

1st December 2006

NOTE FOR GERMAN CHANCELLOR MRS ANGELA MERKEL

**MEETING WITH UNICE PRESIDENT ERNEST-ANTOINE SEILLIÈRE,
BDA PRESIDENT DIETER HUNDT AND BDI PRESIDENT JÜRGEN R. THUMANN
ON 4TH DECEMBER 2006**

THE FUTURE OF EUROPE

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. To move forward, Europe must solve its institutional problems and adapt its decision-making process to its current membership. 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 Commission must remain strong, independent and the guardian of the Treaties. It must retain 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 of European Foreign Affairs policy vis-à-vis the rest of the world.

ECONOMIC SITUATION

Following years of disappointment, the performance of the European economy is exceeding expectations this year. UNICE estimates that real GDP growth for the whole of 2006 will reach 2.9% for the EU and 2.5% for the euro area - the best outcome in more than six years.

Two positive developments are clearly noticed: the dynamism of investment growth, which is expected to reach close to 5% in the EU this year, and employment, with more than two million additional jobs created in 2006.

The current economic recovery offers a unique chance to move ahead and build up consensus around the reforms needed to ensure more self-sustained and balanced growth over the years ahead. We cannot afford to repeat the mistakes of the past and

delay necessary measures as soon as the economy is doing better. Therefore UNICE calls for:

- Member States to take advantage of the upturn to improve decisively their long-term fiscal positions and take comprehensive actions to reform social systems;
- Wage-setters to ensure that wage developments are consistent with productivity trends and responsive to the aim of restoring competitiveness where it has deteriorated in recent years;
- Member States and EU institutions to take resolute steps in labour, product and capital market reforms to escape an unnecessary trade-off between increasing employment rates and sustaining high productivity growth.

GROWTH AND JOBS: SPRING EUROPEAN COUNCIL 8-9 MARCH 2007

We expect the Spring European Council on 8 March to make an honest assessment of reform progress in Member States. The “Progress Reports” on the National Reform Programmes are seen as a positive contribution to the reform strategy by a majority of UNICE national business federations, which we recently polled on the growth and jobs strategy. However, a majority of them also judge the actual progress in national reforms over the last year as too slow given the increasing international competitive pressures and Europe’s ageing population. UNICE asks the German Presidency to keep a sense of urgency in the reform process and to pay particular attention to the following elements of the growth and jobs strategy:

➤ SMEs AND ENTREPRENEURSHIP

SMEs are the driving force for growth, job creation and innovation. In order to foster SME growth and create a more business-friendly environment, emphasis needs to be put on the following:

- development of coordinated EU policies to foster SME growth and entrepreneurship, and coherent implementation of the “think small first principle” when devising new policies and EU legislation;
- easier access to (innovation) finance;
- less obstructive taxation;
- addressing the problem of succession in SMEs;
- fostering entrepreneurial spirit at the level of schools and universities;
- creation of a European Private Company Statute;
- better enforcement of intellectual property rights and fight against counterfeiting, as well as establishment of a user-friendly and cost-effective EU patent system.

➤ INTERNAL MARKET

The Internal Market is a cornerstone of Europe's prosperity. However, it is an unfinished project and is challenged by looming national protectionism. Urgent action is needed on four fronts:

1. Completion: Internal Market must be further integrated and existing barriers removed. National transposition and implementation of Internal Market rules must be improved. There are still important missing links in many sectors, for instance in services, transport, financial services and telecommunication, as well as concerning the protection of intellectual property.

2. Efficiency: we need better and simpler Internal Market rules, including systematic stakeholder consultation and impact assessment, and a stronger emphasis on the external dimension of the Internal Market. In order to reinforce the impact assessment and ensure that new legislation does not come into conflict with the principles of the Internal Market, an "Internal Market Compatibility Test" should be applied, both at EU and at Member-State level.

