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A UNITED EUROPE THAT DELIVERS – DETAILED RECOMMENDATIONS FROM BUSINESSEUROPE

Chapter 1: Why do we need competitive companies?

It is mainly companies, not public authorities that create jobs. However, to be a sustainable engine of wealth creation in society, the goods and services that companies produce must answer consumers' needs and be sold at competitive prices. Competitiveness is not an end in itself but is a necessary pre-condition for companies to play their role in society. Economic and social progress can only go hand-in-hand. Less competitive companies make less profits, invest less, create fewer jobs, reward less investors or shareholders and pay less taxes. We will not increase citizens' prosperity and wellbeing by trying to share a shrinking cake evenly. The answer lays in making the cake rise and sharing it fairly.

Making the cake rise and sharing it fairly requires innovative solutions. Entrepreneurs are also the main transmission belt for innovation to society and there is no innovation and no entrepreneurship without some risk-taking. To remain competitive in an evolving environment, companies and workers have to adjust to changing circumstances. They need a supportive environment to do so successfully and the only possible way forward is to accompany change. Trying to delay necessary transformations only increases the cost of adjustment and makes the process more painful. Furthermore, it diverts scarce resources away from more efficient ways of minimising negative effects from restructuring.

Attracting investment in areas which generate high value added is essential for our future prosperity. Manufacturing industry is the engine for innovation, growth and employment in all sectors of the economy, including services. It provides the bulk of export goods. It accounts for 80% of European companies' investment in innovation and creates highly skilled and well paid jobs. Between 2000 and 2014 the share of manufacturing in total EU output fell by 3.5 percentage points from 18.8% to 15.3%. Policy makers must do more to help reverse this trend. A horizontal strategic framework at EU level, based on a structured roadmap, is essential to strengthen and modernise Europe's manufacturing industry and to revive growth and job creation in all sectors of the economy.

Chapter 2: Why do we need Europe?

Europeans are faced with unprecedented challenges requiring urgent and credible answers: weak growth, high unemployment, security threats, migration flows, the referendum in the United Kingdom on leaving the European Union and an increasingly challenging international environment. These challenges - and the fears about the future they nourish – can only be answered by working together at European level. No European country can bring credible answers to companies and citizens' concerns by acting alone.

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A healthy economy is an indispensable basis to weather the challenges facing us and business is an essential part of the solution. However, companies need a supportive environment to deliver growth and jobs at their full potential. A strong European Union, with strong and well-functioning institutions as well as fully committed and well-governed Member States, is an essential part of this supportive environment.

When defining the way forward for a better future for European companies and citizens, we should not forget that our main social problem - persistently high unemployment - is due to weak growth rooted in insufficient competitiveness.

With 7.3% of the world population and 23% of world GDP, the European Union remains one of the strongest economic regions in the world. Furthermore, with 40% of global public expenditures in social protection, Europe is also the continent which invests most in social fairness and citizens' protection. As a result, poverty and income inequality after taxes and transfers have declined over the last two decades and remained relatively low since 2008 compared to other regions in the world.

There are differences among European countries but the European economic champions are also often the best performers in terms of social fairness. These countries are successful because they made necessary reforms to have sustainable public finances, an attractive business environment and employment-friendly social safety nets. There is a lot to learn from their experience.

Social progress can only be based on economic progress. It is absolutely essential to step up the efforts to improve Europe's competitiveness (making Europe a better place to invest and create jobs), by mobilising the EU three key economic pillars - the Single Market, the common international trade policy and the Euro - and by carrying out necessary national structural reforms.

The Single Market is the foundation of our prosperity. Since 1992, it added €600 billion a year to our economy and generated 3 million additional new jobs. Without the Single Market, the income of Europeans (expressed in GDP per capita) would be roughly 5% lower than it is today and European unemployment would be even higher. Moreover, the European Union and the four freedoms guaranteed in the Single Market also shield the rule of law and democracy.

Unfortunately, the values and freedoms that the European Union stands for are being threatened by the current rise in isolationism and manipulation of people's concerns about the future by populist parties. We cannot put at risk the public goods delivered by the European Union during the past 60 years: peace, freedom, security, democracy, prosperity and welfare.

Patriotism is about self-confidence and working to improve everybody's future whereas negative nationalism is about blaming the others for one's own mistakes. In reality, European and national patriotism are the two sides of the same coin. European countries are stronger when working together for a better future for our continent and weaker when they blame the European Union for decisions that they took or contributed to taking. European and national patriotism can and must go hand-in-hand. EU leaders must work together to defend the collective interest of all Europeans.

