



Mr Herman Van Rompuy
President
European Council
Rue de la Loi 175
B-1048 Brussels
BELGIUM

17 October 2014

Dear President,

Message to the EU Council meeting on 23-24 October 2014

Strengthening investment requires reforms and competitive climate policies

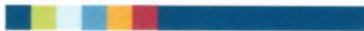
Economic recovery in the EU has lost momentum. BUSINESSEUROPE now expects 1.4% GDP growth in the EU in 2014 and 0.8% in the Euro Area, compared to 1.6% and 1.2% in our spring forecast.

This downward revision in growth expectations happens despite unprecedented policy action by the European Central Bank, confirming that monetary policy alone will not be sufficient to deliver sustained growth and employment. Without concrete decisions showing Europe's and Member States' determination to pursue necessary reforms and deliver more competitiveness-friendly policies, weak investment will continue to weigh on growth and job prospects.

Using the existing flexibility embedded within the stability and growth pact, Member States must demonstrate their commitment to fiscal reforms, implementing forthcoming additional structural reforms to address labour markets and access to finance constrains and lowering the tax burden in a budget-neutral way by cutting expenditure in unproductive areas and re-directing public expenditure towards necessary investment.

The EU's 2030 energy and climate framework too can be a game changer, provided that the EU aligns climate objectives with its industrial growth ambitions. Without this, there will be massive additional costs on the EU economy without significant impacts on global warming. Balancing better cost- competitiveness, security of supply and climate objectives is the only way to bring down energy costs, which are currently exposing the European industrial value chain to severe competitive disadvantages in global markets and leading to investments leakage.

European companies are taking their responsibilities in reducing greenhouse gas (GHG) emissions and will continue to bring to the market technological solutions to climate change, not least in the fields of energy efficiency and renewable energy sources. At the same time, they expect governments to find sufficient political will to



resolve the highly complex, but not insurmountable international climate negotiations in order to deliver a new balanced global, legally-binding climate agreement next year in Paris, committing all major economies to achieve comparable GHG emissions reduction.

BUSINESSEUROPE and all its member federations urge the European Council:

- To agree on a GHG emissions reduction target for 2030, in line with the commitments of other major economies and consistent with the EU goal of increasing the contribution of industry to 20% of the EU GDP. Therefore the proposed 40% emissions reduction target should be re-assessed after COP21 to ensure a level playing field between the European industry and its major competitors;
- To move away from the three overlapping targets to a single GHG target, implying appropriate efforts to renewable and energy efficiency, notably in terms of R&D. Lessons learned from the 2020 energy and climate framework have clearly shown that different targets interact in a way that reduce the framework's overall economic and cost-effectiveness;
- To support a fully-fledged reform of the EU Emissions Trading system (ETS) post-2020 so that it becomes the only EU instrument for delivering on emissions reduction, renewables growth and energy efficiency from industry. To maintain confidence in the system, it is crucial to show that it can work for every industrial sectors. BUSINESSEUROPE therefore insists that rather than tweaking the system with isolated measures, a deeper reform post-2020 is necessary. The European Council should ask the new European Commission to propose, in the first six months of its mandate, a full reform package, including a legislative proposal for a carbon leakage regime addressing both direct and indirect costs as well as incorporating the current market stability proposal. It is essential that the most CO₂-efficient installations at risk of carbon leakage do not face additional carbon costs.

Creating a virtuous circle between improved competitiveness, higher growth and more job creation requires improved governance. BUSINESSEUROPE therefore very much hopes that the approval procedure of the European Commission will be swiftly completed so that President Juncker and his team can start working without delay for a better Europe, in the light of the strategic guidelines defined by the European Council in June 2014.

Yours faithfully,

Emma Marcegaglia