BUSINESSEUROPE

SPEECH

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12 March 2009

EVERYTHING TO PLAY FOR!
LET'S CLIMB OUT OF THE CRISIS TOGETHER, AND OPT FOR PROGRESS!

ADDRESS BY DAVID CROUGHAN
EESC SEMINAR, 17 MARCH 2009

Ladies and Gentlemen,

The extent of the financial crisis is now all too visible and is leading the European Union into its deepest recession on record.

The reason for the sudden stop in economic activity in recent months is a sharp and synchronised reassessment of credit risks, which left millions of companies face sudden financing difficulties at a time when order books were falling sharply. Global trade was also severely hampered by the rising cost and reduced coverage of credit insurance.

BUSINESSEUROPE forecasts EU GDP to contract by 2.2% in 2009. Investment spending and exports are particularly affected, plunging by 7,3% and 5,7% respectively. Employment is also suffering more immediate consequences compared with previous downturns, and is expected to decline by 4.5 million. In addition, public finances are under severe pressure and markets have become very sensitive to sustainability.

Countries most severely affected are the so called deficit countries like the UK, Spain, Ireland or Baltic states but surplus countries like Germany are also suffering a major blow from the sharp contraction of global trade and investment.

At present, members of BUSINESSEUROPE express particular concern at the rise of protectionist pressures and the risk of further deterioration in financing conditions, which they consider are the main factors which could further deepen the recession and delay the recovery.

Stopping the spiral of protectionism and restoring access to finance for companies is topping the list of our recommendations to European policy makers, but also insist on two other critical areas of action namely the coordinated implementation of recovery plans and structural reforms.

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Let me go in further details:

1. COMPANIES' ACCESS TO FINANCE MUST BE IMPROVED

Irrespective of company size, access to finance is now severely affected. Financing difficulties related to working capital needs are at present the biggest concern for SMEs and large companies alike.

The combination of depleted order books, late payments, malfunctioning capital markets, cautious banks and a shortage of credit insurance is causing life-threatening conditions for many companies across Europe. Under current trends, the rate of corporate default could increase by around 25% this year.

Larger companies also face substantial problems in refinancing their outstanding debt on capital markets.

Coordinated and effective action is of utmost importance to restore credit flows. Some actors have a key role to play in order to provide a European response that preserve a certain level playing field on the internal market.

- The ECB needs to step up its efforts to reduce the cost of financing, provide liquidity and implement the right incentives to restore interbank lending. Unconventional measures should also be considered, such as the purchase of commercial paper and other corporate debt instruments.

- The role of the EIB and EIF should also be further extended to improve companies' access to finance by privileging risk-sharing schemes, mezzanine financing and widening eligibility criteria to include programmes to support working capital.

- Finally, the European Commission must fight financial protectionism and ensure close coordination among member states to preserve competition in the banking sector and the integrity of capital markets.

The de Larosière report on banking supervision and regulation in the EU brings forward sensible proposals to move towards stronger cross border supervision while leaving intact the national supervisory structures. We strongly support the Commission in its request for an accelerated implementation and urge the Council to set a clear timetable for transition towards an integrated supervisory structure.

2. WE MUST RESIST ALL FORMS OF PROTECTIONISM

A new era of protectionism would deal the death blow to the economy. BUSINESSEUROPE strongly opposes new impediments to trade and capital flows.

At the global level, BUSINESSEUROPE

- Encourages the Commission to intervene with trade partners whenever they impose new barriers to trade and
- Presses for the rapid conclusion of ambitious trade agreements and for the resumption of the Transatlantic Economic Council to prevent regulatory divergence with the US.

At the EU level, BUSINESSEUROPE

- Expects the Commission to defend the Treaties, to fight any national initiative that could undermine the Internal Market and to continue to apply its competition policy vigorously. Moreover, a specific framework should be put in place to monitor and fight the emergence of financial protectionism and take action in case of severe distortions;

- We also warn for the risks of state supported “Bad Banks” to absorb toxic assets which create enormous practical challenges, raise moral hazard issues, impede competition and risk precipitating bank nationalisation;

- Lastly, we call on Member States to honour their commitments to fight protectionism and coordinate their actions in a credible manner as agreed upon at the exceptional European Summit on 1 March.

3. MEMBER STATES MUST SUPPORT GROWTH AND JOBS WITH STIMULUS MEASURES

Business is convinced that decisive national recovery measures must be implemented rapidly. We estimate that discretionary measures to support the recovery currently amount to 1.2% of GDP this year, while automatic stabiliser effects should add another 2% of GDP. This seems an adequate contribution to economic stabilisation, especially considering rising concerns about the sustainability of public finances in many Member States. What is critical at present is to better coordinate national programmes, set clear deadlines and monitor their implementation.