To overcome the fears currently exploited by populist parties, the European Union needs to regain a political vision and to give consistency to its economic policy, sticking to the commitment taken at the G20 level "to use all policy-tools – monetary, fiscal and structural – individually and collectively to achieve our goal of strong, sustainable, balanced and inclusive growth".

Chapter 3: Why do we need trade?

Thirty-one million European jobs (one European job out of seven) depend on trade outside Europe. A rise of one percentage point in the ratio of trade to GDP increases income per person by at least one-half percent. Furthermore, growth is increasingly happening outside Europe. 90% of global economic growth in the next 10-15 years is expected to be generated outside Europe. Concluding ambitious trade agreements with strategic partner countries is therefore essential for the prosperity of European citizens.

Shutting ourselves out of the global economy will not increase citizens' prosperity and wellbeing. Globalisation has helped people to work their way out of poverty. The 20 years prior to the financial crisis, which saw a strong rise in global trade flows, also saw the majority of those in the lowest half of the global income distribution see substantial rises in living standard.

Increased trade creates new opportunities for European companies and citizens. As a result, many firms and workers will see increased demand for their skills. However, the earning and employment prospects of some may be negatively affected by increased competition from overseas. Putting in place the right policies to help workers develop new skills and impacted regions to attract new investments is therefore key.

In more mature western economies like the European Union, global trade had a more positive impact on new sectors of the economy and high skilled jobs than in traditional manufacturing and low skilled jobs. Creating a supportive environment for the digitalisation of the economy and for the competitiveness of our manufacturing industry is of strategic importance to maximise the benefits of globalisation for all Europeans.

Chapter 4: What priorities to improve the competitiveness of European companies?

Progress has been made to regain the ground lost since the 2008 crisis but with investment still 8% below pre-crisis levels in 2015 and 21 million of people unemployed today, we still have half way to go to reach the employment levels that preceded the crisis. 5 million new jobs need to be created to reduce unemployment to its 2008 level.
The measures taken by the European Central Bank were necessary and played a crucial role. But central bank's measures can only buy time. If the necessary economic policy measures are not taken by the EU and its member states, the economy remains vulnerable.

4.1 Increasing investment

After a decade of underinvestment, taking further measures to increase productive private and public investment is essential for Europe's growth and employment prospects.

The European Investment Plan is at the heart of the answer to ensure that globalisation benefits are shared in a fair way and BusinessEurope fully supports an extension of the European Fund for Strategic Investment. At the same time, it is of outmost importance that the EU and its Member States make real progress in removing obstacles to investment, improving the overall business environment in Europe and addressing the causes of uncertainty standing in the way of investment decisions.

The fact that the European Union's share of world wide foreign direct investment fell to 24% in 2015 compare to 48% in 2000 is a real warning signal. Europe is losing ground because of a series of deterring factors.

For a Europe where business can grow without excessive debt, we should emphasize the need to encourage private investments, also reducing the European global tax rate. With an overall tax burden as a share of GDP in the EU which is 50% above the United States and 30% higher than in Japan, taxes and levies on companies are too high. Governments should encourage those companies that increase their expenditure in new production capacity and those who invest in Europe.

At the same time, the progress made to ensure the sustainability of public finances and introduce necessary structural reforms must continue. We need to use the flexibility in the Stability and Growth Pact, maintaining its core. Countries having the margin for manoeuvre must use it for more productive investment. Countries which have to continue on the path of fiscal consolidation must do that by cutting public expenditure in unproductive areas, redirecting public spending towards necessary investment and introducing growth-enhancing reforms rather than through tax increases.

4.2. Making labour markets work better for all citizens

Regulatory constraints on companies are also tighter than in competing developed economies. Labour market rigidities and inefficiencies in our education and training systems in particular need to be tackled resolutely if we want to put an end to a shameful European paradox: the coexistence of high unemployment and unfilled job vacancies.

Youth unemployment requires priority attention and BusinessEurope supports the European Youth Initiative. But if we want to avoid ending up in a situation where we redistribute unemployment, moving the problem from one category of workers to another, we must focus on how to make labour markets work better for all citizens and how to facilitate job creation by all companies.

With only 20% of the country specific recommendation satisfactorily implemented according to BusinessEurope's Reform Barometer 2016, the reform momentum is in real danger of slowing down. It is the interest of both individual Member States and of the EU as a whole that measures to facilitate investment and enhance growth as well as job creation continue at a good pace.

4.3 Paying particular attention to industrial competitiveness

We urgently need a structured European roadmap to strengthen manufacturing industry because having a strong industrial base is key for innovation, growth and employment in all sectors of the economy, including services.

