

Mr Jean-Claude JUNCKER
President
European Commission
Rue de la Loi 200
BE – 1049 Brussels
BELGIUM

20 June 2018

Dear President,

Message to the European Council meeting on 28-29 June 2018
United, strong and smart to strengthen the EU and tackle protectionism

With only one year to go before the next European elections, the EU's approval rate is at its highest since 35 years according to the latest Eurobarometer. However, this general support to the European Union does not necessarily translate into people's votes.

EU growth is at risk of peaking. There are significant political risks in some member states. Progress in Brexit negotiations is slow. The US decision to begin levying tariffs on imports of steel and aluminium from the EU on 1 June 2018 confirms that we are at a turning point in the global trading system.

European leaders must be united, strong and smart to tackle protectionism. The EU must remain committed to open, fair and rules-based trade and, at the same time, strengthen the European Union to adequately protect the interests of its companies and its citizens.

• **International trade**

Unilateral actions put at risk the international trading system. The EU needs more than ever to show leadership. It needs to demonstrate that it stands by a rules-based trade system and supports the role of the WTO. It should work together with like-minded countries in promoting reforms and creating rules that are fit to the trade and investment reality of the 21st century.

We are deeply concerned by the U.S. Administration's decision not to renew the EU's exemption from additional duties and/or quotas on steel and on aluminium and by President Trump's threats concerning the imposition of duties of a similar nature on cars and car parts. We want to avoid escalation and have supported the approach defined at the informal EU summit in Sofia to explore possibilities for trade negotiations between the EU and the US, provided the EU is permanently exempted from such duties. However, faced with the US decision to impose additional duties and/or quotas, the EU has to defend its legal rights, in line with WTO rules. BusinessEurope therefore supports the EU actions to protect its rights in a balanced and WTO compatible way.

We also regret the U.S. unilateral decision not to renew waivers of key U.S. sanctions on Iran and count on the European Council to help European companies to deal with the negative consequences. We expect the European Council to ensure that our companies do not end up in a catch 22 situation.

Beyond these specific cases, the EU should act in a smart way and can turn the present threats into an opportunity if it continues to develop its large network of free trade agreements. Ratification of the long-awaited agreements with Japan, Singapore and Vietnam, a successful conclusion of the negotiations for an ambitious agreement with Mercosur, finalising the process of modernisation of the agreement with Mexico, opening negotiations for the revision of the Customs Union with Turkey as well as new trade negotiations with Australia, New Zealand and other partners is therefore essential. Furthermore, the EU should take a positive approach to Africa and finalise its mandate for the revision of the post-Cotonou agreement. Implementing our trade agreements faster and better is also crucial. The new architecture for trade agreements that was recently adopted is a step in the right direction, provided the EU also secures access and protection for European investments in third markets in parallel.

- **Brexit**

The political agreement reached in December must urgently be followed by an agreement on a legal text, covering the withdrawal and transition issues, including the unique circumstances on the island of Ireland which require unique solutions to protect the Good Friday Agreement. This is essential to move the process forward.

Negotiators are still discussing critical points. We count on strong political will on both sides to deliver the best solution for business and citizens.

Until both sides agree on a legally binding text, a “cliff-edge” cannot be excluded. Time is running fast and we need to have a withdrawal agreement, that includes a status quo-like transition, ready for the October European Council to allow time for ratification both in the EU and the UK. Companies are under time pressure as they need to plan ahead. Business needs certainty and a level playing field that allows trade and investment to remain stable.

Furthermore, clarity about the future relation is key. The new model that will govern future EU-UK relations should maintain as close economic relations as possible between the EU and UK and preserve the integrity of the Single Market based on its four freedoms.

BusinessEurope appreciates that both the EU and the UK negotiators' aim is to have the deepest and most comprehensive trade agreement possible. However, there are limits to what a free trade agreement can deliver. A free trade agreement does not provide the same level of frictionless trade as a customs union or a similar regulatory alignment as staying in the Single Market. Choices will need to be made and we need to see concrete negotiating proposals from both sides rapidly.

- **Competitiveness, growth and employment**

BusinessEurope's latest economic outlook expects GDP growth of 2.4% in the EU and 2.3% in the Euro area in 2018. We expect growth to slow down to 2.1% in both the EU and the



Euro area for 2019. However, there are risks linked to political uncertainty and rising protectionism.

EU unemployment reached its lowest rate since September 2008 (7.1% in April 2018) and is expected to further come down in 2019 (6.6%). This is good news but rates remain uneven across EU member states and well above the US (3.5% for 2019). Moreover, the shortages of relevant skills in the EU we signalled to the Spring EU Council meeting in March continue to act as a constraint on production capacity.

Further measures are needed to encourage people to stay longer in the workforce and facilitate labour market participation if we want to address labour market mismatches. This includes improving education and training to equip all age groups with skills responding to labour market needs (paying special attention to digital skills) and adopting an employment friendly approach to social policy both at national and EU level.

The EU and all its member states need to pursue reforms that improve competitiveness, growth and employment across Europe. To ensure that companies operate in a simpler and better regulatory framework at all levels, the European Union should legislate less and better.

Developing and enforcing the Single Market is a crucial and powerful convergence driver. We welcome the agreement reached on mutual recognition in the area of goods at the last Competitiveness Council. We also hope to see an agreement on the notification of services very soon but call for much greater integration of services to achieve real convergence.

