



*** Check against delivery ***

26 August 2014

BUSINESS FORUM OF THE ANNUAL AMBASSADORS CONFERENCE GERMAN FOREIGN OFFICE

EUROPE IN THE GLOBAL ECONOMY TRADE RELATIONS AND COMPETITIVENESS

ADDRESS BY EMMA MARCEGAGLIA, PRESIDENT OF BUSINESSEUROPE

Minister Steinmeier,
Ambassadors, Business Colleagues, Ladies and Gentlemen

I would like to start by thanking [Minister Steinmeier](#) for the kind invitation and to say how honoured I am to be here today and speak to such a distinguished audience.

Foreign Policy has an outstanding impact on business and it is therefore of extreme importance to promote a closer exchange between business leaders and the different heads of Foreign Policy both at national and EU level. Today's initiative is a valuable contribution to increase awareness and foster the dialogue between business leaders and foreign policy representatives. This is why I gladly accepted Minister Steinmeier's invitation.

In my intervention I will try to touch upon the main challenges facing European business today and how a stronger and more competitive Europe can play a leading role in the world economy, being trade a key tool in accomplishing this objective.

In the last 15 years we have witnessed dramatic changes in the way we live and the way we do business. The digital revolution made the world smaller and more connected. New business opportunities were created and new emerging markets opened.

But we are also facing increasing challenges: climate change and resource scarcity, aging population in developed countries, globalisation of the supply chains or the increasing political and military tensions in some parts of the world, just to mention a few.

This shifting reality constitutes a challenge for business leaders but also for politicians. Since the world is closer the impact of any measure or decision has also the potential to be greater and less manageable. We are living in a society of constant learning where finding innovative solutions is key to ensure sustainable growth and development.



As any of my business colleagues I am also confronted every day with this new reality that is less predictable, more complex and fast moving.

In BUSINESSEUROPE, the voice of small and big businesses across Europe, we try to address the challenges and opportunities of this new world reality. Our main objective is to provide decision makers with practical solutions that could help to create the best business environment in Europe.

Our understanding is that in Europe we have tried to manage these new challenges and opportunities but not always in the best way and a lot of work still needs to be done.

Indeed we must not forget that globalisation means increased competition not only from developing countries. In this context Europe is competing against other regions as a business location– and it has been constantly losing ground.

Due to various factors, particularly high operating costs, high energy prices and excessive administrative burdens, Europe is becoming less attractive as an investment location. We are losing investments not only to fast growing economies but also to developed economies such as the US that has managed to capture new investments in recent years due to very competitive location costs.

In the recent years we have been trying to manage our internal crisis in Europe but the rest of the world has not stopped.

We must not forget that in the last five years we lost 6 million jobs across the EU, compared to around 1 million in both the US and Japan. Even if the EU continues to be the leading world investor, our share of worldwide FDI flows fell to 24% in 2012 compared to 40% in 2000.

For us in BUSINESSEUROPE this scenery can only be changed if we create the necessary conditions to have a more competitive and stronger Industry in Europe.

It is a fact that Europe's industrial production is in decline. The EU's share of world manufacturing added value has decreased from 25,7% in 2000 to 20,8% in 2012 while Asian emerging countries have increased from 9,6% in 2000 to 27,5% in 2012.

This trend can be partially explained by increasingly globalised supply chains, the upsurge in Services and improved productivity, but it is also consequence of the mounting cost pressure that discourages investing in Europe.

In many cases cost competitiveness pressure is a result of lack of coordination between different EU policies. One of the striking examples is Energy:

In 2012, industrial gas prices were on average more than four times lower in the U.S. than in Europe. As a result, the International Energy Agency predicts that by 2035 the EU's share of the global export market for energy-intensive products will drop by 10% while the US' share will increase by 1%.



We must not overlook that Industry still represents:

- 57% of total EU exports and I know how important is Germany's contribution to this ratio,
- 65,3% of R&D expenditure
- 32 million direct jobs and 20 million additional industry-related jobs

That is why in BUSINESSEUROPE we believe the EU urgently needs a modern and creative industrial strategy that fosters the development of high value-added products and production processes allowing European industry to be the real innovation and growth engine in Europe and the world.

A strong and highly competitive industry is essential for Europe to maintain a leading role in the world economy, create jobs for the future and continue to secure high living standards for its citizens.

To ensure companies re-shore industrial activities in Europe and gain global market shares, we must pursue pro-competitiveness policies in the EU. This is where politicians and business leaders should work closer together to make sure we don't lose further ground to our main competitors in developed and developing economies.

To successfully revive Europe's industry, the EU needs a more comprehensive approach to industrial governance. It is essential that a business friendly environment is set to allow companies to develop their full potential. This calls for improved and early coordination within and amongst EU institutions to ensure that different policy initiatives support industrial competitiveness and do not work against it.

At the same time, concrete policy actions need to be taken in several areas to increase Europe's competitiveness as a business location. Let me quickly highlight some of these areas.

