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MAKE THE EU INSTITUTIONS PLAY TO WIN

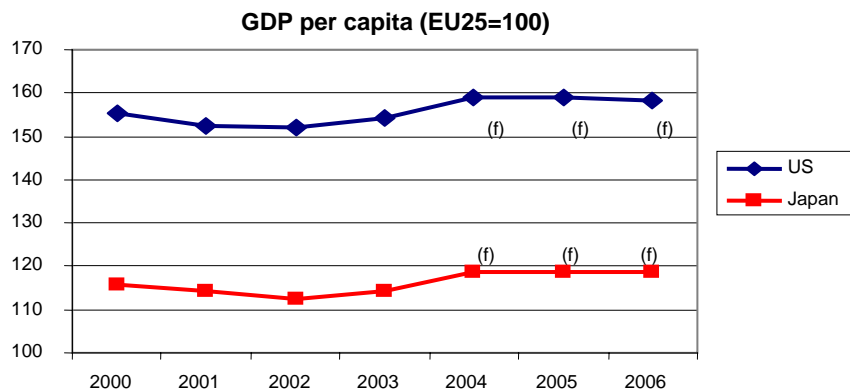
EUROPEAN BUSINESS EXPECTATIONS FROM THE LUXEMBOURG PRESIDENCY

MEETING BETWEEN JEAN-CLAUDE JUNCKER, LUXEMBOURG PRIME MINISTER AND PRESIDENT OF THE EUROPEAN COUNCIL AND JÜRGEN STRUBE, UNICE PRESIDENT ON 19 JANUARY 2005

As the EU work programme for the new political cycle is taking shape, the Luxembourg EU Presidency will be at the centre of important strategic decisions in the coming months. Especially the mid-term review of the Lisbon Strategy at the Spring Summit will give you the opportunity to bring Europe back on track for a sustainable future.

At the UNICE Competitiveness Day on 9 December 2004 European companies affirmed that they will continue to regard the European market as their home market. However, European economic and social structures urgently need to adapt to the challenges of the 21st century in order to prevail in global competition. Just like companies, European policy-makers must heed the Competitiveness Day's motto: "Play to Win".

The Wim Kok Report on the mid-term review of the Lisbon Strategy provides an excellent analysis of the current state of European competitiveness. With a new dynamism in global competition and the dramatic ageing of Europe's population, insufficient progress in the Lisbon reforms is making Europe fall ever further behind. In 2004, the world was growing by 5% - its fastest rate in decades – whereas the EU grew by a mere 2.1%. In terms of GDP per capita, the EU is losing ground:



Against that background, the European business community represented by UNICE would like to comment on the three priorities established by the Luxembourg Presidency as well as further important issues of economic policy for the next six months:

1. **Mid-term review of the Lisbon Strategy and remarks on the Kok Report**
2. **Financial perspectives**
3. **Growth and Stability Pact**
4. **Internal Market for services**
5. **Economic impacts of environmental policy – Climate Change and REACH**
6. **Employment and Social Policy – new social agenda and lifelong learning**
7. **Transatlantic relations**
8. **WTO negotiations in 2005**

1. MID-TERM REVIEW OF THE LISBON STRATEGY AND REMARKS ON THE KOK REPORT

The mid-term review is the last chance to make the Lisbon Strategy deliver. The Barroso Commission's intention to place the Lisbon Strategy on top of his priority list should be taken up by all EU institutions. The European Council in March must fix more concrete policy priorities than the Wim Kok Report has been able to do, and decide on a number of dossiers to be completed by 2010. The UNICE position on the mid-term review, which was submitted to the Commission on 15 December, concentrates on three recommendations:

Focus on competitiveness: unless the Lisbon Strategy has a clear narrative, it will continue to be about everything and thus nothing. Achieving sustainable well-being for European citizens implies giving priority to the economic pillar of the Lisbon Strategy.

Although the social and environmental pillars are also vital for our future they cannot be growth drivers in their own right. The Luxembourg Presidency's priorities state that: *"[the sustainable well-being of citizens] can be achieved only by developing synergies between the economic, social and environmental pillars, an original feature of the strategy which the Luxembourg Presidency wishes to preserve"*. It must be accepted, however, that growth is a necessary condition for social cohesion and environmental protection. The three pillars can be mutually supportive in the long term, but in the short term social cohesion and environmental protection can induce economic costs.

For example, pension and health care systems in many European countries have become economically unsustainable, and the new EU chemicals legislation REACH in its current form would harm European companies' global competitiveness.

Create national ownership: the major reason why the Lisbon Strategy is not bearing fruit is the lack of implementation at national level. Therefore, national member federations of UNICE have launched *national initiatives for competitiveness* to create national ownership of the Lisbon Strategy. President Strube asked Presidents of national business federations to push their governments to prepare national action programmes and discuss them with parliaments, stakeholders and the wider public in each Member State, as recommended in the Kok report. European business is confident that the Luxembourg Presidency will support the goals of this initiative.

