

Bring the Lisbon strategy up to speed!

What German business expects from the EU spring summit
on 21 March 2003 in Brussels

The EU's Lisbon strategy has lost momentum. The European Commission rightly points out that implementation of the strategy is too slow despite progress in individual areas. In particular, governments are proving hesitant to meet their commitment to carry through structural reforms.

We now need a step change in the tempo of the Lisbon strategy if making Europe the "most competitive and dynamic knowledge-based economy in the world" by 2010 is to remain a realistic objective. Europe cannot continue to lose ground to the USA and other competitors. The credibility of the entire process is at stake.

German business warns against a widening gap in implementation of the Lisbon strategy. Structural reforms must now be tackled more decisively at national level so that the EU is in good form for the upcoming enlargement.

As the largest economy in the EU, Germany must accept its responsibilities. Reforms on the labour market and in social security systems must not be deferred any longer. Taxes and charges for businesses and the consumer must be reduced significantly. The objectives of the Lisbon strategy should be at the centre of a sound and predictable economic policy which attaches greater value to competition and individual responsibility, and targets greater relief of the burden on businesses.

Germany must close the gap: *bring the Lisbon strategy up to speed!*

What German business expects from the EU spring summit on 21 March 2003 in Brussels

Play to the strengths of competition

A strengthening of competition in the EU and consistent market opening are determinant for the success of the Lisbon strategy. Liberalisation of energy supply, telecommunications and transport has achieved progress. However, the opening of markets to competition needs to be accelerated and extended to all sectors.

Only consistent market opening ensures that citizens and businesses are provided with services of good quality and at affordable prices. Revived efforts to shelter large portions of infrastructure markets from competition on the pretext that they are services of general economic interest are counterproductive. German business decisively rejects EU framework legislation which largely leaves it to Member States' discretion to exclude "services of general economic interest" from market opening. This would be incompatible with the objectives of the Lisbon strategy.

Strengthen the spirit of enterprise and industrial competitiveness

With a view to the imminent spring summit of the European Council, the German federal government has once more rightly pointed out that industry occupies a key position in the EU's value-added chain. A strong industrial base in Germany and other European countries is essential for the competitive strength of the entire European economy and its position on international markets. Accordingly, disproportionate and one-sided burdens on companies must be avoided. All decisions with consequences for European industry must in future be subjected to a more balanced impact assessment. German business supports the German federal government's objective that all questions with relevance for industrial competitiveness should in future be addressed in the newly created Competitiveness Council.

German business welcomes the European Commission's efforts to promote the spirit of enterprise. Entrepreneurship must be given more support and gain greater acceptance in European societies, not least in Germany. This is the only way to avoid a further widening of the gap in business start-ups, in particular vis-à-vis the USA.

Reduce taxes and charges significantly

The tax burden on companies in Germany remains high on an international comparison. An increase in taxes and charges on businesses is diametrically opposed to the objectives of the Lisbon strategy. The law on elimination of tax incentives recently adopted by the

German federal government sends the wrong signal for the Lisbon strategy. The tax take in Germany is still growing thanks to increases in green taxation, excise duty on tobacco and corporate taxation. This is compounded by the increase in social insurance contributions from 1 January 2003 by an amount of around € 10 billion. If the Lisbon strategy is to have any real effect in Germany, perceptible relief is needed in these areas.

Modernise the labour market

With the creation of the Hartz Commission, the German federal government itself acknowledged the need for change on the labour market. Outdated structures, excessive red tape and welfare disincentives on the labour market run counter to creation of more jobs. More specifically, the obstacles to more employment rooted in labour law must be eliminated. This includes a fundamental overhaul of job protection and a firm legal basis for labour agreements at company level.

The relaxation of protection against dismissal now being proposed by the German federal minister for economy and employment is a step in the right direction - towards the urgently needed injection of flexibility into labour law. German rules for protection against dismissal in particular considerably aggravate human resources planning in companies and have become a major obstacle to taking on new employees - especially in smaller businesses.

By creating a European benchmark, the European employment strategy (EES) makes an important contribution to progress on productive employment. Involvement of the social partners taking account of their autonomy at all levels must be ensured in the framework of EES. The EU's new employment guidelines need to be simplified. They should concentrate on qualitative objectives.

Reform social security

The level of social charges in Germany is too high. This has a particularly harmful effect on the labour factor. The German federal government must reduce social insurance contributions perceptibly and as rapidly as possible. A reduction to below 40% must be achieved by the end of this parliament through structural reforms to reduce expenditure.

German business welcomes the fact that the German federal government has recognised the urgent need for a comprehensive reform of the social security system. It has great expectations of the reform commission for sustainable financing and development of social insurance, known as the Rürup Commission.

The health system in Germany needs to be reformed urgently. This is underlined by a European comparison: the average contribution rate must and can be reduced from today's 14.4% to well below 12% without any deterioration in health care for the population and without placing excessive financial demands on individuals. This requires an extension of personal participation in costs. Efficiency reserves in the health system must be mobilised through competitive structures.

