



### NOTE FOR PORTUGUESE PRIME-MINISTER, MR JOSÉ SÓCRATES

MEETING WITH BUSINESSEUROPE PRESIDENT ERNEST-ANTOINE SEILLIÈRE, AIP  
PRESIDENT JORGE ROCHA DE MATOS AND CIP PRESIDENT FRANCISCO VAN ZELLER

LISBON, 8 JUNE 2007

#### I. Future of Europe

Since the negative vote in France and in the Netherlands, BUSINESSEUROPE has constantly urged governments to get the EU out of the crisis it has entered.

BUSINESSEUROPE was an active participant (observer) in the convention, has always supported a process of Treaty reform to improve the functioning and efficiency of the European Institutions, and calls today for the safeguard of key institutional improvements brought about in the Constitutional Treaty.

The right governance for Europe is key if the EU wants to move forward rapidly on the Lisbon agenda. We are very pleased with Chancellor Merkel's efforts to find a rapid solution to this constitutional issue.

We look very much forward to the June Summit and hope that a clear mandate and calendar will be announced with a view to concluding an IGC by the end of 2007.

We therefore have very high expectations from the Portuguese Presidency in this regard. We are looking forward to rapid progress on this crucial dossier, and will continue to monitor developments and contribute to the debate in various forms.

#### II. Economic Situation

The European economy is stronger than it has been since the launch of the Lisbon strategy in 2000, with growth currently hovering around 3%, investment growing at an annual rate of 6½% and inflation staying close to 2%. Structural improvements are playing a role in this upswing. After more than 17 million job creations over the last decade, the EU economy is expected to add another 8.5 million new jobs over the period 2006, 2007 and 2008. This remarkable dynamism in the labour market owes much to wage moderation and measures to integrate or keep more people in the labour market.

While we can certainly be pleased about these improvements, it is not the time for complacency. As usual in a recovery, we risk underestimating the challenges ahead.

Key challenges are to:

- restore stronger productivity growth, which is currently expected to stay at a low 1.5% in the EU this year and next (measured per hour worked), keeping the EU growth potential at a mere 2.5%.
- reduce competitiveness imbalances between member states. These continue to build up in the ongoing recovery, and are particularly worrying among countries sharing the single currency.
- put public finances and welfare systems on a sounder footing. In particular, governments must abide by their commitments to bring budget close to balance in all euro-area countries by 2010.



### **III. Growth and Jobs Strategy**

#### **National Reform Programmes**

Business federations acknowledge reform efforts that are taking place in virtually all member states, but praise is still premature. Implementation is slow to raise Europe's competitiveness and capacity for self-sustaining growth. National Reform Programmes to be brought forward in October 2007 should show real progress in implementing an ambitious reform agenda.

The EU Reform Barometer, a BUSINESSEUROPE report published this spring, has highlighted key priorities for future reforms. Regarding policy areas, mixed progress has been achieved in completing the Internal Market with big challenges remaining in the energy and services sectors. Fiscal sustainability is still a distant prospect and a real reduction in the regulatory burden is not yet visible on the ground. Improvements in labour flexibility have also been limited, especially for regular employment contracts. Moreover, the matching of people's skills with labour market needs remains a major weakness in Europe.

While some countries have managed to implement wide-ranging reforms others, in particular the large continental Member States, are still struggling to adapt their economic structures to increasing competition and an ageing society.

The specific dimension of euro-area membership and in particular the strong policy spill-overs that exist between member states, should be properly reflected in the next National Reform Programmes. In this regard, BUSINESSEUROPE has made concrete proposals to improve the economic performance and governance of monetary union by releasing its latest report: "Fit with the Euro".

#### **SMEs and Entrepreneurship**

We welcome the fact that the Portuguese Presidency wishes to put an emphasis on SMEs. Further efforts are needed to generally improve the business environment in the EU and, moreover, stimulate the potential of SMEs as drivers of growth, job creation and innovation. Improvements in reducing the burden of regulation and administrative costs are needed, which should be complemented with a favourable tax environment and better access to finance.

