



PROSPERITY PEOPLE PLANET

THREE PILLARS FOR
THE EUROPEAN UNION AGENDA
IN 2019-2024

BUSINESSEUROPE



WHO ARE WE ?

BusinessEurope is the leading advocate for growth and competitiveness at the European level, standing up for companies across the continent and campaigning on the issues that most influence their performance.

A recognised social partner, we speak for all-sized enterprises in 35 European countries whose national business federations are our direct members.

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FOREWORD

After the European elections in May 2019, the start of the new European Commission marks the beginning of a new political cycle for the EU in 2019-2024. Given the numerous external and internal challenges, this is a crucial moment for the European Union. It is more urgent than ever to define an ambitious agenda for the future and come up with the right solutions in areas where the EU can deliver concrete benefits, such as the Single Market, the common currency, the common trade policy, competition policy or innovation.

We will all have to join forces to deliver a European Union that will create prosperity for Europe and its people, while also managing the transition to a sustainable future to protect our planet. A strong economy is the prerequisite to be able to build a fair and sustainable Europe. Faced with an increasingly challenging economic outlook, strengthening Europe's economy is therefore more urgent than ever.

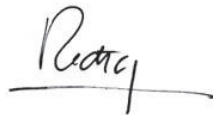
Companies, as main creators of jobs and growth, have a central role to play. Achieving environmental and social goals largely depends on their success. However, European companies will only be able to fully play their role in society and set an example for the rest of the world if the competitiveness and economic sustainability of our system can be proven.

BusinessEurope remains strongly committed to the European project and Europe as an important global player to deliver a better world for all. We therefore feel a responsibility to make sure we move forward united and undertake all necessary efforts to build a stronger and better Europe.

In this document, BusinessEurope and all its members propose an agenda for the European Union in 2019-2024. Prosperity, people and planet as the three pillars for a successful union should be a source of inspiration for future political decisions.

We stand ready to work with the European Commission, the European Parliament and the Council, as well as with Member States, for a successful European Union creating opportunities for all.

Pierre Gattaz
President



Markus J. Beyrer
Director General



AN ECONOMY THAT WORKS FOR ALL

European entrepreneurship has a unique feature. It feels responsible for and cares about prosperity, people and the planet. Only competitive companies are able to generate and sustain job and wealth creation. Without profitable companies, no inclusive growth, no technological solutions to protect the environment, no European products and services to answer various societal needs.

The EU needs to set ambitious strategic priorities, in order to deliver the Union that we described in our *“Ambition for Europe 2030 – A Europe with opportunities for all”*, a European Union that is:

- > **strong and setting the agenda in the world;**
- > **a global leader in innovation, digitalisation and sustainability;**
- > **functioning efficiently;**
- > **economically cohesive and socially inclusive.**

In addition to the 50 actions that BusinessEurope suggested for the first 100 days of the von der Leyen Commission, we have identified in this new document 30 priority areas for action by the EU in 2019-2024 to take care of our prosperity, our people, our planet and create opportunities for all. European business strongly believes in the EU and in the economic opportunities it creates, thanks to the free and open society it promotes.

EUROPE'S ACHIEVEMENTS CANNOT BE TAKEN FOR GRANTED

We are proud of the achievements of the EU. However, if we want to continue to ensure good living standards, live up to our European values and set an example for the rest of the world, we must maintain the competitiveness and economic sustainability of our project. The EU has to strive for economic sustainability, which is about the capacity of economies to generate economic growth over the long term, as a precondition for investments needed for social development and environmental protection. What we want to spend, we first need to earn. European companies are at the forefront of delivering sustainable solutions that can ensure the balance between prosperity, people and the planet.

The world is well on its way to a new geo-economic order. We are at a turning point for Europe's future and its place in the world. The EU is still a key global player in many areas, but the rest of the world is not waiting for us. Already today, Europe lags behind China and the United States on new technologies.

We cannot take Europe's achievements for granted. The agenda of the EU for the next five years must bring about modern, forward-looking EU policies adapted to the global shifts of the 21st century.

COMPANIES AT THE HEART OF THE AGENDA

Enterprises provide 80% of the jobs and create prosperity. Companies are and want to be part of the solution to build a Europe with opportunities for all. BusinessEurope and its member federations want to make sure that Europe remains one of the best places to live, work and do business in the world. We also want to strengthen the continent's relation with the rest of the world while promoting our European values.

The EU must act as an enabler for European industry to flourish and innovate. A strong industry is fundamental for a robust economy and enables us to deal with economic, social and environmental challenges facing us.

Small and medium-sized enterprises (SMEs) are a key driver of economic growth and job creation. Together with larger companies, they are key enablers of innovation. Having competitive European companies able to lead value chains regrouping companies of all sizes is essential. As all companies start small, the EU must also ensure that the actions it takes help to address the needs of European SMEs which account for two thirds of total EU employment. Building on the achievements of the Small Business Act, the new EU SME strategy should clearly put small businesses in the focus of policy-making.

EU UNITY AND GOVERNANCE ARE KEY

To further strengthen European sovereignty, the EU must speak with one voice and all EU institutions must row in the same direction. Member States have much more leverage when they join forces in an increasingly challenging world order. Furthermore, having a strong economic base is essential if we are to be influential at global level. No single Member State can bring credible answers to companies' and citizens' concerns about the future by acting alone.