As part of the structured European roadmap to strengthen manufacturing industry that BusinessEurope is calling for, the EU should encourage and support member states bilateral work to identify key industrial policy projects requiring concerted national actions as well as concrete EU-level deliverables to support the transition towards a smart, innovative and sustainable industry.

At the European level, assessing the effects on the competitiveness of manufacturing companies for measures in the field of environment, climate and energy policy deserve priority attention as EU industrial electricity prices remain more than twice those in the US and Russia and 20% higher than in China and these cost differentials undermine industrial investment in the EU.

4.4 Securing access to affordable energy

Europe's energy system is on the brink of a revolution which will change the way we consume and produce energy. We need to go much further and much faster to strengthen the single market for energy.

The ongoing transformation of the energy system seems more difficult and more profound than envisaged and current market design does not seem fit for purpose anymore. We face a lack of investments in flexible generation, upscaling renewable energy sources which contribute to oversupply (while in some regions we face scarcity), rising energy prices and a growing number of public interventions creating adverse interference in the energy market.

We need to reform the European-wide electricity market to facilitate unhindered flows of electricity across borders and to reduce costs for industry and household consumers, while ensuring decarbonization through a market-based approach and a European-wide and interconnected market.

To have secure, affordable and clean energy supplies for households and industry, it is necessary to phase out or limit the bursting policy costs and taxes that are pushing the energy prices up. We are witnessing increasing and uncoordinated interventions at national level.

If we want our companies to compete on an equal footing with the rest of the world, they must have access to reliable and affordable energy. A successfully implemented Paris Agreement will give a major boost to global markets for clean, carbon-free and resource efficient technologies and solutions. The EU should aim to become the number one region for cleantech knowhow and business innovation. By offering and exporting these solutions worldwide, the EU can have a far bigger role in fighting global climate change than by focusing solely on reducing its own emissions which account for a small and diminishing share in global emissions. Clean and resource efficient solutions should be promoted in the EU through research and innovation policy, global agreements e.g. in climate and trade policy as well as technology-neutral and market-based policy measures.

4.5 Fighting climate change

The Paris Agreement was a major achievement and its speedy ratification highly welcomed by BusinessEurope. However, it is now important that Parties deliver on their promises. If not, it would be a major blow against international efforts to protect our climate. Europe can't shoulder CO2-reductions that the US or other large economies have committed to reduce. BusinessEurope therefore expects all major economies to stay committed to fighting climate change. Furthermore, it is important that major economies converge their climate ambitions with that of Europe as soon as possible, rather than Europe increasing its ambitions even further. Only by doing this will increased global efforts translate into significant global emission reductions.

One of the main ways for Europe to reach its climate targets is through the European Emissions Trading System (EU ETS), which is the best policy tool to achieve 43% emission reductions while simultaneously safeguarding the global competitiveness of its industries. To do so, the new design needs to make sure that investments do not flow out of Europe. The Innovation Fund is an important way through which industrial investments can be boosted, provided it is made fit-for-purpose. Furthermore, a recent BusinessEurope survey found that 89% of respondents expect a higher future carbon price, of which 71% said this would likely negatively affect their investment decisions in Europe. Before companies completely move their production outside of Europe (a concept called "carbon leakage"), they may first choose to invest less and less to build new plants or to upgrade existing ones. Therefore, "investment leakage" is different from "carbon leakage". The reform needs to make sure that the EU ETS is well-equipped to prevent both "investment leakage" and "carbon leakage" from happening in Europe.

4.6 Encouraging digitalisation and innovation

Innovation plays a key role in the delivery of solutions to our economic, social and environmental challenges. The European Union should swiftly implement an Innovation Principle to make sure that, whenever EU policy or legislation is under consideration, its impact on innovation is fully assessed and addressed. This does not remove the precautionary principle, which is enshrined in the European Treaties. Together, an innovation principle and a precautionary principle would encourage a more balanced view of risks and benefits. The result will be better regulation and more innovation.
Digital is crucial to ensure Europe's competitive advantage in the global economy and deliver growth and jobs. Technology will offer EU businesses new opportunities to close the gap with their competitors at global level.

Digitalisation is also fundamental for the transformation and rejuvenation of our industry. Europe lost ground in the digital sector. Just eight of the world's top 100 high-tech companies have their headquarters in Europe and generate only a tenth of the industry's global revenues. More or better ICT usage is estimated to be responsible for 0.3

percentage points of the gap between annual growth rates in Europe and the US. With a completed Digital Single Market, it is estimated that Europe will gain 4% of GDP by 2020. Rapid and full implementation of the European Action Plan for the Digitisation of Industry and of the Digital Single Market Strategy as a whole is urgently needed.