Enhance role of Competitiveness Council: the Competitiveness Council must achieve a key role in revitalising the Lisbon Strategy. Each Member State must appoint a senior member of cabinet to be in charge of the Lisbon Strategy and to be the main representative in the Competitiveness Council. Likewise, Commission Vice-President Verheugen must be the main driver for reform at the EU level. He must monitor and supervise impact assessments for all legislative proposals on the basis of which the Competitiveness Council must evaluate their potential impact on Europe's competitiveness, thus becoming the guardian of competitiveness.

On the Community Patent and the patentability of computer-implemented inventions – two items currently on the agenda of the Competitiveness Council – UNICE would be interested to know how the Luxembourg Presidency intends to proceed on these dossiers which are of major importance for European enterprises.

2. FINANCIAL PERSPECTIVES: NEW EU BUDGET 2007-2013

The EU budget should be a **lever to achieve the Lisbon goals**. A sufficient allocation of resources to competitiveness should be the key objective independent of other decisions about the overall ceiling and/or the cost of common policies. Therefore, UNICE endorses the growth-enhancing direction given to the budget in the Commission's proposals and **will not accept that compromise at the end of the negotiations is achieved at the expense of competitiveness**. With a high possibility of a very tight budget constraint and despite the recognition of the efforts made since 2002, we do consider that the question of the common agricultural ceiling would have to be raised in the negotiations.

Prime Minister Juncker's declaration to **support a significant increase of resources to research and technological innovation is an encouraging sign**. The EU budget should also help to speed up the catching-up process of laggard economies by supporting structural changes to increase competitiveness, improving human and physical capital, and strengthening innovative capabilities. Therefore, UNICE positively acknowledges the attempt by the Commission to **re-focus cohesion actions on competitiveness**.

In a context where fiscal discipline has to be reinforced in many countries, budget spending must be strongly justified and offer Community added value. Concerning the financing system, **any EU tax-based own resource must not increase the overall tax burden on companies and citizens**. Any proposal that requires a minimum tax rate is also unacceptable for UNICE.

3. STABILITY AND GROWTH PACT

It is essential to close the debate on the SGP in order to restore confidence in an essential coordination mechanism of the European Monetary Union. We are confident that the Luxembourg Presidency will not be in favour of any reform that would water down the rules-based system and its initial objectives. **We should preserve clear and transparent binding rules** that will be applied equally to all Member States and will not be subject to political discretion. In addition, we share Prime Minister Juncker's strong opposition to excluding certain expenditure categories from the calculation of public deficit.

UNICE supports measures aimed at **taking better account of debt sustainability and promoting contra-cyclical** of fiscal policy. Focusing further on debt sustainability makes strong economic sense, particularly given the demographic challenge in Europe. **Peer pressure and early warnings should also be strengthened in economic good times** to cope with the current asymmetrical nature of the SGP.

Regarding the definition of the medium-term objective and the corrective path, **country-specific conditions** could pave the way for more differentiated predicaments. However, objective criteria should be applied to ensure equal treatment.

UNICE would also like to stress its **strong opposition to the proposed revision of the "exceptional circumstances"** for slow-growing countries, as an entitlement for them to run deficit in excess of 3% GNP is regarded as detrimental to the Lisbon Strategy. Such a change would send the wrong signals and provide incentives for bad performers to slow down the necessary reform process.

4. INTERNAL MARKET FOR SERVICES

The creation of a strong services sector in Europe is essential for Europe's ability to create growth and employment. **The Council and the European Parliament should agree on legislation to remove obstacles to the free movement of services by the end of 2005**. UNICE welcomes the principle of country of origin to abolish unnecessary administrative obstacles to cross-border trade in services which have been proven to be a serious restriction to Europe's economic development. However, some derogations from this principle are necessary.

Moreover, distinctive clarifications are needed in some areas. That concerns in particular the articles referring to matters covered by the posting of workers directive, as the current drafting could be misinterpreted as seeking to undermine its practical implementation.

5. ECONOMIC IMPACTS OF ENVIRONMENTAL POLICY

EU CLIMATE CHANGE POLICY

The planned discussion of the EU post 2012 climate strategy at the Spring European Council has to be prepared against the background of the imminent entry into force of the Kyoto Protocol without US participation and in the light of growing competition from large emitters such as India and China. Furthermore, any EU discussion on this issue must be informed by a thorough review of the consequences and impacts of EU policies and measures for the periods 2005-8 and 2008-12. Macroeconomic simulations commissioned by UNICE from COWI consultants (Copenhagen) show that the EU will see a significant amount shaved off its domestic product each year due to the distortions in international competition generated by implementation of Kyoto. This shows **the vital need for a new international cooperation model**. It is essential that the Spring Summit establishes the principle that, before taking political positions on establishing solely EU long-term emission reduction objectives, the EU should achieve a comprehensive, global consensus on the contents and timetables of any future international regime for climate protection. Furthermore, the EU should make strong efforts aiming at putting in place wider international cooperation already before 2012 to promote climate protection.