In the area of pension insurance, the pension increase for 2003 needs to be reversed immediately in order to avoid liquidity problems and further increases in contributions.

In addition, a pension reform is necessary before the end of this year, with a view to higher penalties for early retirement, and to ensure survivor pensions that take greater account of income and a reduction in pension levels in the medium term.

Reduce public debt

The objectives of the Lisbon strategy also include sound and sustainable public finances. In Germany, the public debt of the federal government, the Länder, and the municipalities has now reached the level of € 1,200 billion. Interest payments last year totalled more than € 70 billion. The federal government, the Länder and the municipalities are increasingly not in a position to finance investments for the future. Debt servicing is leading to an ever greater burden on budgets and is tying up resources which are urgently needed for forward-looking investments in Germany.

According to the calculations of the European Commission, Germany's budget deficit last year reached the obviously excessive level of 3.8% of GDP. Other EU countries have also exceeded the deficit ceiling. BDI and BDA call on the German federal government to adhere to the stability and growth pact in the form in which it was agreed. This is the only way to ensure the necessary discipline in the budget and finance policies of Eurozone Member States. A European economy operating in international competition needs a stable budget policy, competitive interest rates and a sound currency.

Cut red tape at all levels

The German federal government has announced decisive steps to cut red tape in Germany. For its part, German business has submitted specific proposals to the German federal government as to how companies can be liberated as rapidly as possible from bureaucratic requirements which stand in the way of strengthening their innovative capacity and new investments.

If the Lisbon objectives are to be achieved, hurdles for companies which are active across Europe need to be dismantled also at European level. The internal market and the Euro have resulted in a clear reduction in the burden on businesses involved in cross-border activities. Nevertheless, the internal market in services has not been completed and an efficient European capital market is not yet in place. It would be poison for the Lisbon strategy if additional regulatory bodies were to be created at European level, for instance for telecommunications markets. The European Commission and governments should work more assiduously for subsidiarity and proportionality in EU legislation, for framework directives and for self-commitments by industry.

Foster education and training as a factor for competition

The vision of a knowledge-based European society developed in Lisbon requires education systems that can pass muster in global competition. The PISA study has made it clear how urgently the quality of education systems in Germany needs to be improved, for instance through education standards which are uniform across borders. German industry welcomes the fact that the federal government and the Länder have taken the first steps in this direction. Further efforts must now be made, so that a uniform education standard is developed and applied as rapidly as possible. Stronger promotion of all-day schools is also necessary, so that schools can impart sound basic skills.

For universities, it is high time to introduce comparability of course results through modularity and introduction of transferable points systems (ECTS). The quality and transparency of university courses has to be secured through accreditation systems. Only then will it be possible to achieve the necessary acceptance of bachelor and master degrees, not least on the labour market. The focus lies in securing the professional ability of bachelor graduates.

In the field of vocational training, the aim must be to create transparency in qualifications and to develop new methods for awarding credits for training achievements. The Bruges process can make an important contribution in this respect.

Europe-wide promotion of education and training should result in greater mobility at Community level. Social and cultural obstacles to mobility must be dismantled, in particular through acquisition of foreign language skills, but also through organisation and promotion of cross-border traineeships and the use of European training passports.

Exploit innovation potential

Global competition between industrialised countries is competition in innovation. Innovations are the key to tackling economic, ecological and societal problems. EU countries have agreed to increase that share of research and development expenditure to 3% of gross domestic product by 2010. The corresponding figure in Germany in 2000 was around 2.4 %. The share of German public expenditure on investments for the future, including support for private investments in education, research and development, needs to increase further.

If Europe wants to hold its own in global competition in innovation, the EU must make greater efforts to pool and network the research and development capacities of its Member States. The European Council should decide to make this a priority for moving the Lisbon strategy forward. National self-interest must be overcome. The plans for the Galileo project must finally be realised.

The Community patent is one of the central priorities of the Lisbon strategy. Business has been calling for this patent for years, in order to bring costs into line with those paid by important competitors. With a view to the imminent enlargement of the EU by ten countries, practical solutions must finally be found. Nevertheless, German business is

against a compromise at any price. The Community patent must not ultimately lead to costs which smaller businesses in particular are hardly in a position to shoulder.

Tailor sustainability to competitiveness

Environment and consumer policy are today primarily precautionary. For German business, it is self-evident that the Lisbon strategy should also address sustainability. However, if it is the objective of the Lisbon strategy to make the EU more competitive, a policy for sustainability should also be measured against this benchmark. German business urges the use of flexible instruments, for instance voluntary standards, best practice and self-commitments by companies.

The additional regulatory burden that could result from the European Commission's plans for a European chemicals policy would run clearly counter to the objectives of the Lisbon strategy. For German business, the EU's chemicals policy is a test case which will determine whether the Lisbon strategy not only is pursued in terms of general political objectives but also becomes operational and binding for EU rule-making. Discussions in the Commission, Council and European Parliament must be based on a balanced impact assessment and take account of the consequences of the European chemicals policy for industrial added value as a whole and employment in the EU.

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