- **Making energy policy a real growth driver:** the EU faces two interlinked challenges of high energy prices and increased import dependency. I would add as well in view of recent events that our import dependency on unreliable and high risk suppliers is creating additional pressure on Europe that urgently needs to find alternative and more dependable sources. Indeed Europe needs an in-depth review of its approach to energy to avoid damaging further the competitiveness of its Industry. As mentioned before EU industry pays three to four times higher gas prices than US, India or Russian industries. At present exchange rates, EU industrial electricity prices are more than twice those in the US and Russia, 20% higher than China.

To remain competitive the EU has to adjust its climate policy to significantly lower the energy prices impact and to pursue a real diversification strategy both domestically, exploiting the potential of shale gas, and internationally by envisaging new and more trustworthy sources. Some of the Trade Agreements that we are currently negotiating or have recently concluded can play a decisive role in the field of Energy.



The US is a good example of how a pro-business energy strategy has led to a decrease in prices, shifting the country's profile from being one of increasing dependency to a situation where domestic production is expected to expand significantly, generating fresh investments and new jobs. If the US has managed to do it we should be able to succeed in Europe as well.

- **Strengthening and speeding up close-to-market innovation:** innovation has the potential to transform European industry generating new and higher value added business opportunities. Europe needs to catch up with its global competitors who are using innovation to boost their industries. The manufacturing sector is the main source of research and development in most European countries, amounting to two thirds of R&D expenditure. However, though European research is exceptional and has been responsible for many new technologies used in industries worldwide, this scientific leadership is not sufficiently translated into industrial gains. Many times innovative products are developed in the EU but they end-up being produced and commercialised by foreign companies.

In parallel, we need a broader view on innovation, recognising the role of dynamic high-growth businesses and the importance of "*hidden innovation*" and the power of digital innovation. As innovation increasingly relies on cooperation among businesses, dynamic clusters and networks for innovation also need to be encouraged.

Innovation is deeply connected to education and skills and we need to make sure that our efforts to render Europe more innovative and creative are not jeopardized by the lack of professional competencies and skills.

- **Improving access to finance on reasonable terms:** the implementation of a European Banking Union will lead to deeper and more liquid markets, more resilience to financial shocks and better support to cross-border trade and investment.

However, it is equally important to strengthen non-bank financing routes. Europe is still a risk aversion culture, this resulting in an insufficiently developed system of alternative financing instruments. Recent initiatives aimed at unlocking alternatives to bank finance such as equity funds, corporate bonds, venture capital and crowd funding are most welcomed and should be further promoted.

- **Making skills fit for industry:** today, we have thousands of unfilled vacancies because companies cannot find candidates with the right skills. This mismatch cannot continue. It is damaging Europe's competitiveness and is not helping our citizens improving their life conditions and their trust in the European system. Especially the short-term shortages in terms of science, technology, engineering and mathematics – the STEM skills – need to be urgently addressed. Moreover, Europe needs to focus on improving entrepreneurial skills. Fostering a more entrepreneurial mind-set in society, as well as encouraging the development of entrepreneurial attitudes and skills in people of all ages can greatly contribute to the strategic goals of growth, employment creation and innovation.



- **Deepening the internal market:** the costs of doing business in the EU are still very high. Most of these costs stem from the non-completion of the internal market and the regulatory differences that still exist among member states in different policy areas. In other cases the excessive costs are due to lack of coordination between different EU policies and a poor assessment of the impact of some measures in the competitiveness of companies, in particular SMEs. That is why as I have said before we need urgently to develop a genuine industrial policy in Europe that promotes a pro-business framework and allows for sustainable development of our industry.

As I have mentioned already we are not alone in the world and most of the economic growth in the coming years will be generated outside Europe. 90% of world economic growth by 2015 is expected to be created outside Europe- 1/3 alone in China. Developing and emerging countries are likely to stand for nearly 60 % of the world GDP by 2030 (< than 50% today).

This leads me to talk about Europe's presence in the world markets and how important trade and investment are to sustain our economic growth and ensure that Europe keeps its leading role in the world economy.

As you all know the EU is the world's largest trading block representing around 16% of the World's Imports and Exports. In spite of the decrease in the World's Investment share the EU continues to rank first in both inbound and outbound international investment flows. This gives us a good indication of how open to the world is the EU economy and how important an ambitious Trade agenda is to ensure that our economy remains competitive.

As I have said in the beginning of my presentation the world has changed tremendously in the last years and trade and investment patterns have followed suit. Today, global production is organised to an increasing extent by international or global value chains. Goods and services are not produced in a single location, but are the result of a combination of tasks executed in different countries. Most of the goods traded in these global value chains are intermediates. For instance, in the EU the share of imported intermediate products in total use of intermediates went up from 6% in 1995 to 9% in 2009. However about 87% of value added in EU Exports of goods is created domestically. This means we are increasing our imports of intermediates that will allow us to produce more competitive and higher value added products that we are exporting worldwide.

This change puts additional pressure on the EU, as well as other trading partners, to find ways of supporting global value chains. The worldwide comprehensive elimination of tariffs and non-tariff barriers, and facilitation of trade and investments are the right answers to this new international trading environment.

