BUSINESSEUROPE

SPEAKING NOTES

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LPK CONFERENCE "INDUSTRIAL COMPETITIVENESS: HOW TO RESPOND TO INNOVATION CHALLENGES"

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Let me start by thanking LPK for the invitation.

LPK, The Lithuanian Confederation of Industrialists, is an active and constructive partner and I would like to use this opportunity today to thank you for your commitment to BUSINESSEUROPE, in particular through the active role played by

your President Robertas Dargis,
your Director General Gediminas Rainys,
and by your Permanent Delegate in Brussels, Tomas Vasilevskis.

BUSINESSEUROPE is the horizontal business organisation at EU level. We advocate for business-friendly and pro-competitive policies, not only in the EU but also globally.

Timing is very important since Europe is at a cross-road. The beginning of this new European political cycle offers a unique window of opportunity for the EU and national policy-makers to re-define the priorities for the European Union.

In the last five years, 6 million jobs have been lost in the European Union, compared to around 1 million in both the United States and Japan.

Moreover, the EU's share of worldwide foreign direct investment flows fell to 24% in 2012 compared to 40% in 2000.

President Juncker rightly underlined that "it is mainly companies, not governments or EU institutions that create jobs". In order to invest in Europe, companies need a business-friendly environment.

Let me highlight the reasons why Europe is losing ground. They are manyfold:

- the overall tax burden is 50% higher than in the US and 30% higher than in Japan,

- the average tax wedge on low-income earners is 40% higher than in both US and Japan,

- administrative requirements to start a new business are 3 times more burdensome than in competing economies,

- energy prices are too high: industrial electricity prices in the EU are more than twice those in the US and Russia and 20% higher than in China. EU industry pays 3 to 4 times higher gas prices than US, Indian or Russian companies, *Moreover*:

- the EU 's R&D gap with competitors is widening:

  in 2014 China, Japan, South Korea and the US will overrun the EU in terms of R&D intensity,

- our education and training performance weakens compared to key competitors, and Europe faces structural mismatches between skills provided and skills needs,

  Last but not least:

- access to finance is constrained, with loans to companies from Euro-area banks having fallen by around 10% between the start of 2012 and the end of 2013.

To address these challenges BUSINESSEUROPE has identified **the following priorities:**.

TTIP and International markets

Our priority is to secure improved access to worldwide markets.

We want the EU to accelerate its trade agenda in a spirit of reciprocity,

through elimination of tariffs and nontariff barriers, with enhanced regulatory coherence and regulatory cooperation,
simplification of trade procedures,
promotion of investment-friendly environments,

TTIP is one of the important trade agreements we need to rapidly conclude

Access to finance

The key priority is to improve access to finance in particularly for SMEs.

We need to implement the Banking Union (centralised supervision), and combine it with balanced prudential regulation that eliminates fragmentations in the EU financial market (the central supervision will reinforce confidence in national banks).

We need to further improve the lending capacity of banks.

At the same time, we must unlock alternatives to bank lending including equity venture capital, corporate bonds and crowdfunding, and make better use of EU budget and EIB resources.

Economic and monetary union

The European Union will have to ensure the smooth functioning of the EMU (deficit reduction),

We need Member States to deliver the necessary structural reforms.

This goes through reductions in public expenditures that prioritise investment, rather than tax increases.

Digitalisation and single market

What is key for business is a well functioning Single Market, for goods, services, people and capitals.

Legal fragmentation remains an obstacle to a real SM.

One of the priorities is the digital economy. It could add more than €2 trillion to Europe's GDP by 2030.
But there we have a number of challenges:

- 13 out of the 20 internet companies with the highest global annual revenues are based in the US,
  4 in China,
  and none in the EU.

  Similarly just 8 of the world's top 100 high-tech companies have their headquarters in Europe

- The EU is the only major economy that has seen a decline in investment in broadband since the start of the crisis.

Investment fell from €106 per capita in 2008 to €90 in 2013.

The DSM strategy must be a core priority for the EU. We want the timing for delivery to be speeded up.

Competitiveness for more growth & jobs

We want the EU to put competitiveness first and deliver on better regulation.

Bold choices will have to be made to focus on key challenges requiring pan-European answers.

We want the EU to stay away from issues of lesser importance or problems better solved at national level.

This means a better application of the subsidiarity and proportionality principles.

Labour Market

We need to modernise our labour markets, education, training and social protection systems,

This is key to remove obstacles to job creation.

We also need urgently to address skills mismatches, and boost professional and geographical mobility.

Industrial base

The European Union will have to strengthen its industrial base.

The goal is to generate at least 20% of EU's GDP in industry by 2020.

This will have positive spill-over employment and growth effects across all sectors of the economy, including services.

Energy and climate

We want the EU to take rapid actions to achieve competitive prices and guaranteed access to energy.

For this we need to develop energy infrastructure and interconnection of cross-border networks to complete the energy single market.

We need a balanced international climate agreement in which the EU does not end up as a lone frontrunner.

We need to ensure proper compensations for industries exposed to global competition and diversifying Europe's energy sources both domestically and externally.

Turning more specifically to innovation, the big challenge is to REGAIN GLOBAL LEADERSHIP.

Facts

Every second Nobel Prize in sciences goes to a European but only 27.5% of all patent applications come from European companies.

Europe produces only 15.9% of all high-tech exports.

If we create the right conditions to invest more in innovation and take a more qualitative approach of innovation, we can regain the ground lost.

Actions needed

- We must build a true culture of innovation, encouraging reasonable risk-taking rather than over-playing the precautionary principle. Its application must be based on solid scientific evidence, and balanced with an "innovation principle".

- We need stronger collaboration between industry, universities, public research institutes.

  This can be done through innovation clusters and networks.

We must better pull together skills, know-how and funding for commercialisation of innovations in a pre-competitive phase.

We need to maximise spill-over effects between front runners and other companies with lower innovation performance through integration in global value chains.

- We must bridge the gap between research and market deployment of new products and services.

  We need adequate funding and an appropriate regulatory environment.

  We must focus on close-to-market activities, which can help commercialise the results.

  Lastly,

- The European Union will have to optimise the use of existing EU innovation funds, making full use of Horizon 2020, Joint Technology Initiatives.

So the challenges are many and we cannot afford to lose time or make the wrong choices.

We need rapid actions in the area I have highlighted but more important we need a different mindset if we want the EU to remain and leader and not end up as a second league player.

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