REACH

If the proposed REACH legislation is to meet its information sharing, health, social and environmental objectives, while preserving and enhancing the global competitiveness of the European industry as a whole, some elements of the proposal have to be changed fundamentally to **achieve a more proportionate solution**. UNICE looks to the Luxembourg Presidency to facilitate the preparation of these fundamental changes. REACH should in particular **be focused on its core principles of risk assessment and evaluation of chemicals**. This will ensure efficiency and avoid overlap with existing legislation.

6. EMPLOYMENT AND SOCIAL POLICY

NEW SOCIAL AGENDA

Discussions on the new social agenda will start when the Commission submits its proposals in February 2005. The first priority of this new social agenda should be to promote the creation of new jobs and integrate more people on labour markets rather

than seeking to protect activities of the past or enhancing the rights of those already at work.

Europe's weakness stems from a difficulty in generating growth and employment, notably due to labour market rigidities, not from a deficit in social legislation.

As part of the Lisbon strategy, the EU and its Member States should concentrate on implementing the recommendations published in December 2003 in the report of the task force on employment chaired by Mr Kok.

LIFELONG LEARNING

Lifelong learning is a crucial component of the Lisbon strategy. The Luxembourg presidency will seek to conclude the first reading on the proposal for an integrated programme in the area of education, training and life long learning. UNICE is in favour of a single, simple and more flexible lifelong learning programme, bringing together the different education and training programmes which currently exist. However, one of the main challenges is to ensure that the available financial means are mobilised to respond to real labour market needs. With regard to lifelong learning, the programme must take full account of the four priorities defined in the European social partners' framework of actions for lifelong learning:

- developing networks and partnerships to identify and anticipate competence and qualification needs;
- promoting the development of means of recognition and validation of competences and qualifications;
- developing information, support and guidance to companies and individuals;
- promoting co-investment and encouraging new ways of resourcing lifelong learning.

Lightening the administrative and accounting burdens for project promoters by amending accordingly the financial regulation and implementing rules is also necessary to encourage better participation of companies in implementation of the programme.

7. TRANSATLANTIC RELATIONS

UNICE very much welcomes President Bush's visit to Brussels on 22 February as a strong signal of renewed commitment to Europe.

UNICE looks to **the launch of a new ambitious transatlantic initiative** at the June Transatlantic Summit. This initiative should reinvigorate, deepen and broaden the Transatlantic partnership which is vitally important for the EU, the US and the global economy. As regards the economic pillar, UNICE supports the launch of a comprehensive trade and investment liberalisation and cooperation agreement that should include five main elements:

- A **strong multilateral pillar** providing for increased cooperation on issues such as the WTO negotiations, climate change and security of the supply chain.
- A precise work programme to progressively **achieve the barrier-free Transatlantic market**. Efforts should focus mainly on regulatory barriers for goods and services. Any initiative in the tariff field should be WTO-compatible.
- A strong **mechanism to prevent and resolve existing disputes**. This should imply a commitment, at the highest political level, to having recourse to the WTO dispute settlement mechanism only as a last resort. Once a case has been launched UNICE considers that both partners have no other choice than to fully implement the WTO rulings. Sanctions should also only be used as a last resort.
- A **communication strategy** to put the relationship into perspective and to explain the importance and depth of the relationship, highlighting good examples of cooperation.
- A **review mechanism** to assess progress and allow for adjustment to a changing environment.

UNICE is ready to discuss its proposals in more detail with the Luxembourg Presidency. It is working in close cooperation with the TABD and is planning a visit to Washington at the beginning of June to promote its agenda.

8. WTO NEGOTIATIONS IN 2005

Trade and investment liberalisation is key for European business competitiveness. UNICE counts on the Luxembourg Presidency to push for significant progress in all the different areas of negotiations in parallel in view of the December Hong Kong WTO Ministerial Conference. UNICE, which is a strong supporter of the multilateral system, has three main priorities:

- Improved **market access for industrial goods**
- **Services liberalisation**
- An agreement on **trade facilitation**.

UNICE is concerned because, apart from agriculture which is still difficult but progressing, **not much has been achieved so far in these three areas**. Should the level of ambition be further eroded, the credibility of the multilateral negotiating process will be seriously battered and pressure for bilateral deals will further increase. That is already the trend in certain parts of the world to the detriment of the weakest countries and in complete contradiction with the shared development objective of the current round of negotiations.

The EU should therefore remain pro-active and continue to press for frameworks to be agreed in Hong Kong which would lead to balanced agreements. In addition to the market access objectives of the round, the **EU should continue to insist on the rules-aspects of the negotiations**, such as the improvement of the existing anti-dumping and anti-subsidy agreement. It should also support a differentiation between developing countries and not accept that emerging countries do not contribute to the process and not make commitments commensurate with their level of economic development, particularly in the sectors where they are competitive.

UNICE is working on all aspects of the negotiations and would be very interested to maintain close contact with the Luxembourg Presidency to facilitate a strong and united European voice in the negotiating process.

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