Ideally the WTO – as the only international organisation creating rules and setting standards on trade at the multilateral level – should play a decisive role in adjusting world trade rules to the new reality. Unfortunately concrete results are scarce for the



moment and our expectations as to what the WTO can accomplish are rather limited at present.

For this reason in BUSINESSEUROPE we are strongly in favour of pursuing an ambitious bilateral trade agenda with the main EU trading partners. Apart from generating direct benefits for the negotiating parties, these preferential agreements advance free trade and can serve as building blocks for the multilateral system.

I will focus now briefly on the most important on-going trade negotiations and why they are critical for EU business big and small and ultimately for the global competitiveness of our economy.

I will start by the agreement that is the major trade priority for BUSINESSEUROPE: **TTIP- Transatlantic Trade and Investment Partnership.**

The transatlantic economy is already the largest market in the world, and the most integrated one both in terms of trade as well as investment. We are conscious that the key to a successful agreement lies in a forward looking approach that is at the same time constructive and creative, as innovative solutions are necessary between two partners that have long known each other and want to take their relationship a step further.

Tariffs are only one of the existing barriers that hinder transatlantic trade and investment from reaching its full potential. Often they are replaced by other barriers such as regulations, standards, custom procedures, investment limitations, local content requirements, that have the potential to prevent companies, especially SMEs, from exploring market opportunities.

This is why we defend the conclusion of an ambitious and comprehensive agreement that goes beyond tariff elimination. This will not only reduce the costs of doing business and further enhance trade and investment on both sides of the Atlantic but it will potentially lead to the establishment of world class rules and standards in a number of areas including product safety, environment, social, investment, public procurement, IPR, etc.

I would like to stress as well that TTIP is a unique opportunity for the EU to develop its energy trade with the US. In the present context we need to find alternative and reliable energy sources and the US is one that we cannot miss.

Negotiations are complex and there is no “quick fix”. However, we must not fall in the temptation to lower the level of our ambitions in order to have a deal concluded faster.

We are also well aware of increasing criticism coming from some parts of the civil society that we cannot ignore but have to demystify as some of the concerns are clearly unfounded.

We are not aiming at deregulating or reducing the level of standards in the EU or the US with this agreement. Progress can be achieved without jeopardising the right to regulate from the EU or the US. Our objective is to ensure a high level of protection for the



consumers, the workers or the environment in the transatlantic market place. Hopefully these high level standards can be later on transposed to other agreements at bilateral and multilateral level.

This agreement is not only good for big business. Small businesses have the most to gain from the duty elimination or the simplification of procedures. This will significantly reduce market entry costs allowing SMEs to seize existing business opportunities.

Let me be very clear: TTIP can only deliver if we maintain a comprehensive scope and that is why in BUSINESSEUROPE we are strongly against any "carve outs". We need the agreement to set high standards worldwide in all areas including in Investment Protection.

We are also negotiating with another important trade partner -Japan. The negotiations should remove classical barriers to trade and also be forward-looking. This includes investment, services and procurement amongst others.

The focus must be given to the removal of non-tariff barriers such as divergent standards or supplementary testing requirements. Furthermore it is important that tariff liberalization and the removal of non-tariff barriers are closely connected as tariffs are not equally distributed in the EU and Japan.

In order to avoid future problems long lasting solutions need to be found. This is why BUSINESSEUROPE wants to include a mechanism in the agreement that prevents risks of future regulatory differences and facilitates an on-going dialogue between public authorities as well as business on both sides.

I would also like to briefly mention other important trade partners with whom we have negotiations formally open but where there is no real progress happening. This is the case of India and Mercosur. These are important markets and we must not abandon our efforts to improve market access conditions for our companies, exploring creative ways to solve existing problems and promoting close dialogue with local authorities and businesses.

Another important EU trade partner is China. In 2009, over 1.1 million jobs in the EU were related to China's export activity while 5.5 million Chinese jobs were dependant on EU exports. Many EU companies have invested in China and the conclusion of a bilateral investment agreement is critical to address some of the remaining problems in particular in what concerns market access.

Finally I come to one of the most important but also for the moment one of our most problematic trade partners- Russia.

BUSINESSEUROPE recognizes the challenging political environment in the current EU-Russia relations. Since the crisis in Ukraine has started we have maintained a steady line that can be summarised as follows: **(a)** the European Union has to play a strong role in managing this crisis and we must not allow the default of Ukraine; **(b)** in this context we understand the recent Council decision to apply sanctions against



Russia taking into account the delicate political situation; **(c)** our only concern as business is to make sure there are no misunderstandings in applying the measures and therefore we are closely monitoring the situation in coordination with our members; **(d)** nevertheless from a business perspective Russia must be kept in the loop and for this reason we plan to maintain contact with Russian Business- RSPP; **(e)** finally as mentioned already the EU urgently needs to work towards greater energy independence and finding alternative suppliers.

I would like to conclude by reaffirming that we are operating in a very volatile environment from a political as well as from a business perspective. A close cooperation between decision makers and business leaders is even more important in present times.

Thank you.

* * *