BUSINESSEUROPE is organising an SME Action Day on 21 November 2007. The event will seek to raise the profile of this large and diverse category of companies and identify how their path to success can be facilitated. It will bring entrepreneurs and key decision-makers together to exchange experiences and expose key challenges. The theme for the day is "Thinking big!"

#### **Internal Market**

The Internal Market must respond to the challenges of globalisation and take up new opportunities in an enlarged EU. The forthcoming European Commission report on the future of the Single Market is of paramount importance.

Better enforcement of the principles and legislation governing the Internal Market should be one of the priorities for future action. It is essential for its well-functioning and plays a central role in citizens' and companies' perception of Europe.



Action should focus on improving market surveillance and efficient external border control, functioning of mutual recognition principle in non-harmonised areas, cooperation and mutual assistance among Member States, access to both EU and national means for asserting Internal Market rights including SOLVIT, and speedier and more efficient infringement procedures, monitoring of the implementation of Internal Market regulations, training both theoretical and practical at all levels of national administrations and the judiciary, etc.

Regarding the Internal Market for Goods, the package of legislation brought forward in February by the European Commission represents an important step towards improving the free movement of goods. In particular the proposals on mutual recognition, accreditation and market surveillance are further steps towards both improving public trust and improving the efficient movement of goods in the Internal Market.

Action at both the Council and Parliament should focus on ensuring that the necessary modifications sketched out in these proposals are adopted as soon as is possible and with the least amount of change.

### **Better Regulation**

The importance of the better regulation agenda with an increased attention for simplification, impact assessments and administrative cost reduction is vital. So far, European companies have felt no real relief on the ground.

- The Council and European Parliament should improve inter-institutional working methods to ensure that corresponding simplification proposals are dealt with rapidly and they should also make further progress with respect to systematic impact assessments on their amendments to Commission proposals.
- The target of reducing administrative costs by 25% by 2012 is an important step in the direction of delivering concrete results, although the Commission and the Member States should not only look at the administrative costs which are narrowly linked to information obligations but also at the more varied and substantially higher compliance costs which cover all the costs of complying with regulation.
- Independence in the process of impact assessments and administrative burden reduction is important. The review carried out by the Impact Assessment Board is therefore an important step in the right direction in this respect. However, the positive role which a truly independent body, advising the Institutions on their better regulation work, could have on fostering and implementing better regulation objectives should also be explored, in accordance with the conclusions of the 2007 Spring European Council.

### **European Patent System**

BUSINESSEUROPE reiterates the need to improve the current system by reducing patenting costs and setting up a common litigation system and fully supports the ratification of the London agreement and the European Patent Litigation Agreement (EPLA) to address those issues. BUSINESSEUROPE hopes that discussions on the patent strategy will continue during the upcoming Portuguese Presidency and that EU Member States will take seriously their responsibilities and commitments to Europe's competitiveness.



## **Research and Innovation**

BUSINESSEUROPE believes that the European Institute of Technology can be a means of bridging the innovation gap between Europe and its competitors. It can do this by strengthening knowledge transfer and fostering more effective cooperation between academia, research institutes and business. Its success however rests very much on the support and participation of business. This support is more likely with a clear EIT structure, established at the start and with an independent Governing Board in place supervising the functioning of the institute and its constituent parts. Member States should work with the Commission and the Parliament towards realising this.

The launch of the Green Paper on the European Research Area (ERA) by the European Commission on 4 April is one of the key goals for 2007 in the R&D and innovation fields. BUSINESSEUROPE fully subscribes to the objectives of the ERA. We believe that this is an important goal and one consistent with the Lisbon objectives.

The Green Paper on the ERA represents a significant milestone to this end. We are supportive of the Commission's initiative though somewhat concerned at what appears to be a lack of focus on industry and its needs. Whilst the current focus of the ERA consultation is rightly on public research we strongly believe that the ERA needs to also focus more directly on the needs of industry if it is to be actually realised.

