms. Each member state must properly identify priority reforms that address competitiveness weaknesses and growth bottlenecks.

- **National Reform Programmes** must clearly reflect these commitments and real implementation must follow. Unfortunately, this was not only the case in the 2011 exercise. Many National Reform Programmes lacked ambition and vision.

- We therefore **welcome the Commission** role in this process that issued clear, direct, and stringent country-specific recommendations. These also considered Euro Plus Pact commitments and Europe 2020 national targets proposed by each member state. We hope that this resolute attitude from the Commission remains when monitoring implementation.

The EU role in achieving growth:

- **Action** at national level **must be complemented at EU level**. Europe 2020 is the EU's growth strategy for the coming decade. A smart, sustainable and inclusive economy by 2020 and reaching the objectives set out by this strategy are a daunting challenge.

- **We won't be able to reach the Europe 2020 targets without growth**. In the current context, achieving 75% employment rate by 2020 means that companies will have to create most of the 17.6 million necessary jobs.

- It is therefore necessary to help companies thrive rather than making it harder for them to restructure.

- The **EU budget** can play a crucial role in this regard. It must devote a much greater share of its resources to growth and jobs.

- BUSINESSEUROPE recognises the efforts from the Commission in its multiannual financial framework proposal. But we also believe that there was **room for a more radical overhaul**.
  - We would like to see a much clearer **alignment with the objectives of Europe 2020 –** that goes beyond a mere renaming of its headings.
  - The way in which EU funds are spent must also be reformed. In the current context, discussions should focus on **how to spend better**.
  - All EU policies should use designated funding in a way that enhances competitiveness. For this, every single project should give **proofs of good performance** to ensure money is well spent. And selected projects should **support structural reforms** of Member States. All funds should firmly contribute to restoring growth, job creation and financial stability;
  - Considerable effort is also necessary to **simplify rules and procedures** in the use of EU funds. This is particularly important for SMEs. We are therefore expecting significant improvements to be presented by the Commission before the end of the year.

In addition the EU can do more in other areas to boost growth and jobs in Europe:

1. Further progress in **reducing the single market barriers** is necessary. This could represent an economic potential of between 275 and 350 billion euro!

2. **Access to international markets** is also needed by accelerating negotiations on free-trade agreements with key partners (e.g. India, Singapore and Canada).

3. We also need **job creation**. Evidence shows that job creation has continued in those countries that introduced structural reforms on time. **Flexicurity** is indispensable to move away from job security to employment security.

4. A **growth oriented research and innovation framework** is also a driver of economic development and will be the answer to the great challenges we are facing in terms of climate change, energy security, public health, mobility, and food security.

Economic governance

- A number of important steps have been taken to improve economic governance:

  - The **European Semester** will enhance coordination on national budgets. However we need greater commitment from members in their national reform programmes. The Commission must demonstrate it can be a strong player in supervising implementation and provide robust country-specific recommendations

  - **The adoption of the "six legislative proposals"** in September **represents a very positive step to improve Economic Governance**. In particular, it is very important to have more automatic sanctions and closer monitoring of macro economic imbalances;

  - We welcome a number of measures **to increase the powers of the EFSF** and its successor the ESM, which by assuming responsibility for any secondary market bond purchases, can in turn help secure the independence of the ECB.

- But overall, BUSINESSEUROPE fears that European leaders have been **lacking a sense of urgency for too many months**. Policy decisions have been responding to the course of economic and financial developments rather than being in the driving seat and anticipate events.

- That is why we have **welcomed** the decisions taken in the **last European Council**. Leaders have shown action and succeeded to act in a coordinated and consistent way. The details of the presented schemes must now be swiftly announced and the plans fully implemented.

- We also believe that the agreement reached to improve the sustainability of Greek debt offers the best opportunity possible for **Greece** to return to a path of long-term, sustainable growth and increased employment.

- The business community makes a strong **call for more Europe**. The crisis has demonstrated the need for further integration. This is crucial to safeguard the Euro and progress towards a real single market.

Summary of main points:

- It is fundamental to safeguard the common currency
- Difficult structural reforms must now be implemented
- The Commission must ensure a proper implementation of these reforms
- National efforts must be complemented at EU level
- We must go for growth. It is a crucial element to get out of this crisis
- Businesses make a call for more, not less, Europe.