3. Enforcement: concrete action is needed to improve the functioning of the mutual recognition principle, to ensure homogeneous market surveillance, coherence of national regulatory agencies' rulings and effective non-judicial problem-solving mechanisms, such as SOLVIT which are of particular importance for SMEs. Enforcement is deficient in areas such as free movement of goods, public procurement, telecommunications and energy.

4. Awareness: the achievements of the Internal Market pass largely unnoticed by the public and many advantages are taken for granted. They should be a central element in the communication of Europe in order to bridge the gap between the EU and its citizens and counterbalance the existing trend to identify Europe and the Internal Market with losses of jobs, relocations, globalisation, etc.

➤ BETTER REGULATION

UNICE encourages the German Presidency to strongly emphasise the importance of implementing the better regulation agenda and achieve concrete results whilst at the same time pursuing a broad programme with new initiatives to enhance the effectiveness of the project.

Progress in the area of simplification is far too slow and there is a considerable risk that new burdens could be added during the legislative process. It is crucial that the Council and Parliament improve inter-institutional working methods to ascertain that simplification proposals are dealt with quickly and really reduce burdens for business.

The Council and Parliament should also make further progress with respect to the systematic carrying out of impact assessments on their amendments to Commission proposals. And, lastly, UNICE strongly supports the ambitious idea to strive for a 25% reduction of administrative costs by 2012. This would be another important next step in the process of rendering Community legislation cost-effective. UNICE hopes that the

Spring European Council can endorse a 25% reduction target whilst setting appropriate intermediate targets to ensure that continuing progress is made towards achieving this important goal.

➤ **STRENGTHEN THE LINK BETWEEN RESEARCH AND INNOVATION**

Strengthening Europe's innovative capacity is heavily dependent on investment in education, investment in R&D and facilitating all forms of technological and non-technological innovation.

Strengthen the link between research and innovation is key given the continued existence of the so-called 'European paradox' whereby the quality and quantity of European public research is by and large excellent, however the results of this research are not making the transition from research to innovation and commercially viable products and services.

Creating a favourable climate for innovation requires a broad range of policies at EU, national and local levels. It includes:

- An efficiently functioning, open internal market for goods, services, finance and people;
- Better regulation aimed at removing obstacles to innovation;
- A strong research and technology base, including more EU-level cooperation as well as increased R&D funding at EU and national levels;
- A high quality of education and training at all levels;
- An environment that is favourable of and encouraging for private-public partnerships (PPPs), in particular between universities and enterprises;
- A workable, competitive Intellectual Property Rights regime to protect and reward investments in R&D;
- A well functioning supply of risk financing, in particular for SMEs;
- Environmental policies that enhance innovation without threatening competitiveness.

➤ **ENERGY POLICY FOR EUROPE**

The key to a secure and competitive energy supply is establishment of an open and competitive Internal Market. The EU model for regulation of national gas and electricity markets needs to be improved, notably with a view to rendering the unbundling of production and transport more effective, and to making national regulatory authorities more independent of political power, which is necessary to create the predictable environment which operators need to make the large-scale investments required to underpin European growth.

It has become clear that Member States are no longer individually capable of managing an economically efficient transition to a less carbon-intensive society. In line with the conclusions of the 2006 Spring European Summit, it is urgently necessary to define an Energy Policy for Europe (EPE) in order to facilitate national efforts to this end. The 2007 Spring Summit should adopt an ambitious prioritised action plan for energy, broadly reflecting a market economy philosophy.

Designing the EPE will need to acknowledge that governments retain some responsibilities for determination of the conditions governing exploitation of their energy resources and the structure of their supply. However, the opening of energy markets makes it imperative to have more transparency in national decisions concerning energy policy on issues that will affect the common energy market.

The German Presidency should play a leading role in ensuring that the EU speaks with one voice on external energy policy issues including the energy dialogue with Russia. The EU must have a clear and common lines with Russia concerning energy issues. Transparency and reciprocity based on market principles as well as predictability to secure long-term investment will have to play a major part in any negotiations.