## **IV. Energy and Climate Change**

### **Unbundling of production/supply of energy and its transport**

BUSINESSEUROPE considers that the logical approach for establishing an effective unbundling regime must start with complete implementation, in letter and spirit, of the existing Community legislation on legal and functional unbundling.

In the case that application of the existing Community legislation proves insufficient for ensuring fair and equal access to the networks, new initiatives will be needed.

### **Eliminate bottlenecks in the area of investment in cross-border infrastructure**

BUSINESSEUROPE supports the initiatives at technical and financial level proposed in the EU Priority Interconnection Plan. However, the criteria for identifying projects of European interest need to be adapted. It is necessary to refer increasingly to market indicators (congestion prices) which better reveal the geographical areas where the electricity interconnection deficit is most acute.

### **Internal energy market: governance issues**

We miss today key elements of coordination and appropriate incentives for establishing a real internal market for electricity and gas. In order to remedy this situation, BUSINESSEUROPE calls for:

- a strengthening of the independence of national regulators from political authorities, and upward harmonisation of their competences to facilitate cooperation between them;



- greater formality (possibly involving voting procedures) in the cooperation process that exists in the current Regulators Forum. In the event of deadlock, the Commission should be in a position to take a decision.

### **Renewable energies**

From the very beginning, BUSINESSEUROPE has said that the 20% target fixed for renewables for 2020 is out of reach. Now that the target has been adopted and the Energy Council is to discuss it, the first decision to be taken is on preparation of an impact assessment of the real implications of this target, taking account of the fact that for companies, security of supply is key and that nuclear energy is being partially phased out in certain countries.

With a view to optimising the total cost of promoting renewables in Europe, flexible approaches should be developed allowing Member States to partly reach their national 2020 targets through cross-border trade in renewable electricity.

### **Nuclear energy**

The Commission has made an important step when underlining, in its Draft Nuclear Illustrative Programme, the clear interest of nuclear energy in economic and climate protection terms. Remembering the huge amount of electricity generation to be built in the 25 years to come (in the region of € 600 billion), mainly for renewal of existing plant but also to face a moderate development of consumption, the time has come to give back to nuclear energy the attention it has not received for a long time in the energy strategy discussions.

BUSINESSEUROPE believes that open and well informed debate on nuclear energy should be promoted and is ready to make its contribution in this regard. Nuclear energy produced, carbon-free, in 13 EU countries represents 32% of electricity generated in the EU. This shows what is at stake in the public debate on the nuclear option. It is essential to allow nuclear to compete with other sources of low-carbon generation on a level playing field.

### **Competitiveness of energy-intensive industries**

Prices of electricity and natural gas have drastically increased during the last years for a number of reasons and now significantly exceed price levels of other industrialised regions. This development is due in particular to:

- the absence of a truly open and competitive energy internal market;
- the fact that the EU Emission Trading Scheme is implemented in that context.

As long as state-induced financial burdens on energy prices are not reduced and market deficiencies persist, BUSINESSEUROPE urges policy-makers to create, without hindering development of the internal market, a framework in which energy-intensive industrial consumers can fulfil their electricity and natural gas needs in the medium and long term at reliable, internationally competitive prices. Long-term contracts between producers and users, oriented to the actual cost incurred by existing import contracts or generation facilities, i.e. not on short term market indexes, can play an important part in solving this issue while guaranteeing planning stability for the electricity and gas industries.



BUSINESSEUROPE calls for favourable conditions and incentives to be created for the development of such contractual arrangements, in line with EU and national competition law.

### **Climate change and emission trading**

European business and policy-makers must now together implement the EU goal of a 20% reduction. From a global environmental perspective, however, unilateral European efforts will be in vain, if comparable efforts are not made by other industrialised and industrialising countries. The EU must ensure that concrete results are achieved in view of the UNFCCC Conference in Bali in December 2007.

