BUSINESSEUROPE

STATEMENT

March 2014

BUSINESSEUROPE statement to the Spring European Council on 20-21 March 2014

Europe is walking; the rest of the world is running

While the EU has been engaged in crisis management, and is still to see its economy return to its pre-crisis size, other economies across the globe have not stood still. In the last 5 years, Chinese GDP has grown by over 50% and the Indian economy by over 30%. Japan and the US have already recovered the ground they lost during the crisis. In the last five years, 6 million jobs have been lost in the EU, compared to around one million in both the US and Japan.

Europe is losing ground because:

- The overall tax burden as a share of GDP in the EU is 50% higher than in the United States and 30% higher than in Japan;
- The average tax wedge on low income earners is 40% higher in the EU than in both United States and Japan;
- Administrative requirements to start a new business are 3 times more burdensome than in competing developed economies like the US;
- Industrial electricity prices in the EU are more than twice those in the US and Russia and 20% higher than in China;
- R&D spending as a percentage of GDP has remained at around 2% in the last decade, far behind the 3% EU 2020 target and what Japan (3.4%) and United States (2.8%) achieve;
- Our education and training performance weakens compared to key competitors, which are quickly progressing while Europe faces structural mismatches between skills learned and skills needed;
- Access to finance is increasingly constrained, with outstanding loans to companies from euro area banks having fallen by around 10% between the start of 2012 and the end of 2013.

Urgent action is required to improve European competitiveness. The reform objectives set out in the EU country specific recommendations focus on the right issues but are poorly implemented. National reform programmes implemented as part of the European semester must be ambitious and realistic. To facilitate the implementation of necessary reforms, the social partners must be involved at EU or at national level at the different stages of the European semester.

BUSINESSEUROPE's 2014 reform barometer shows that 86% of these country specific recommendations are considered as important or extremely important by our member federations. However, our survey shows that only 23% have been followed by satisfactory implementation according to our member federations.

BUSINESSEUROPE

Europe speaks of industrial competitiveness; our competitors gain market share

A strong industrial base is essential for Europe's recovery and long-term competitiveness, growth and job creation. Linked to manufacturing activity there are also many jobs in services. Europe is losing ground. Between 2000 and 2012, the EU share of world manufacturing value added has declined by 6%, while Asian emerging market economies increased their share by 17%.

There is no time to waste. The European Council must endorse the goal of increasing the contribution of industry to 20% of EU GDP by 2020 and the European Union must urgently adopt an industrial compact, putting in place a comprehensive and coherent strategy to improve industrial competitiveness and better integrate EU companies in international value chains.

This requires a new European industrial governance that delivers real prioritisation and mainstreaming of competitiveness in all policy areas. BUSINESSEUROPE calls for three concrete measures:

- Heads of State or Government must give a clear sense of direction, with deliverable priorities, and ensure that the state of play for European industry and the progress made in pro-competitiveness reforms are monitored and evaluated every year at the Spring European Council (as we do for growth and employment enhancing reforms);
- A permanent Industrial Competitiveness Coordination Group must be established in the Commission to ensure that industrial competitiveness is systematically taken into account when deciding on Commission proposals and that transparent competitiveness proofing becomes an integral part of ex-ante impact assessment;
- The Competitiveness Council must become a much more active guardian of European competitiveness and be supported by the EU Council when it speaks up on policy proposals undermining our industrial competitiveness.

All EU institutions and all decision-making levels must be mobilised to deliver competitiveness enhancing measures in the key policy areas identified in BUSINESSEUROPE recommendations for an industrial compact:

- Access to finance for companies on reasonable terms, backed by an efficient Banking Union to eliminate fragmentation in the EU financial market and measures to unlock alternatives to bank finances such as hybrid funding methods, equity funds, venture capital, loans and corporate guarantees and refraining from counter-productive measures such as the introducing a European Financial Transaction Tax by enhanced cooperation or disproportionate measures to separate different bank activities;

- Increased labour market flexibility and productivity, in open, dynamic and mobile labour markets encouraging job creation and growth enhancing reform, because this is the only effective way to eradicate unemployment;

- Educating for employment, with a focus on science, engineering, technological and mathematical skills and effective dual learning to put an end to the scandalous coexistence of record levels of unemployment and thousands of unfilled vacancies due to inadequate education and training;

- Clever measures to further develop the Single Market and cross-border cooperation and value chain integration for all products and services involved in manufacturing, not via more legislation but through better enforcement of existing rules governing free movement of workers, goods, services or capital in the EU, smarter regulation, less red tape and consistent introduction of a mutual recognition in EU legislation;

- Innovation-friendly framework conditions to be able to turn research results in market products and make better use of digital technologies as a key enabler of business growth, including in traditional sectors;

- An ambitious and fair international trade policy and an effective resource diplomacy, opening up new market opportunities for European companies across the world, covering tariff and non-tariff barriers, services, investment, government procurement, intellectual property rights and ensuring open access to raw materials;

- Expanding infrastructures, in a cost effective way by removing remaining regulatory administrative and technical barriers in all modes of transport, and facilitating public-private partnerships to enable our companies to participate in international value chains;

- An energy and climate policy which truly put cost competitiveness, security of supply and climate objectives on an equal footing and a clear strategy to avoid “investment leakage”.

Europe increases energy prices; our competitors’ exports of energy intensive products increases

European energy prices have risen to unprecedented levels. Industrial electricity prices have increased by 37% in the European OECD member states between 2005 and 2012, while decreasing by 4% in the US. This is affecting Europe’s competitiveness.

Europe could lose one third of its global exports of energy intensive goods by 2035. This is a major issue for the 52 million people whose job directly or indirectly depends on industrial production.

The 2030 energy and climate package proposed by the European Commission includes some openings to ensure that competitiveness, security of supply and climate objectives are better balanced than in the past. At the same time, climate policy will remain a driver of EU's energy strategy with the development of renewable energy sources and energy efficiency. However, this package still lacks the right level of ambition and concrete actions to tackle the challenge of excessively high energy prices and safeguard the international competitiveness of European business.

BUSINESSEUROPE calls on the Spring European Council to:

- Support a single greenhouse gas emissions reduction target post-2020. EU targets for energy efficiency and renewable energy sources should not be continued after 2020 as they are not economically efficient. However, should an EU level renewable target be agreed, it must not be translated into a binding burden sharing at national level.

- Establish a clear conditionality between the 40% GHG emission reduction and the completion of an international climate agreement in 2015 in Paris. Europe must not be once again a lone frontrunner, with rising energy costs driving investment abroad. The proposed 40% target can only be seen as realistic if a binding international climate agreement with comparable and measurable contributions by our main global competitors can be concluded in 2015.

- Require a reform of the EU Emissions Trading System post-2020 with an improved carbon leakage support to avoid investment leakage. The Market Stability Reserve proposal should be discussed, in conjunction with compensation measures for direct and indirect costs coordinated at EU level, in light of the outcome of the 2015 Climate Conference. At the same time, the Spring European Council must confirm that the current carbon leakage list remains unchanged.

- Ensure the right balance in the Energy and Environment State Aids Guidelines between minimizing distortions of competition within the Single Market, and at the same time, providing the right framework for European companies to be competitive vis-à-vis other main global players. In particular, the guidelines must permit measures that fully offset the cost impacts of decarbonisation policies on energy intensive sectors

Industrial development is key to increase growth and employment in Europe. European companies count on the European Council to define an ambitious and comprehensive industrial competitiveness strategy and effective tools to ensure its proper implementation.

****