The data economy is paving the way for the ongoing industrial revolution. Its evolution can significantly improve lives, create growth and jobs, and benefit society overall. EU legislative action to remove restrictions to the free flow of data is needed. The ability to transfer data across borders is crucial for companies, both within the Single Market and beyond.

An integrated policy is necessary to facilitate the digital transformation of all economic sectors. Legislation must enable data-driven innovation, including solutions utilising artificial intelligence and robotisation. To grasp the opportunities that digitalisation can create, implementation of data protection rules must strike the right balance between the need to protect citizens' rights and to provide appropriate conditions for companies to unlock the economic value of data. Investment in digitisation must be encouraged and policy makers need to put in place a regulatory framework where competitiveness and investment considerations are systematically taken into account. Fragmentation for wireless broadband communications in the Single Market should be reduced through greater harmonisation in spectrum as the application of various national policies across the EU creates inconsistencies (but leaving the detailed terms of licensing and timetables under national powers). The copyright reform proposals should facilitate the distribution of lawful digital content through licensing, promote European cultural and audiovisual works and avoid creating more burdens for companies.

Cross-border e-commerce in Europe is still underdeveloped with only 20% of internet users buying online from other EU Member States. Remaining barriers to cross-border e-commerce must be removed. Complex rules and administrative procedures, remaining fragmentation and a lack of confidence need to be addressed. The causes behind difficulties that companies still face when selling across the Single Market need to be tackled urgently.

Chapter 5: What priorities for Europe?

With more than 500 million customers and 21 million enterprises, the Single Market is at the very heart of the competitiveness of European companies.

The outcome of the British referendum and the reintroduction of internal border checks in the Schengen area have generated serious concerns in the business community about the potential unravelling of the single market which is the spine of the European project and of European production value chains.

5.1 Brexit

The EU economy showed resilience so far because business confidence held up after the referendum in the UK. EU growth should therefore reach 1.9% in 2016 and 1.7% in 2017. However, the longer term effect of Brexit will depend on the type of new relations that the EU and the UK will establish.

The EU and UK economies are profoundly interconnected. Currently, 41% of total UK exports go to the EU, representing 11% of British GDP whilst the 7% of total EU exports go to the UK, representing less than 4% of our GDP. This compares with intra-Single Market trade amounting to 27% of EU GDP. Companies and workers must not pay the price for Brexit.

BusinessEurope's urges the EU and the UK leaders to mitigate the negative consequences and build bridges. Our aim is to maintain as close as possible economic relations between the European Union and the United-Kingdom, but not at the expense of the integrity of the Single Market.

There can be no cherry-picking between free movement of goods, services, capital and people. All four freedoms have to be respected to maintain full access to the Single Market.

5.2 The Single Market

Almost twenty five years after the 1992 Single Market programme, some of the integration achieved has been lost and there is still unfinished work to be done in order to remove remaining long-standing obstacles to free movement. At the same time, we are faced with existential challenges such as Brexit. Further developing the EU Single Market is therefore more urgent than ever.

Tackling divergent national rules and fragmented application of EU legislation which undermines the free movement of goods, services, people and capital often does not require more legislation but rather better application of existing rules. And when new rules are required, it is important to get them right by proposing harmonisation where necessary and mutual recognition of national standards where full harmonisation is not needed or premature.

Member States should embrace the momentum for a better application of mutual recognition in goods, a reduction of administrative barriers in the single market for services through the services e-card, the creation of the Single Digital Gateway, and implementation of the reformed public procurement directives. The consumer protection cooperation regulation review is also useful to ensure better cooperation between national consumer authorities. However, the use of additional powers - such as the one to take down websites - should be proportionate and subject to minimum procedural guarantees.

Some of the integration achieved in capital markets has been lost in the aftermath of the 2008 financial crisis. Capital markets are fragmented and European firms remain more dependent on bank lending than competitors. Despite low interest rates, small and medium sized companies experience difficulties in getting access to finance, especially in some Member States. Swiftly delivering the Capital Markets Union is absolutely key for a better functioning Single Market for financial services and to improve access to finance for all European companies.

