

**NOTE FOR MR JEAN-CLAUDE JUNCKER
PRIME MINISTER OF LUXEMBOURG AND PRESIDENT OF THE EUROGROUP**

**MEETING WITH UNICE PRESIDENT ERNEST-ANTOINE SEILLIÈRE,
ON 6TH NOVEMBER 2006**

BUSINESSES CALL FOR A BOOST TO EUROPE

- 1. Implement the reforms for growth and jobs**
 - Strengthen the link between research and innovation
 - Pursue a broad programme on better regulation
 - Fight against public deficits

- 2. Integrate the European market**
 - Achieve efficient European network industries, especially in energy
 - Apply the mutual recognition principle for all relevant markets
 - Adopt a services directive which will effectively foster growth and jobs

- 3. Govern the EU efficiently**
 - Solve the EU institutional problems arising with 25 and more Member States

- 4. Fight national protectionism**
 - Take strong action in favour of the respect to the Internal Market law
 - Ensure a level-playing field on world markets in the current WTO negotiations

- 5. Take advantage of the opportunities of enlargement**
 - Lift existing restrictions on labour market access for new Member States
 - Use the regional and cohesion policy to encourage economic development throughout the EU, especially in the new Member States

- 6. Reform European social systems to make them sustainable**
 - Improve people's employment opportunities
 - Adapt social systems to an ageing population
 - Give the necessary space for the social dialogue



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MONETARY POLICY: ECB SHOULD NOT FORGET ABOUT EXCHANGE RATE RISKS

Past interest rate hikes have occurred against the background of stronger-than-expected growth and were justified in order to anchor inflation expectations in a more robust domestic economic environment.

However, the business community also considers that the ECB currently places in its analysis an insufficient weight on downside risks to growth, and above all on the potential impact of its policy on future exchange rate developments.

The exchange rate is an important channel of transmission for monetary policy and is a crucial factor affecting the balance of risks to growth and inflation in the euro area. With global imbalances posing major, and potentially imminent, risks of exchange rate re-adjustments, the ECB should carefully consider the likelihood of a significant euro appreciation in its monetary policy decisions. UNICE will convey this message in its forthcoming Economic Outlook report published on 13 November 2006.

STABILITY AND GROWTH PACT: CONSOLIDATION NOT ONLY FOR EXCESSIVE DEFICIT COUNTRIES

The revised Stability and Growth Pact (SGP) has triggered some positive developments, notably in the area of enforcing corrective measures on excessive deficit countries. In fact, the current improvement in the overall fiscal stance in the euro area is largely if not exclusively driven by countries running deficits in excess of the 3% limit.

Looking forward, the SGP will have to strengthen its effectiveness in delivering on two other crucial objectives that concern all member states: (i) strengthen the commitment to fiscal discipline during good times, and (ii) ensure ambitious medium-term objectives commensurate with the challenge of demographic ageing.

Governments have in the coming years a window of opportunity to undertake the needed fiscal reforms in an orderly manner. Later, the pressure from age-related public spending will increase gradually leading to deteriorating fiscal positions and rising public debt.

It is essential that the current recovery is used to its full extent to improve long-term budgetary positions and push through public spending and social system reforms, allowing a mutually reinforcing process of fiscal consolidation and economic growth.

ECONOMIC GOVERNANCE OF THE EURO AREA: FURTHER PROGRESS NEEDED

A better mix between macro and microeconomic policies could make a noticeable contribution to restoring sustainable and balanced growth in the euro area. In particular,

1. The case for enhanced surveillance of structural reforms within the Eurogroup is compelling, given strong economic spill-overs between countries sharing the single currency. Policies allowing a smooth and timely unwinding of competitiveness imbalances within the euro area seem particularly crucial to ensure sustainable economic developments.

2. There is room for improving the quality of the dialogue between the Eurogroup and ECB, and avoid overt political disagreements which are often counterproductive.
3. In the treaty, there is an imbedded ambiguity on who is competent to express views on the exchange rate. This results in an insufficient acknowledgement of exchange rate risks in the policy debate.
4. The external representation of the euro area is lacking and implies that its contribution to global policy challenges is not commensurate with its economic weight. This includes the defence of a European point of view on global imbalances and the ways to address them in an orderly manner.

THE FUTURE OF EUROPE: EFFICIENT FUNCTIONING OF EU INSTITUTIONS IS KEY

Europe is confronted today with a series of challenges that require concrete actions. In a context of increasing globalisation, fast technological changes and demographic ageing, it is necessary that Europe is capable of swift and decisive actions.

The six guidelines of the business community to address these challenges are to:

1. Implement the reforms for growth and jobs
2. Integrate the European market
3. Govern the EU efficiently
4. Fight national protectionism inside and outside Europe
5. Take the opportunity of enlargement
6. Reform social systems, to make them sustainable

To move forward, Europe must solve its institutional problems and improve its decision-making process. Taking appropriate actions to improve the efficiency and transparency of the EU institutions, while preserving the Community method, must be a priority of the EU. The EU decision making process must be adapted to its current membership.

The Commission must remain strong, independent and the guardian of the Treaties. It must keep the right of initiative to propose actions to the Council and Parliament in the interest of the whole community. The stability of the EU presidency must be reinforced. The credibility of Europe in foreign affairs requires a stronger voice vis-à-vis the rest of the world.
