



Mr Donald Tusk
President of the European Council
European Council
175 rue de la Loi
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BELGIUM

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Message to the EU Council meeting on 19 March 2015

Dear President,

Recent developments mean the EU now has a more supportive macroeconomic policy environment. But this will only help longer-term growth if essential economic reforms at EU and Member State level to improve competitiveness are stepped up.

In the short-term, the actions taken by the ECB, the Commission's more flexible enforcement of the Stability and Growth Pact (SGP), lower oil prices and euro/dollar exchange rate all mean the European Union now has a macroeconomic environment much more supportive of growth. However, in the longer term and in the absence of necessary reforms, the effects of quantitative easing and flexible enforcement of SGP rules will be wasted and could even become counter-productive.

Returning EU investment to levels that will drive long-term growth will require fundamental improvements to the business environment. As we enter 2015, the economic recovery remains fragile. Companies continue to lack the confidence to invest, with access to finance also a constraint for many. Pursuing structural reforms is key to getting sustained growth.

1. Further progress in structural reforms

BUSINESSEUROPE's Reform Barometer 2015 shows that we continue to lack consistent reform implementation across the EU. In areas which are crucial for encouraging business investment and competitiveness, including the regulatory environment, taxation, innovation and energy prices, the EU and its member states are failing to address fundamental barriers and continue to lose ground with global competitors.

Our overall assessment of implementation of the Council's Country-Specific Recommendations (CSRs) shows the same low level of satisfactory implementation of essential labour market and product market reforms. Like last year, only 22% of recommendations have been followed by satisfactory implementation according to our member federations.

Countries that were faced with greater difficulties have pushed forward reforms most forcefully in recent years and the experience of countries such as Ireland and Spain shows that reforms can feed through surprising quickly and deliver higher growth and employment creation. We welcome the prospects of an extension of financial assistance to Greece.



However, financial support can only be conditional upon the continuation of reforms. Greece must now grasp the opportunity to capitalize on the reforms that have been implemented so far and complete the reforms that are still needed to address the fiscal and social challenges at hand, create sustainable jobs and secure the country's long-term prosperity.

Some member states with traditionally strong competitiveness, growth and employment performance, risk losing ground as a result of a failure to maintain a leading business environment. This can lead to damages across the EU as these countries are important growth drivers for the Union as a whole.

Our Barometer points to the following reform priorities:

- Member States need to continue growth enhancing **fiscal sustainability**, focusing primarily on reductions in current public expenditure and protecting investment, rather than tax rises because the overall tax burden in the EU remains over 50% higher than in the US and over 25% higher than in Japan.
- The **Capital Markets Union** must be taken forward to improve access to finance, because European firms remain heavily reliant on the banking sector particularly in those countries most affected by the crisis.
- **Regulation** must be simplified both at EU and national level in order to support companies' expansion because administrative requirements remain much higher in many member states than in the US.
- The benefits of the **digital economy** must be fully exploited and our weaknesses in broadband have to be addressed because the EU is the only major economy that saw a decline in such investment in 2008-2013.
- **Education performance needs to be raised** because only 45% of EU adults participate in learning activities, compared to almost 60% in the US. Europeans of all ages should have the knowledge and skills they need to succeed on labour markets.
- **Labour markets must be reformed** to foster job creation, stimulate employment participation and smoothen labour market transitions to ensure open, dynamic and mobile labour markets.
- The tax burden on labour must be reduced because the average tax wedge on low income earners remains almost 40% higher than in the United States and Japan.
- **Energy price differentials** with major competitors remain a major concern because industrial energy prices remain almost 2½ times higher than in the US, despite the recent falls in oil prices.

2. Building an Energy Union

The EU is facing many challenges in the energy field. We must take action to ensure that investments in the energy sector are made and to strengthen the competitiveness of industry.



The Energy Union must give a new impetus to make the EU's energy and climate policy fit with its industrial and growth ambitions. To be coherent, the European strategy must truly be based on three cornerstones: energy competitiveness, security of supply and low-carbon economy.

A key dimension in delivering on all three objectives will be establishing a fully integrated European energy market.

The strategy published by the European Commission is an important step to balance the EU's energy, climate and industrial challenges better than in the past. The commitment to revitalise energy policy and to strengthen the EU's ability to act in this field is positive. But important trade-offs will have to be addressed in its implementation.

We call on decision-makers to ensure that:

- energy cost-competitiveness receives the necessary attention by implementing a coherent and targeted approach to remove policy-driven costs;
- existing EU legislations on the internal energy market are fully implemented and much needed cross-border connectivity projects are rolled-out;
- the EU seizes the opportunities coming from new suppliers entering the global energy market and from the range of domestic resources;
- the revision of the Intergovernmental Agreements Decision and the Security of Gas Supply Regulation rest upon market-based rules and protection of confidential business information as guiding principles;
- energy efficiency measures are targeting sectors which can bring savings in the most cost-effective way such as buildings;
- the upcoming reform of the EU ETS brings a EU-wide approach to protect exposed industries against direct and indirect carbon costs.

In December 2015, France will host the international climate summit. Climate change can only be tackled globally. This is why the European business community supports a global legally-binding climate agreement, committing all major economies to comparable efforts on the reduction, measurement, monitoring, reporting and control of greenhouse gas emissions. Such an agreement will have to enable a global level playing field for European industry. The EU's engagement in diplomatic actions aimed to achieve such an agreement is extremely important and you can count on our support wherever necessary.

The European business community urges the Heads of States and governments to fulfill the commitment to mainstream industrial competitiveness in all EU policies set out in the conclusions of the Spring EU Council meeting last year and ensure that the Commission presents the requested roadmap for industrial competitiveness.

We count on this Spring EU Council meeting to use the window of opportunity of the more supportive macroeconomic environment to carry out the necessary reforms to improve competitiveness throughout Europe and put the crisis firmly behind us.

Yours sincerely,



Emma Marcegaglia