At the same time, national reforms must be pursued to deliver strong growth rates in all member states. This requires to reinforce the European Semester's role to ensure that all Member States implement agreed growth and employment enhancing structural reforms and strengthen implementation of the Macroeconomic Imbalance Procedure in both deficit and surplus countries. We therefore support the proposed reform delivery tool to support Member States in their efforts.

- **Economic and Monetary Union (EMU)**

Completing EMU and strengthening trust in the Euro is urgent. Investors need a safe and predictable environment based on a well-functioning EMU.

The efficiency of the fiscal rules must be improved, paying more attention to the quality and composition of public finances for a proper implementation of the Stability and Growth Pact (SGP), drawing on its in-built flexibility to help member states put their public finances on a sustainable footing and support member states efforts to orientate their budgets towards investment and growth-supporting expenditure.

A full banking union must be put in place, with rapid agreement and implementation of an EU deposit insurance scheme, alongside the existing supervision and resolution pillars to address the continued fragmentation of EU savings and credit markets. Member states have now implemented the bank recovery and resolution directive and are creating harmonised deposit insurance systems. In addition, further asset quality reviews of all banks are necessary steps before establishing a common system. Moreover, implementation of a



comprehensive Capital Markets Union improving access to diversified funding sources can also reinforce resilience to asymmetric shocks.

Regarding the important issues of the stabilisation function for the Euro Area, we support strengthening the long-term stability of EMU and its ability to handle asymmetric shocks to one or more of its economies through access to a Euro Area stabilisation fund, fully conditional on Members States implementing structural reforms and there being no increase in the overall tax burden. To ensure the stabilisation fund is effective, support should be rapid and temporary. We support, in particular, the Commission's proposal for an investment protection scheme, and hope the EU will agree to build up the capacity of this in future years.

We count on the European Council to take concrete steps to rapidly deepen EMU, starting with putting in place a full Banking Union and Capital Markets Union.

- **The next MFF**

The Multi-annual Financial Framework (MFF) for the yearly European budgets after 2020 must reflect the future priorities of the EU and should concentrate efforts on enhancing our competitiveness, particularly in areas where the EU can deliver concrete benefits and help preparing industry for megatrends like digitalisation and energy transition. Furthermore, it should boost the success of cohesion policy by turning it into an integral part of a European investment strategy, with an adequate financial framework to support a cohesive Europe.

As explained in our letter of 30 May 2018, the post-2020 research and innovation programme "Horizon Europe" is a unique opportunity to improve Europe's innovation capability. The European Commission's proposal is not ambitious enough to fill the gap of €150 billion a year to reach the EU's own 3% of GDP research and development investment target.

BusinessEurope urges the European Council to build on the Commission's increased emphasis on EU competitiveness and innovation, avoiding any additional upward pressure on overall taxation and focusing on what is important to strengthen the efficiency of the European Union as a whole.

We also reiterate our call to reach an agreement on the next MFF before the European Parliament's elections. We cannot afford delays in powerful investment incentives at a time when the US are moving on with a major tax reform and China implements the Belt and Road Initiative.

- **Innovation and digitalisation**

Investing in innovation and digitalisation is crucial for shaping Europe's future in a globalised world. Our trading partners around the world are investing massively in these fields and Europe not enough.

BusinessEurope supports the idea of establishing a European Innovation Council in the next MFF and of launching pilot projects, notably on Artificial Intelligence, announced after



the informal discussions in Sofia on 17 May. We also fully agree that digitalisation has to be based on our European values and respect citizens' privacy. However, the required scale of investment to digitalise our economy will only be reached if the right conditions are set; hence the importance of adopting the Commission's proposal on the free flow of data rapidly, without additional exceptions. Restricting the free flow of data can only be justified on public security grounds.

Aligning contract rules for "digital content" and "goods" to the greatest extent possible is also important. We regret that the Commission has only proposed minimum harmonisation for goods with embedded digital content. Moreover, it is important to maintain consistency with the existing European data protection rules. We appreciate the efforts to align the proposed rules with the General Data Protection Regulation (GDPR) and underline that the digital content proposal should only cover personal data with respect to portability.

We urge the European Council to ensure that the ambition of the free flow of data proposal is not watered down. We also count on your support to the development of aligned contract rules for digital content and goods, avoiding overlaps between the digital content proposal and the GDPR.

- **Migration**

Migration pressures have led to a re-introduction of temporary controls at the internal borders of the Schengen area, which is a cornerstone of European integration and of the smooth functioning of our economy.

We agree with the measures taken to stem illegal flows of migration and improve the management of our external borders. However, we also count on the EU Council to ensure that agreement is reached on a new Common European Asylum System to pave the way to returning to a normal functioning of free movement in the Schengen area and put an end to a divisive debate among Member States. Schengen is key to guarantee free movement. At the same time, the European Union needs to be attractive for talents and legal migration from third countries.

To sum up, faced with so many crucial challenges, it is more important than ever to have strong signals from the European Council. We count on you to ensure that concrete decisions are taken on the burning issues we underlined and to foster agreement on a credible plan to forge consensus on longer-term measures needed to strengthen the Economic and Monetary Union and Europe's capacity to defend its interests on the global stage.

Yours sincerely,



Emma Marcegaglia