To facilitate the mobility of citizens and workers, further progress must be made in ensuring recognition of professional qualifications and reducing the number of regulated professions that fragment labour markets. However, full harmonisation of labour law and social protection is not necessary. The minimum requirements foreseen in the existing social directives and regulations (around 70 in total) strike the right balance between protecting workers rights and promoting gradual convergence of social systems while respecting national specificities. Imposing brutal harmonisation in this field would even be counterproductive. Too rapid upward harmonisation would increase labour costs much faster than productivity and fuel unemployment in member states whose economies are still catching up and harmonisation based on the lowest common denominator would undermine workers' rights in more advanced economies.

When posting workers temporarily to another Member State to provide services across borders, companies must of course fully comply with the posting of workers directive. BusinessEurope supports the newly adopted directive to better enforce EU rules on posting of workers. However, we are strongly opposed to a new revision of this directive. For us, the existing rules strike the right balance between protecting workers rights and facilitating free movement of services. Furthermore, reopening the debate will unnecessarily fuel divisions among Member States. Efforts should focus on better enforcing existing rules and improving tools to inform companies and workers about their rights and obligations to facilitate compliance.

5.3 Security

Dramatic increases in migration pressures and recent terrorist attacks in Europe have revealed weaknesses in the management of the external borders of the European Union, and have led to a reintroduction of temporary controls in the internal borders of the Schengen area. Free movement is key for a smooth functioning of our economy. These weaknesses therefore need to be addressed urgently.

The European Council should ensure that all the necessary actions are taken to draw the lessons from the refugee crisis and safeguard Schengen, which is a cornerstone of European integration and of the smooth functioning of our economy.

Europe will only be able to master the challenge of this unprecedented inflow of people from third countries if it is acting on all these fronts: effective external EU borders' control, international actions to restore peace and stability in the countries of origin, good cooperation with transit countries, managing the return of illegal migrants, integration into the labour market and society of persons rightly staying and sound economic policies to improve growth and jobs prospects.
BusinessEurope supports the EU's strategy to strengthen Europe's external borders, including both immediate contingency actions and measures requiring more time to be fully implemented. We are fully aware that securing our external borders in a smart way is a large-scale project which necessitates adequate public investment. In this specific case, we support increased EU means to better protect our external borders. We believe that this can also be a win-win for all sides, triggering investments into relevant technologies.

Effective control of the EU's external borders is essential to be able to give shelter to persons fleeing war and political persecution in accordance with our common European values. It is also necessary to defend our freedom-based society models over the longer term.

Europe cannot accommodate unlimited numbers of people and genuine victims of persecution can only be effectively protected if appropriate registration and control mechanisms are in place to ensure that our forces are not being diverted because the inflow comprises people fleeing poor economic conditions in their home country but do not fulfil the criteria to get humanitarian protection and therefore have no chance of being granted asylum.

Integrating people rightly staying in Europe in training, employment and society in general is crucial. The organisation of integration courses, housing, language learning classes and other education and training measures is a responsibility of public authorities and society as a whole. Business organisations and companies are taking a large number of initiatives to contribute to this.

At the same time, we need a longer-term legal migration policy geared towards the talents and qualifications needed on our labour markets. Europe's population is ageing. In a number of member states, the workforce is starting to shrink. Many unfilled vacancies, in both qualified and unqualified functions, co-exist with high unemployment. This undermines our overall future growth prospects. Besides necessary measures to make better use of our labour markets and to improve intra-EU mobility, legal migration from third countries is part of the answer to ensure our future prosperity. It is in our interest to ensure that people from around the world who have skills needed on our labour markets regard Europe as an attractive destination to study, live in and work legally.

5.4 EMU

Completing EMU and strengthening trust in the euro is both a priority and a matter of urgency for business. Business investment requires a safe and predictable environment based on a well-functioning EMU.

Our desire to strengthen the Euro comes from our strong belief in the benefits of the common currency, not the fear of the cost of its abandonment. The introduction of the Euro brought benefits to businesses, and citizens, through reductions in exchange rate risks, greater price stability and transparency, more attractive financing conditions, and increased trade.

However, the founding fathers of the Euro always recognized that further steps would need to be taken to complete EMU. Whilst the crisis saw a number of measures taken to strengthen EMU, it is nevertheless the case that weak economic governance, growing imbalances, asymmetric adjustment between member states, lack of coordination, and years of indulgence in the implementation of national reforms are to a large part responsible for the difficulties the EU has found in overcoming the economic crisis.

18 months ago we welcomed the Five Presidents Report on completing EMU as an important first step towards reinforcing the euro and creating the necessary mechanisms and institutions to ensure a strong and sustainable currency union. But we also cautioned that that greater urgency and ambition was needed in strengthening EMU in setting out a clear path for the coming years to provide an immediate boost to business confidence and investment.

