

**Mr Donald Tusk**  
President of the European Council  
European Council  
Rue de la Loi 175  
BE – 1048 Brussels  
BELGIUM

12 October 2018

Dear President,

**Message to the European Council meeting on 17-18 October 2018**  
**Avoiding a cliff edge Brexit scenario and putting our EU house in order**

- **Brexit**

Avoiding a chaotic Brexit is a top priority for BusinessEurope. Unfortunately, until both sides agree on a legally binding withdrawal text, a “cliff edge” scenario cannot be excluded. The 30<sup>th</sup> March 2019 is fast approaching and negotiators are still discussing critical points, such as the backstop solution to avoid a hard border on the island of Ireland. Therefore, negotiators should extend all efforts reasonable to avoid a cliff edge.

It is absolutely essential that the withdrawal agreement, including a status-quo like transition period, is agreed in time to allow time for ratification in the EU and the UK. Companies have to plan ahead. They need certainty and a level playing field to mitigate the impact of Brexit on trade and investment. As it will not be possible to negotiate our future relationship until March 2019, it is in everyone’s interest to have a smooth transition to the future framework that will govern EU-UK relations.

Regarding this future framework, BusinessEurope wants to keep the economic relationship as close as possible, while preserving the integrity of the Single Market. EU and UK negotiators aim to have the deepest and most comprehensive trade agreement possible but there are limits to what a free trade agreement can deliver. It does not provide the same level of frictionless trade as a customs union, or a similar level of regulatory alignment as staying in the Single Market. Choices will have to be made, particularly in the UK between regulatory independence and maintaining comprehensive access to the EU market.

European companies with investment in the UK and UK companies with investment in the EU need to be able to send staff to their UK facilities through intra-corporate transfers. This is especially important for highly qualified employees. The EU directive on intra-corporate transferees will allow UK companies and their employees to maintain access to the EU after 30 March 2019 because the EU gives this possibility to third countries companies (as a way to support investments in the EU). It is very important that the EU obtains the same treatment from the UK Government.



- **Competitiveness, growth and employment in the EU**

The EU economic recovery continues, albeit at lower rates than 12 months ago. However, there remain downside risks to growth, linked to political uncertainty and rising protectionism. It is therefore more important than ever to ensure that the EU and all its member states pursue reforms that improve competitiveness, growth and employment across Europe.

Furthermore, skills shortages and mismatches continue to be a real concern for employers and limit growth, even in Member States with relatively high unemployment. Recent studies suggest that, contrary to what is often argued, new technologies such as job robotisation and artificial intelligence are likely to increase, rather than reduce overall labour demand, as new products and processes are developed. The increasing skills shortages businesses are experiencing may therefore well be linked to the continuing digitisation of the EU economies. Vigorous action needs to be taken to up-skill and re-skill people to fill new jobs linked to digitalisation.

Developing and enforcing the Single Market is a crucial competitiveness, growth and employment convergence driver. Good progress was made in the area of free movement of goods but we need to see much greater integration of services to achieve real convergence, maintaining a high quality of qualifications. Implementing the Better Regulation principles and ensuring better enforcement of EU law across Member States is essential in this respect. We look forward to a thorough analysis of the remaining barriers in the Single Market at the December European Council meeting.

At the same time, labour, product and services markets must perform better and 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 have sustainable public finances and implement necessary structural reforms.

Having a strong and innovative industrial basis is key. Industry needs clarity on the next research and innovation framework programme as soon as possible in order to start planning their future investment. Rapid progress is therefore needed in negotiations on the content of Horizon Europe.

Last but not least, efforts to further strengthen our Economic and Monetary Union need to be significantly stepped up if we are to fix the roof of our European economic house while the sun is still shining. To move the ongoing technical work forward, the December European Council meeting will need to give strong political guidance on issues such as the stabilisation function, that was largely absent in European Council discussions in June.





- **International trade**

Rising protectionism and trade tensions, notably between the US and China, and the situation in the WTO remains a key concern for European business as this will damage everyone. The IMF estimates that a 10% increase in import tariffs for goods across countries would lower global output by about 1.75% after 5 years and by close to 2% in the long-term.

BusinessEurope welcomes the de-escalation in EU-US tensions. We hope the EU and the US will be successful in their efforts to develop a positive agenda to follow on the joint statement adopted by Presidents Trump and Juncker at the end of July 2018.

We also urge the EU to ratify the very good trade agreement concluded with Japan before the European elections in order to demonstrate the value of pursuing an ambitious and balanced trade agenda as well as strengthening the credentials of the EU as a defender of rules-based trade.

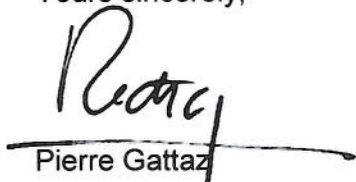
- **Security and Migration**

In order to strengthen EU resilience against cyber-attacks, negotiations on all cybersecurity proposals should be concluded before the end of the legislature. To alleviate increasing risks associated with cyber-theft of trade secrets in Europe, the trade secrets directive should be fully implemented. Diplomatic action could also be considered, with the EU seeking to cooperate with the United-States, Japan and other OECD economies to apply political pressure and fight state funded cyber-espionage.

Concerning migration, the debate in Salzburg showed agreement on the goal of stemming illegal migration by strengthening the external borders of the European Union as well as cooperation with third countries, notably transit countries. The Commission's proposal for a strengthened European Border and Coast Guard was generally well received, although some important issues still need to be clarified.

BusinessEurope counts on the October EU Council meeting to build on this progress made to move away from ad hoc crisis management solutions and build a coordinated European solution to better manage migration, 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.

Yours sincerely,



Pierre Gattaz