This plan should contain initiatives designed to bring about closer coordination of Member States' positions in international forums and vis-à-vis non-EU energy suppliers.

➤ **CLIMATE CHANGE POLICY**

An environmentally and economically efficient response to the global warming challenge can only be based on a truly global and innovative cooperation strategy. The EU should not set for itself unilateral post-2012 climate change objectives, but intensify its climate change diplomacy in particular in the context of the G8, and adjust its policy approaches if needed to secure an international post-2012 agreement which protects the competitiveness of European industry.

The fact that the Kyoto Protocol is being implemented by the EU but not by some of Europe's trading partners already poses risks for the international competitiveness of European companies, which need to be addressed right now. There is a strong need to establish stronger and more formal cooperation between the Competitiveness, Environment and Energy Councils on climate change policy.

EUROPEAN SOCIAL POLICY

➤ WORKING TIME DIRECTIVE

The reluctance of the German Presidency to work on this dossier after the failure of numerous attempts to find a compromise on a new Working Time Directive should be reconsidered. Amending the directive to solve the problems created by European jurisprudence on on-call time is urgent.

➤ DIRECTIVE ON PENSIONS PORTABILITY

Discussions in Council and in the European Parliament will continue during the German Presidency on the directive on pensions portability. UNICE fully supports the objective of facilitating the mobility of workers in Europe. However, encouraging the development of supplementary pensions to live up to the challenge of demographic ageing is also essential. UNICE believes that the approach proposed by the Commission will increase the cost of supplementary pensions throughout Europe without addressing the real obstacles to cross-border mobility in the field of pensions: double taxation. The Commission proposal would not create a “win-win” but a “lose-lose” situation by discouraging employers from developing supplementary pensions for their workers. UNICE counts on the support of the German Presidency which shares these concerns to radically modify the proposal.

➤ THE ALLIANCE FOR THE FAMILY

The German Presidency has announced its willingness to promote an “alliance for the family” at EU level. Its aims are to foster research on family policies in the different Member States and to promote a systematic approach to all aspects impacting on families such as time management, work-life balance, child care facilities etc.

UNICE believes that policies promoting work-life balance can be useful to improve labour market participation of women and in the current context of demographic ageing. Employers fully agree that further efforts are needed to alleviate through concrete actions the remaining obstacles to reconciliation such as the insufficient availability of childcare facilities, the promotion of flexible forms of work etc. Successful policies require a partnership between employees, employers and the state. European social partners engaged in 2005 in a cooperation process on gender equality, which covers those aspects and will be happy to reflect with the Presidency on synergies between Member States’ activities and the social partners’ action programme.

➤ EDUCATION POLICY

Around 150 million EU citizens have not achieved a basic level of secondary education and only 20% of the EU working-age population attain tertiary education. Europe needs to increase both educational attainment levels and improve access to lifelong learning. Together with the need to invest more, a stronger effort needs to be made to increase the effectiveness of spending.

Many Member States seem to be trapped in a negative trade-off between more inclusive labour markets and high productivity growth. To overcome this situation, Europe needs to support Member States in their efforts to:

- Ensure that individuals acquire the necessary basic skills before leaving education systems;
- Facilitate companies' investment in skills development;
- Encourage individuals to take responsibility for upgrading their competences throughout their working lives;
- Ensure that educational or training outcomes match the needs of enterprises in order to improve the match of labour supply and demand.

EUROPE AS A GLOBAL PARTNER

➤ RESUMPTION OF WTO DDA NEGOTIATIONS

As the world's leading exporter, the EU must push for the immediate resumption of the WTO Doha round of negotiations. The breakdown of the negotiations will have serious implications for European business – which is seeking an ambitious trade liberalisation deal between industrialised and emerging countries. The risk of a rising protectionist backlash must be dealt with by pursuing multilateral cooperation on trade.