Whilst we have welcomed the Council's recommendation for euro area member states to establish national productivity boards, elsewhere progress has been slow. The foreseen White Paper could reignite the process of strengthening EMU by setting out the remaining steps that need to be taken to complete EMU.

In particular, we believe tangible progress on the following issues in the broad areas set out in the 2015 Presidents Report would be helpful:

- *Economic Union*

✓ Put competitiveness at the core, ensuring Member States implement structural reforms in order to increase growth, jobs and convergence, drawing on the newly established productivity boards to examine and improve every aspect of the business environment.

✓ Strengthen implementation of the Macroeconomic Imbalance Procedure in both deficit and surplus countries, and develop a broader macroeconomic analysis to identify risks that may be outside its current scope when monitoring macroeconomic developments;

✓ Place a greater focus on employment and the sustainability of social security systems, based on a renewed EU labour market strategy (flexicurity reforms).

- *Financial Union*

✓ Put in place a full banking union to address the continued fragmentation of EU savings and credit markets. Further decisions need to be taken to complete the single resolution mechanism and, following asset quality reviews for all relevant banks as well as a further reduction of risk in the banks' balance sheets, a European deposit insurance scheme. In many member states, prior national reforms establishing adequate deposit insurance systems are a necessary step without which no common system can come about. The regulatory treatment of bank holdings of government securities should be addressed in the appropriate framework of the G20. Bank-specific exposure issues can be dealt with in the framework of the Single Supervisory Mechanism, too.

✓ Implement a comprehensive Capital Markets Union in order to strengthen cross-border capital flows and help companies access diversified funding sources.

- *Fiscal Union*

✓ Improve the efficiency of the fiscal rules and encourage governments to pay more attention to the quality and composition of their public finances, without modifying the underlying spirit of the regulations and ensure that the stability and growth pact enhances and promotes productive public and private investment;

- ✓ Enhance 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 fiscal capacity or stabilisation fund, fully conditional on Members States implementing structural reforms and ensuring that it does not lead to without an increase in the overall tax burden in the Euro area.

  - *Political Union*

- ✓ Improve the implementation of reforms within the European Semester, giving greater visibility to country specific recommendations at national level and involving national parliaments as well as social partners.

Chapter 6: What priorities for trade?

Even though increased openness to trade and investment supports the renewal of European industries and allows them to rapidly develop business in key growth markets, trade policy is being questioned in some parts of public opinion.

There is clearly a need to better communicate on this crucial common EU policy, both at EU level but increasingly also at national level. National industry associations have a key role in tackling this challenge. However, an increased dialogue on trade must not hide the fact that the primary objective of trade policy is to provide EU companies (and in particular SMEs) with new and better business opportunities in third markets, which then lead to more growth and more jobs in Europe.

BusinessEurope agrees with the goal of promoting European standards through trade. However, this should be done by promoting sustainable value chains and existing business models and companies´ competitiveness in a flexible way as there no one-size-fits-all solution in this field. Trade and investment agreements can support other policy objectives but they not be used as substitute to other multilateral agreements specifically covering social and environmental standards.

6.1 <u>Comprehensive agreements with key partners</u>

Europe cannot win the battle for competitiveness, growth and employment, if it shoots the EU common international trade policy in the foot. We are very concerned about the negative consequences of the saga of the signature of the Comprehensive Economic and Trade Agreement with Canada (CETA) for the image of Europe as a relying trading partner. This agreement had been negotiated for five years, in full compliance with the mandate given by all Member States to the EU, still undergoing important changes in the last two years to comply with the latest EU policy choices in a key area as investment protection. Canada shares our values and key sensitivities have been carefully addressed. Therefore, we must ensure that minority views do not succeed in derailing the best trade agreement Europe has ever negotiated. Going forward we must draw the right lessons from this experience and hedge against governance shortcomings that might jeopardize the full implementation of the Treaties.

In parallel, we must conclude our negotiations on a comprehensive free trade agreement with Japan and send clear signals to the new US Administration that we remain committed to the transatlantic partnership including the negotiation of a comprehensive trade and investment agreement. Reaching agreements with key partners, whose values are closer to ours is extremely important if we want to shape globalization around democratic and fundamental rule of law principles

6.2 Digital trade

One of the reasons why we need to go beyond traditional trade agreements is the development of digital trade. Global flows of goods, FDI and data have increased current global GDP by roughly 10% (or $ 7.8 trillion) with data flows alone accounting for $ 2.8 trillion (or 3.6 percentage points). The enormous development of the internet and new technologies has given a significant boost to digital trade in the wide sense (digital goods, digital services, transfer of people and data).