The review of the EU Emission Trading System (ETS) must improve predictability for companies, many of which have investment cycles that are considerably longer than the current five-year allocation period within the ETS. To maintain a level playing field within the EU, it is also essential that companies report to similar standards throughout the Union. Smaller industrial installations should have the possibility to opt out of the ETS.

Decisions on including further sectors in the ETS must take into account a package of items including the potential impacts on those companies that are already within the ETS.

## **V. Europe's International Agenda**

### **External EU energy policy**

BUSINESSEUROPE urges EU institutions to develop a more coherent framework to develop effective and properly financed policies to diversify energy imports, to reduce the over-reliance of some Member States on single gas suppliers and to engage in constructive dialogues with key producer countries on security of supply issues and to cooperate on energy efficiency matters with major consumer countries.

### **WTO DDA negotiations**

An ambitious conclusion of the WTO Doha Development Agenda (DDA) negotiations will remain the main priority in the international field for BUSINESSEUROPE during the Portuguese Presidency of the EU. Business continues to urge the European Union and all WTO members to exert their utmost efforts to conclude ambitious negotiations as soon as possible. BUSINESSEUROPE support for the Doha Round depends on achieving rapid results on negotiating modalities in order to conclude the round by the end of this year before negotiating fatigue sets in.

BUSINESSEUROPE strongly believes that ambitious liberalisation proposals need to be agreed on the removal of trade barriers for industry, improving agricultural market access and reducing trade distorting subsidies, vastly improving services liberalisation and agreeing to much better harmonised WTO rules on trade facilitation and anti-dumping. BUSINESSEUROPE stresses the importance of removing tariff and non-tariff barriers against industrial products in both industrialised and leading emerging countries. Notably, it expects the Swiss formula to deliver ambitious tariff reductions by adopting industrial and emerging country coefficients in sight of each other, and a coefficient of 15 for emerging countries. It also expects the DDA to deliver ambitious new market access for services equivalent to other DDA issues.



### **Bilateral trade and investment (FTA) negotiations**

Although an ambitious conclusion of the DDA remains the primary goal of European business in international trade policy, BUSINESSEUROPE supports the new EU negotiations of free trade agreements (FTAs) with Korea, ASEAN members and India. These agreements must be based on economic criteria, involve the broadest product coverage possible in both services and goods, and be concluded within a reasonable timeline.

The FTAs should cover the totality of tariff lines and tackle non-tariff barriers. BUSINESSEUROPE supports a robust approach to negotiating broad new opening on services covering all modes of supply and meaningful progress in investment issues. Intellectual property elements are also crucial. Partners must as a minimum sign up to all major international conventions and agree to robust enforcement regimes. Provisions on competition policy, government procurement and trade facilitation should be included. Future agreements will only be valuable to European competitiveness if they include a binding and effective dispute settlement mechanism and a mediation mechanism to solve non-tariff barriers.

BUSINESSEUROPE also calls on the Portuguese Presidency to use its chairmanship to bring the stalled FTA negotiations with the MERCOSUR countries to an ambitious conclusion. This will require a marked improvement in the offers on goods and services from our MERCOSUR partners. The EU's new Brazil strategy must complement this process, dealing with economic issues not dealt with in the region-to-region trade talks, such as regulatory cooperation.

### **Transatlantic relations**

BUSINESSEUROPE sees the outcome of the EU-US Summit of 30 April as a significant step towards the creation of a barrier-free transatlantic market. European companies were pleased to note the focus on the economic issues at the core of the transatlantic relationship. Maintaining this focus will be the key to success, as experience in this field has shown.

BUSINESSEUROPE, for its part, is committed to providing input to and supporting the speedy implementation of the full programme of measures agreed and will work with other organisations in this regard. Support for the process at government level will also be key, however, and European companies count on the full support of the Portuguese Presidency for complete and rapid implementation of the framework commitments. BUSINESSEUROPE's priorities are in the areas of accounting standards, secure trade, impact assessments and intellectual property and patent law.

