BUSINESSEUROPE

SPEAKING NOTES

6th November 2013

COUNCIL WORKING GROUP ON COMPETITIVENESS AND GROWTH
6TH NOVEMBER 2013
9H30
JUSTUS LIPSIUS BUILDING

INTERVENTION BY MARKUS J. BEYRER, DIRECTOR GENERAL OF BUSINESSEUROPE

Introductory remarks: the importance of CSR for growth

- It is a pleasure for me to present business views on such an essential issue.

- Over 5 years since the start of the crisis, Europe is losing ground on its international competitors. Whilst we have essentially been undertaking crisis management, others have been investing heavily in skills, infrastructure and R&D to increase competitiveness.

- Europe urgently needs to press ahead with structural reforms: Eliminating 50% of Euro area countries' gap with the best practices identified by the OECD could increase the Euro area GDP by 3.75% within 5 years.

- Most of the policy instruments to implement structural reforms are in the hands of member states. But the crisis has underlined that European governments can't ignore the impact of each other's decision on their intertwined economies, particularly when they share a common currency.

- The European semester is therefore crucial to both increase the coordination of economic reforms, and their intensity.

- To support the semester process, BUSINESSEUROPE carries out every year a European Reform Barometer. This evaluates reform progress and performance in member states.

Reform Priorities

AV. DE CORTENBERGH 168
BE-1000 BRUSSELS
BELGIUM
VAT BE 863 418 279

BUSINESSEUROPE a.i.s.b.l.

WWW.BUSINESSEUROPE.EU

TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL: MAIN@BUSINESSEUROPE.EU
EU Transparency register 3978240953-79

Our members, representing businesses across Europe point to 3 broad priorities for reform

- Firstly, **Growth-enhancing fiscal consolidation** is essential to restore confidence in sustainable public finances
    - Member States must strengthen confidence in the stability of public finances by continuing to progress towards balanced budgets and in turn starting to reduce long-term debt position.
    - Fiscal consolidation needs to focus upon reductions in public expenditure, rather than tax increases.
    - Tax reforms must favour tax systems supportive of long term investments, by shifting tax burden away from labour and capital.
- Secondly structural **labour market reforms** are needed to overcome labour market rigidities and to increase productivity and employment.
    - Well-functioning and flexible labour markets facilitate job creation, transitions between jobs, and help to match skills supply and labour demand.
    - It is important to keep labour costs in line with productivity to safeguard EU companies' competitiveness and ability to invest
- Thirdly, structural reforms must unleash the growth potential of **product markets.**
    - Opening markets to increased competition, including through completion of the single market in areas such as services, energy and digital economy can help drive productivity growth and employment creation.
    - Member States must also support business expansion by reducing administrative costs.

Reform Progress

Our members tell us that The Commission's Country Specific Recommendations generally set the right priorities for structural reforms

- According to our survey on the effectiveness of the European Semester in driving structural reforms, 69% of our members believe that the country specific recommendations are absolutely or to a large extent appropriate.

  - Member States National Reform Programmes are also generally seen as appropriate, although a quarter of the respondents still believe Member States' NRP could show greater ambition.

- More broadly, we particularly welcome the fact that the Commission has stepped up its efforts over time to provide more robust and detailed recommendations to address structural weaknesses.

- It is also important that recommendations are not watered down by the Council. We welcome the fact that this year's Council final adoption has remained broadly in line with the initial targets set out by the Commission.

Implementation

- However, our survey also shows a major gap between reform plans and actual implementation.

- Average reform progress is judged at best mixed by our national federations, with no federation entirely satisfactory, and with no significant improvement from one year to another.

- Our assessment is shared by the Commission, which considers that progress in comparison with previous year is observed in only 15% of the around 400 country specific recommendations[1].

- We are particularly concerned regarding on progress in implementing reforms in terms of productivity and investment and in international competitiveness. This is particularly the case if we are to achieve the Commission's goal to **raise industry's share to 20%** of EU GDP by 2020

  - Efforts to reduce the **regulatory burden** on businesses must accelerate.

  - We are particularly worried about **inconsistent energy and environmental policies.** This has resulted in industrial energy prices racing far ahead of those in the US, putting EU industry at a competitive disadvantage.

  - Europe is also losing ground in **innovation and skills**. This is crucial if we are to attract the high quality, high paid jobs found in globally footloose , technology intensive sectors.

[1] Mentioned in Parliament's Econ Committee) report on European Semester (published 2013)

- We therefore call for further efforts to help **R&D** spending to reach the goal of 3% of GDP.. Education systems must also better meet future skills, particularly by having a greater focus on **STEM**.

- Our survey recognises that **labour market reforms are taking place** in a growing number of countries. But more needs to be done to really hasten Europe's recovery out of crisis and scale down EU unemployment. The danger is that the present reforms are seen as the end and not the starting point for reform.

- In terms of **public finances**. consolidation efforts to restore sustainable public finances remain a key priority for businesses,

    - It is essential that those countries being given extra time to achieve budget targets intensify the structural reforms which are the basis for which extra time has been granted.

- Our survey shows that **financial stability** is the area with most rapid progress has taken place.

    - I hardly need to mention the important of getting reform right in this area. Constraints in **accessing affordable funds**, in particular for SMEs, represent a major obstacle to companies' investment and growth and a major risk over the fragile observed recovery.

    - Reforms must strike the right balance between greater financial stability and ensuring access to affordable loans.

    - National reforms must also be supportive of alternative funding routes, such as venture capital.

    - Reforms raising the cost of capital and undermining investment, such as a tax on financial transactions, must be avoided.

Concluding remarks: a need for greater enforcement

I know this is not an easy task,

While they take time to fully feed through to growth, structural reforms are already starting to show results in some countries.

For example, labour and product market reforms in countries like Spain, Ireland and Portugal have contributed to higher competitiveness and more exports. Current account deficit of almost 10% in Spain in 2009 6% in Ireland and 11% in Portugal in 2008 are all expected to be replaced by surpluses of around 2% this year.

But this is a long-lasting process and the early signs of a fragile recovery are no excuse for a loss of political support for reform efforts.

We are particularly supportive of initiatives at European level which can make country specific recommendations more enforceable.

In this regard, we are particularly pleased, in the context of its on-going work to increase the effectiveness of the European Semester process that the Council gives priority to improving the monitoring of the implementation of the country specific recommendations. I can assure you that BUSINESSEUROPE will give its full support in this area

Thank you for your attention