For BusinessEurope, the preferred option would be the launch of negotiations for a multilateral agreement on digital trade. Since this may not currently be a feasible, a plurilateral agreement following the model of the Information Technology Agreement established during the 1st WTO Ministerial Conference that was organised in Singapore, in December 1996 (ITA) should be considered and, in the meantime, WTO members should continue to include provisions on digital trade and e-commerce in their regional and bilateral agreements.

Independently of the chosen model, any agreement on digital trade should recognise free flow of data as a horizontal principle, respect safeguards, such as data privacy or national security, prohibit forced localisation of data, address concerns on forced access to source code and encryption issues, and respect technological neutrality.

6.3 Trade defence instruments

Openness to trade requires effective trade defence instruments in order to be able to defend Europe against unfair trading practices from competitors. The EU is currently in the process of modernising its Trade Defence regime as well as adopting a new anti-dumping methodology that will apply to countries that do not follow normal market economy rules.

There are deep concerns within major parts of the European business community concerning the question of how to treat China in anti-dumping investigations after the expiry of Section 15 subparagraph (a)(ii) on China's Accession Protocol to the WTO and what it could mean for the EU's anti-dumping procedures and industrial competitiveness. Current anti-dumping measures safeguard tens of thousands of direct and indirect jobs in Europe, with thousands more in sectors or product types which have not yet had to address unfairly traded imports. The EU should therefore maintain effective trade defence instruments that take the real market situation in China into account and are compatible with WTO. BusinessEurope is currently examining the Commission proposal for a new anti-dumping calculation methodology published on 9 November 2016 to check if the combined application of the modernised anti-dumping and anti-subsidies regulation and the proposed new calculation methodology would bring a legally sound solution to address these concerns.

6.4 Engaging with China and new global players

At the same time, the European Union must engage with China and other new global market players in order to build fair and mutually beneficial economic relations.

For BusinessEurope, it is in the interest of European companies and workers that the EU strives for a balanced economic relationship with China. Both sides need to show full commitment to an open, fair and rules based system of international trade. A partnership goes both ways. We need clear policy signals from China that it remains committed to comply with its obligations under the WTO, and that it effectively addresses the issues that give rise for concern in the debate on its Market Economy Status, such as overcapacity, because it will harm industry in both China and other countries.

Engaging with Russia is also essential. Even though the sanctions against Russia adopted by the European Union as a consequence of the military conflict in Eastern Ukraine are negatively impacting European companies, BusinessEurope will stand firmly behind the decisions of the European institutions as long as the situation in eastern Ukraine continues to require sanctions. However, these sanctions must remain well-targeted and precise in order to avoid unwanted spill-over effects that may have too far reaching economic consequences. Moreover, they should be part of a coordinated approach including the major world economies and energy should not be used as a political tool by either side. BusinessEurope for its part will maintain its dialogue with Russian business as this is essential to facilitate a return to normal relations when the situation will allow it.

Chapter 7: What priorities to improve EU governance?

All the big challenges facing us today (security, migration, the decision of the United Kingdom to leave the European Union, economic and social development, climate change, etc.) have an international dimension. Efficient solutions can only be found if we work together at European level.

7.1 More unity

BusinessEurope strongly believes in the future of Europe but Europe is really at a crossroads. If we do not wake up now to defend the collective interests of Europe again and continue with the present situation where everybody comes up with short-sighted selfish interests forgetting about our common European interests, we will all end up in misery and poverty.

To improve the functioning and governance of the European Union, we need strong and efficient EU institutions pulling in the same direction. The informal summit held in Bratislava on 16 September 2016 started to sketch out a roadmap to recreate the conditions for the European Union to be a prosperity and security zone. BusinessEurope counts on the EU and its member states to build on this first step and make rapid progress in delivering concrete actions to reach that goal.

In addition, to repair the damage of years of blame game concerning the EU, member states, together with the EU Institutions, must urgently develop a positive narrative on the European Union. They must better explain the crucial role of European integration and of international trade and investment as an engine for national prosperity.

Part of the current disappointment about the European Union is due to unrealistic expectations about what the EU can deliver and the best narrative in the world will remain ineffective if real results do not match the picture painted. This narrative should therefore also tackle unrealistic expectations, clearly say where the responsibility of national players starts and where the EU role ends, staying away from unrealistic promises that can only backfire and further nourish Euroscepticism and distrust in policymakers or "the establishment" in general.

7.2. Better governance

The tools used to organise EU cooperation will vary depending on the issue at stake and on the respective competences of European and national players in dealing with those issues.