### **EU-China Summit (Beijing, 27 November)**

Although China has made progress towards a comprehensive business regulatory framework, a lot remains to be done in respect of transparency, predictability and effective implementation of rules on trade and investment. EU initiatives vis-à-vis China must, first and foremost, place the competitiveness of European companies as their core objective so that they can play their role in growth generation and job creation.



BUSINESSEUROPE supports negotiations of an EU-China Partnership and Cooperation Agreement, which should deal mainly with the reality of the developing and complex trade and investment relations between the EU and China, and be based on full reciprocity considering China's economic weight. BUSINESSEUROPE calls for the new agreement to be negotiated as an end in itself and not be agreed at the expense of other issues, such as the granting of Market Economy Status (MES) to China. Furthermore, work should be intensified to ensure non-discriminatory treatment and effective protection for EU investment, encouraging China to implement its commitments and shoulder its responsibilities in the WTO as well as pushing for effective enforcement of intellectual property rights (IPR).

BUSINESSEUROPE fully supports the work of AIP-CIP to organise EU Business Summits with China and other key EU trading partners during the Portuguese Presidency of the EU. BUSINESSEUROPE would like to organise a high-level business delegation accompanying Prime Minister Socrates and President Barroso to attend the Business Summits in China and India on 27 and 29 November.

## **VI. European Social Policy**

### **Flexicurity**

The Council will discuss the issue of flexicurity with the aim of agreeing on a set of common principles in December 2007. For BUSINESSEUROPE, flexicurity is key to modernise Europe's social models. European employers strongly believe that there is a need to move from job security towards employment security. In order to do this, Member States must put in place a policy mix consisting of the following components: flexible labour markets, efficient active labour market policies, effective lifelong learning systems and employment-friendly social protection systems. It is important to bear in mind that there is no one-size-fits-all model of flexicurity to be implemented across the EU.

Considering the need to reform Europe's labour markets, BUSINESSEUROPE counts on the Portuguese Presidency to promote the concept of flexicurity and keep it at the top of the EU employment and social agenda. In a joint initiative, the employers' and business federations of the troika countries Germany (BDA), Portugal (AIP/CIP) and Slovenia (ZDS) as well as Denmark (DA) have developed a joint position on flexicurity, setting the principles which should be at the core of the flexicurity approach. At the same time, BUSINESSEUROPE very much hopes that the European social partners' discussions on the joint labour market analysis will succeed so that we will be able to agree on the key components of flexicurity and present results that are relevant not only for social partners but also for policy-makers, at both national and European level.

### **Education Policy**

Much progress has been made in the Bologna Process, but further increasing the consistency of higher education and business needs, and acknowledging the shared responsibility of all actors, are necessary steps to ensure that individuals can continually refresh their knowledge and skills in a lifelong learning perspective.





European employers also stress the importance of focusing on learning outcomes both in higher education as well as in vocational training, so that future developments in the design and accreditation of qualifications are more closely aligned on labour market needs.

BUSINESSEUROPE welcomes the progress made with regard to the European Qualifications Framework (EQF) but this should be reinforced by complementary activities to develop quality assurance mechanisms as well as improving efficiency and equity of education systems through partnerships, better use of indicators and sharing best practice.

### **Working time directive**

If the Portuguese Presidency wants to revive discussions within Council on the Working Time Directive, BUSINESSEUROPE stresses that any final agreement must solve the problems created by European jurisprudence on on-call time and must retain the individual opt-out which provides flexibility for both employers and employees.

### **Temporary agency work**

Discussions on the proposal for a directive on working conditions for temporary workers have been blocked in Council since several years. BUSINESSEUROPE would like to stress that any compromise solution on a future EU directive should apply the principle of equal treatment to temporary agency workers in such a way that it is possible to establish non-discrimination in comparison either with a worker of the user company, or with a temporary worker employed by the same agency.

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