In addition, the Council should allow €5bn of unspent CAP funds to be used for investments in the context of the EU’s recovery plan.

EU institutions and governments also need to step up their solidarity with member states outside the euro area facing massive balance of payments problems or speculative currency attacks. The agreement reached between the EIB, the EBRD and the World Bank to provide 24.5bn euros in support of the Eastern European banking sector has been an important step. But more is needed and the EU Medium Term Assistant Facility to help non-euro area countries facing balance of payment difficulties should be raised significantly further from the current 25bn ceiling.

4. The implementation of structural reforms must be accelerated

The ongoing financial crisis will in the next 2 years completely unwind the progress achieved since the start of the Lisbon Strategy in 2000 in terms of budgetary consolidation, diminishing unemployment and rising investments.

Several actions have been taken place to cushion the impact of the current downturn on growth and jobs. However, only through an effective reform strategy will it be possible to create the basis for a sustainable recovery. And this has been a crucial flaw in the European response to the crisis.

In fact, reforms are a vital pillar of the recovery and we regret to have already gathered evidence of a progress slowdown during 2008 in our Reform Barometer.

Our member federations placed the emphasis on three main areas:

1. Firstly, <u>better regulation</u>, reinforcing peer review, progressing on simplification and transparency and ensuring correct implementation of internal market legislation into national law.
2. Secondly, it is of fundamental importance to implement <u>labour market</u> reforms that introduce flexible working time arrangements; match skills to labour market needs; reinforce active labour market policies and reduce non wage labour costs.
3. The third priority areas is to reform <u>public finances</u> by reducing age related expenditures; improving effectiveness of public administrations; and developing performance benchmarking.

<u>Social Impacts</u>

In addition to these four pillars, there is the need to alleviate the social impacts of the crisis.

The European Social Partners have an important role to play in times of crisis and will present a new EU social dialogue work programme during the Tripartite Social Summit in March 2009. The Social Partners can show the way forward along the lines of the joint labour market analysis of October 2007. In fact, the economic situation has evolved but the flexicurity approach supported by both sides remains valid.

Moreover, it is of utmost importance that tensions on the labour market do not lead to the creation of obstacles to the free movement of workers. The promotion of free movement of workers can help addressing mismatches between skills and labour market needs, fundamental in this moment.

Naturally, requests have been made by workers' to ensure that the interface between the single market and national social systems is properly managed. For BUSINESSEUROPE, the rules of the posting of workers directive make this possible. However, its practical implementation should be improved. The joint analysis of recent

ECJ jurisprudence undertaken by European Social Partners should help leading to joint conclusions.

But we should be aware of the fact that measures need to be tailored to Member States' specific needs and be attentive for short-term measures to be consistent with long-term structural reforms. Therefore,

- The ESF should support partial unemployment schemes by paying for training of temporarily redundant employees'. It should also be used more prominently to improve matching of labour market demand and supply.
- Moreover, non-wage labour costs should be reduced, in particular for low-skilled workers, to support employment.
- Sectoral and national wage developments need to be adequate in order to avoid even higher unemployment; real wages are currently supported by declining inflation.

Finally, BUSINESSEUROPE broadly agrees with the main objectives of the Jobs Summit in May, in particular how to structurally improve Europe's labour markets. In particular, the concept to use flexicurity as core policy to keep people in employment meets our approval.

G20

Finally, the next G20 in London provides a great opportunity for stronger international coordination and joint efforts for an effective response to the crisis.

The EU should take the lead, demonstrating its aptitude to coordinate its economic policies, resist protectionism on the internal market and advance balanced market reforms based on principles of transparency, better oversight and risk management.

However, from our perspective, the most significant outcome of the G20 meeting would be a binding commitment to prevent any new protectionism measures in trade, investment and capital flows.

CONCLUSION

The actions taken by the EU to respond to the crisis are appreciated by the business community. But it is time for the EU to demonstrate it can move a step further.

The EU should coordinate its actions along the four-pillar strategy advocated by BUSINESSEUROPE, in particular restoring access to finance to companies and fight protectionism.

But the EU cannot do it all alone. We are now living a world crisis and negative growth expected in 2009. Individual actions will not have the necessary strength to stop the downturn spiral. We therefore call today for strong international coordination and we hope that the high expectations placed in the next G20 summit are indeed met.