As President Juncker rightly said, Europe must be big on big things and small on small things. To do that, the EU must focus on where it can bring added value.

For BusinessEurope, a better Europe is a Europe in which the EU

- ✓ focusses on where the EU can really add value and stays away from matters better dealt with at national, regional or local level (more Europe where needed, such as for external borders management and to govern the Eurozone and less where it does not add value);
- ✓ defines and implements a really coherent global strategy with a strong economic pillar and an ambitious trade policy to open up market access for goods, services and resources as well as modern and effective trade defence instruments;
- ✓ steps up the implementation of pro-competitiveness policies both at the EU and at the national level and ensure that words are converted in real actions;
- ✓ defends Schengen, brings real European answers to the refugee crisis and defends our external borders, which are genuine common challenges;
- ✓ improves governance of the Economic and Monetary Union (EMU) and brings real EU answers to the issues raised in the Five Presidents report.

7.3 Less and better regulation

Companies are faced with a complex set of multi-layered legislations: international standards, EU legislation, national and sub-national rules. Most of the regulatory burden weighing on them comes from national legislation and can only be tackled by Member

States. However, national implementation of EU legislation is sometimes used as a vehicle to impose new obligations on companies even when this is not required by the EU (gold plating of EU legislation). Furthermore, some EU laws impose unnecessary constrains on companies because they go beyond what needs to be regulated at EU level or are simply ill-conceived.

After decades of intense EU legislative activity, most of the issues requiring EU legislation have now been tackled. With the low-hanging fruits already harvested, the cost of compliance with revisions of existing legislation rises significantly and new initiatives are increasingly at risk of being associated with unnecessary constraints and regulatory burdens. Furthermore, some "simplifications" initiatives have actually lead to the paradoxical result that the regulatory burden was actually increased at the end of the process. For example, the "simplification" of Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings lead to the introduction of new burdensome obligations on financial reporting rules for certain companies to report payments on a country-by-country basis.

BusinessEurope acknowledges that progress has been made concerning the availability of tools to assess the impact of proposed EU legislation or to tackle unnecessary administrative burden in existing EU legislation.

The current EU Commission is proposing less legislation and relies more on non-legislative tools such as recommendations to improve coordination of national policies (for example economic policy coordination through "country specific recommendations in the context of the European semester) and positive incentives to change (for example leveraging public and private investment through the European Fund for Strategic Investment to boost investment or giving EU financial support to innovation projects through the Horizon 2020 programme).

However, more needs to be done to remove unnecessary regulatory burdens for companies. The EU and member states should hear the aspirations for a new conception of protection, less legal, more focused on opportunities, choices and empowerment.

For BusinessEurope, 7 principles should guide the EU and its member states to deliver less and better regulation. They should:

- ✓ always prefer non legislative action and only resort to EU legislation if the issue cannot be tackled through other means (i.e. if the issue cannot be tackled through another EU tool or through national or self-regulatory market action);
- ✓ limit EU rules to what is necessary to deal with pan-European aspects (subsidiarity and proportionality) and avoid gold plating when implementing legislation at the national level;
- ✓ balance the precautionary principle with an innovation principle to move away from the current risk-adverse bias which is undermining future growth and employment prospects ;
- ✓ ensure that policy decisions are made on the basis of evidence-based sound information;
- ✓ set a net target to reduce the total regulatory cost and always seek to off-set new legislation by removing constraints in existing legislation or repelling EU directives and regulations that are no longer necessary;

- ✓ consider the cumulative effect of EU legislation when assessing the impact of possible new legislative proposals on competitiveness;
- ✓ carry out impact assessment throughout the EU legislative process, updating the initial impact assessment on the Commission proposal when amendments by the European Parliament or the Council tilt the balance of the text and set up an independent impact assessment board to carry out this task (similar to the bodies existing in Sweden, The Netherlands, Germany, and the Czech Republic);

To improve transparency, EU institutions, starting with the European Commission, should:

- ✓ publish final draft texts and draft impact assessments before the proposed initiative is adopted and be more open about trilateral negotiations between the European Commission, Parliament and Council;
- ✓ ensure that all relevant stakeholders affected by possible EU actions have the opportunity to give their views about initiatives throughout the preparation and legislative process, weighing the representativeness of these stakeholders when considering the input received and responding to the suggestions made (based on a comply-or-explain principle).

BusinessEurope counts on the summit in Malta on 3 February 2017 to make real progress in the identification of rapid deliverables as well as longer term solutions adding value for companies and citizens in order to strengthen the support for the European Union as an economic and security zone.