BUSINESSEUROPE

THE PRESIDENT

Mr Boyko BORISSOV
Prime Minister
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16 March 2018

Dear Prime Minister,

Message to the European Council meeting on 22-23 March 2018

Ten years after the crisis improving competitiveness is more important than ever

2017 has been a good year for the EU economy. With growth of 2.5%, we outgrew the US. However, our performance is partly due to temporary factors such as the ECB's asset purchase programme, which is supporting consumer demand and helping reduce the cost of finance to invest. Moreover, the EU's long-term sustainable growth rate has fallen from 1.9% in 2008 to 1.3% at present. Ten years after the crisis, Europe needs to use this more favourable period to put in place reforms supporting our long-term term competitiveness.

Unfortunately, BusinessEurope's Reform Barometer 2018 shows that implementation of the growth enhancing reforms recommended by the EU continues to lag behind. Only 22% of the country-specific recommendations were satisfactorily in 2017. Urgent action is needed to bridge this delivery gap.

Difficulties in hiring qualified workers are a rising concern, including in countries still marked by high unemployment. Despite the relatively recent recovery, skills shortages, are already at their highest level in over 20 years, posing a real risk that the falls in unemployment seen in recent years will soon slow. **Labour markets and skills** are therefore a key priority for reforms in 2018. The EU should encourage Member States to urgently address structural labour market challenges through further actions to:

1. tackle skills mismatches which create bottlenecks to growth (with special attention to STEMs and digital skills);

2. facilitate labour market participation of all the available workforce (unemployed and the inactive who can work, younger and older, women and men, skilled and less skilled, local workers and legal migrants);

3. have clear, simple and flexible labour market regulations to support our competitiveness and encourage employers to hire;

4. reduce non-wage labour costs, through targeted cuts in the tax wedge (which remains, on average, one third higher in Europe than in the US and Japan, with barely any changes compared to 10 years ago).

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With the US having recently put in place a major corporate tax reform which will significantly improve its attractiveness as an investment location, introducing national tax reforms to reduce **taxation** and making national tax systems more simple, transparent and user-friendly is more important than ever. The EU needs to use all possible levers to improve its competitiveness.

Doing so is also essential now that China has over-taken Europe regarding investment in **innovation**. One for the levers the European Union has is its budget. We urgently need to agree on a post 2020 EU Multi-annual financial Framework which scales up funding for Framework Programme 9, and take other competitiveness enhancing measures.

The recovery must not be wasted in complacency. More progress is swiftly needed to improve the overall business environment in Europe, in particular by:

1. putting in place a real European **industrial strategy**, with a long-term vision backed by clear goals and indicators, an improved EU governance structure to allow for a true "industrial competitiveness mainstreaming" and concrete deliverables such as actions to make energy prices more competitive;

2. delivering Europe's **trade policy** to open third markets for European goods and services through ambitious bilateral agreements and defend an open and rules based multilateral system to fight protectionist measures which can lead to damaging trade wars;

3. achieving a truly integrated **Single Market**, with well-designed and properly enforced regulations to minimize compliance costs and administrative burdens for companies;

4. improving **digitalisation** of our economy, with special focus on key enabling technologies, broadband infrastructure and barriers to cross-border e-commerce, forced data localisation, and legal fragmentation in consumer legislation, taxation, copyright and data protection rules;

5. reinforcing and implementing the **Capital Markets Union** proposals to have a genuine Single Market in financial services and develop complementary sources of finance to bank lending;

6. putting in place a full **Banking Union**, with rapid agreement and implementation of an EU deposit insurance scheme, alongside the existing supervision and resolution and further asset quality reviews of all banks before establishing a common system;

7. further strengthening our **public finances**, paying attention to their quality and composition to improve the efficiency of EU fiscal rules and properly implement the Stability and Growth Pact, drawing on its in-built flexibility.

These recommendations are further developed in the 2018 edition of BusinessEurope's Reform Barometer (enclosed). We count on the European Council to take them into account when defining the priorities for reform in 2018.

Progress and clarity in Brexit negotiations is urgently needed to avoid a cliff edge

Companies need certainty and time to prepare and adjust to the post-Brexit situation and time pressure is rising. The political agreement reached in December must now urgently be transformed into a legal text, covering the withdrawal and transition issues, including the unique circumstances on the island of Ireland which require unique solutions to protect the Good Friday Agreement. This is essential to move the process forward.

For BusinessEurope, a "status quo-like" solution ensuring the UK remains in the customs union and the Single Market, for the duration of the transition period, with all the rights and obligations of the EU acquis, remains the best way to provide citizens and business with more certainty and predictability and to ensure a level playing field for all our companies.

Clarity about the future relation is also key as companies need time to adjust and prepare. Until the new agreement is in place a cliff edge cannot be ruled out. The new model that will govern future EU-UK relations should be in line with the following principles:

- The EU and UK should maintain as close economic relations as possible;
- It should preserve the integrity of the Single Market based on its four freedoms;
- The agreed transition should be framed so as to allow business to prepare and adjust to the new situation.

For European companies having large investments in the UK and vice-versa, it is very important to have access to internal company mobility (intra-corporate transfers). For example, despite Brexit, UK companies and their employees will maintain access to the EU through the EU directive on intra-corporate transferees, like any other third country. A reciprocal treatment should be secured from the UK Government to ensure a level playing field.

BusinessEurope appreciates that both the EU and the UK negotiators' aim is to have the deepest and most comprehensive trade agreement possible. However, there are limits to what a free trade agreement can deliver. A free trade agreement does not provide the same level of frictionless trade as a customs union or a similar regulatory alignment as staying in the Single Market. Choices will need to be made and we look forward to seeing concrete negotiating proposals going forward.

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Avoiding a trade war while enforcing multilateral rules

The US announcement concerning additional duties on aluminium and steel can bring the world to the verge of a trade war, with far-reaching consequences for business and consumers around the world. Given the consequences along the supply chains of many different industrial sectors that depend on these inputs, an escalation will hit everyone.

The EU is a key strategic ally of the US. It must be exempted from the announced additional US duties on security grounds. If this is not the case, the EU will need to react. However, its response must be in line with WTO rules and safeguard the interests of its industry. If legal conditions are met, BusinessEurope considers the three-step approach announced by the Commission - combining a lawsuit at the WTO, safeguard measures to address a surge of imports and retaliation on a selected list of products - appropriate.

Beyond the specific case of steel and aluminium, we are deeply concerned by the disengagement of the US from multilateral organisations and agreements. The situation is particularly serious in the WTO where the US is blocking the appointment of judges to the Dispute Settlement Body.

There are shortcomings in the world trading system but these should be addressed from within and with the strong engagement from the biggest world trading partners like the EU and the US. We cannot accept a situation where the WTO dispute settlement mechanism could cease to be operational.

BusinessEurope counts on the European Council to be firm but balanced when defining ways to defend EU interests and our rules-based open multilateral trade system.

Yours sincerely,

Emma Marcegaglia