Business is extremely disappointed that the WTO negotiators did not abide by the G8 St. Petersburg Summit commitment to overcome differences over agriculture. UNICE urges the German Presidency to engage with the US Presidential Administration – at the highest level – to resolve the agricultural issue and to get the US back to the negotiating table in Geneva. European business will do what it takes to mobilise American business in support of such an initiative. We also recognise that it is not just about the US. Others – particularly the emerging economies – must play their part too in securing a successful conclusion of the round.

UNICE is seeking ambitious liberalisation of industrial tariffs and services sectors as well as stronger rules to deal with non-tariff barriers, customs reforms and better WTO anti-dumping rules in the DDA. It also supports duty-free access to industrialised markets for the world's poorest countries and effective aid-for-trade policies so that weak developing countries can benefit more from trade liberalisation.

➤ RUSSIA: A BOLD BUSINESS VISION FOR A COMMON ECONOMIC AREA

The EU and Russia face many challenges on the road to a truly strategic partnership. UNICE and its Russian counterpart – the Russian Union of Industrialists and Entrepreneurs (RSPP) have outlined a bold vision on how to move the economic pillar of this partnership forward based on three key milestones. First, Russia and the WTO

must redouble their efforts to conclude accession negotiations to enable Russia to become a key partner in the multilateral trading system. Second, the EU and Russia must prepare the ground for a future economic area by implementing the roadmaps for the Common Economic and Energy Space agreed in May 2005. Third, the EU and Russia must replace the obsolete Partnership & Cooperation Agreement of 1997 with a Strategic Partnership Agreement with a significant economic component leading to a Common Economic Area that would promote the free movement of goods and services, capital and people, knowledge and technology. UNICE and the RSPP are fully prepared to support such an initiative. UNICE counts on the German Presidency to keep the EU engaged in negotiations with our Russian economic partners to pursue this bold vision for future economic cooperation.

➤ **CHINA: BETTER AND FAIRER ACCESS**

China has become the world's third largest exporter in 2005 – surpassing Japan and almost attaining US export levels. The EU must therefore pursue an improved trade and investment strategy to ensure better and fairer access to China's goods, services, investment and public procurement markets. UNICE sees the negotiations of an EU-China Partnership and Cooperation Agreement, which should be based on economic criteria and full reciprocity, as an opportunity to deliver concrete results on the main issues covered by the new strategy proposed by the EU Commission. To ensure its full implementation, better coordination with EU Member States in China is key. UNICE shares the Commission assessment that the conditions are not fulfilled for granting Market Economy Status (MES) to China. The German Presidency should play a leading role in ensuring that the EU speaks with one voice on EU-China trade relations to effectively deal with trade and investment frictions and to promote a more harmonious and balanced relationship.

CORPORATE TAXATION – COMMON CONSOLIDATED CORPORATE TAX BASE

Agreement on a single corporate tax base is vital for Europe's companies¹. Many cross-border business opportunities are not seized because companies are deterred by the compliance costs of dealing with different tax administrations. While targeted measures can be efficient in tackling individual problems, a common base will provide a comprehensive solution to the majority of cross-border tax obstacles, such as problems related to transfer pricing and to insufficient possibilities for consolidating profits and losses across borders. In this way, situations of discrimination between national and foreign companies as well as of double taxation can be avoided.

¹ The CBI, the Confederation of British Industry, remains fully committed to Member-State fiscal sovereignty but is participating in the Commission's discussions on EU CCCTB and will review its stance in the light of the outcome of those discussions.

The new tax base needs to be a globally competitive “product.” To this end:

- Member States must ensure that the new tax base will modernise and simplify the tax base and that it will not just be seen as a revenue-raising (broadening the tax base) exercise.
- There must in no way be a link between the common tax base and a possible tax rate harmonisation, neither in the form of a minimum rate, a corridor, or any other form.
- The tax base must be optional – companies should be able to continue to operate within the national rules if they wish - and open to all types of companies.
- Consolidation and harmonisation must be introduced simultaneously and not consecutively, as it is consolidation which makes the common tax base effective.