Just as the EU needs successful companies, European companies need an efficient and successful European Union. Strong and well-functioning EU institutions, supported by fully committed and well-governed Member States, are decisive factors for the attractiveness of Europe as a place to invest and for its influence in the world.

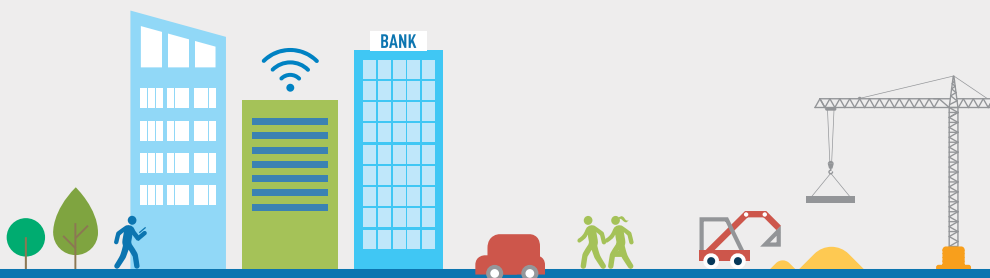
Having efficient EU institutions requires the European Commission, Council and Parliament to work together in a transparent manner, in dialogue with relevant stakeholders, with more effective procedures and a commitment to smart and lean regulation.

The EU should focus on where it can add real value and refrain from acting in matters better dealt with at national, regional or local level. Europe must be big on big things and small on small things.

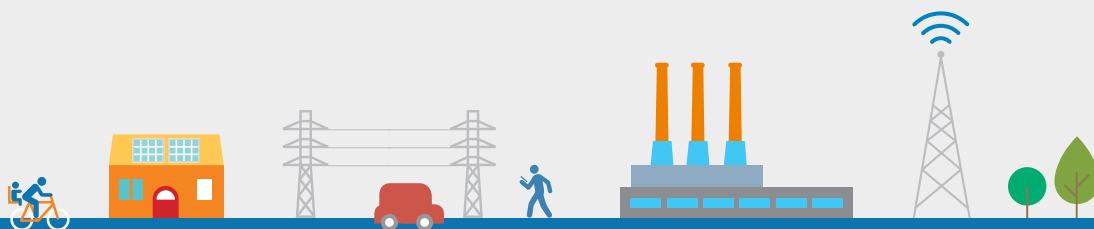
Seen from the point of view of European business, the recommendations in this document give concrete guidance on how to achieve these important goals.

PROSPERITY

- 1 SINGLE MARKET:** The EU should complete the Single Market, which is the basis of European prosperity. This requires further strengthening and developing intra-EU trade and investment within a barrier-free Single Market.
- 2 INTERNATIONAL TRADE:** The EU should defend rules-based trade, fight protectionism and create a level playing field by supporting a reformed multilateral trading system while maintaining an ambitious bilateral international trade and investment agenda.
- 3 INDUSTRIAL STRATEGY:** The EU should put in place a more pro-active and strategic approach that will allow European manufacturing and services value chains to compete with global economic powers such as the United States or China and increase growth and employment across Europe.
- 4 COMPETITION POLICY:** The EU should pursue a strong EU competition policy that guarantees sound competition between companies of all sizes on our Single Market and benefits consumers, whilst ensuring that EU companies can better compete at global level.
- 5 DIGITAL ECONOMY:** The EU should accelerate the cybersecure digitalisation of the European economy, seizing the opportunities it creates for society, and ensuring that the EU does not miss the ongoing digital revolution. We view the €9.2 billion for the Digital Europe programme in the next Multiannual Financial Framework (MFF) as the low watermark.



- 6 RESEARCH AND INNOVATION:** The EU should support and facilitate research, development and innovation throughout the EU and the European Economic Area to regain our world leadership in technology and bring more innovative products and services to the market. The EU should allocate at least €120 billion to the Horizon Europe programme to take European research, development and innovation to the next level and should ensure adequate intellectual property (IP) protection.
- 7 MULTIANNUAL FINANCIAL FRAMEWORK (MFF) AND EU BUDGET:** The EU should ensure that the post-2020 European budget concentrates on boosting sustained growth, investment and job creation, as well as supporting Member States in implementing necessary reforms. To ensure seamless functioning of the sectoral programmes, in particular research and innovation, the next MFF must be urgently adopted.
- 8 ECONOMIC AND MONETARY UNION (EMU):** The EU should further strengthen the EMU and trust in the euro to provide a stable environment to investors. Reforming and enhancing economic governance in the EU through a deepening of the EMU is crucial to ensuring long-run stability and growth and the international role of the euro.
- 9 TAXATION:** The EU should act at the European level in a way which respects international taxation principles and Member States' competences regarding taxation, and promote tax systems which support long-term investment and entrepreneurship.
- 10 BETTER REGULATION:** The EU should continue working on better regulation, giving more attention to the impact of cumulative EU legislation on our competitiveness and our attractiveness as a place to invest as well as continuously evaluating existing regulation. The EU should reduce the regulatory burden on companies and keep associated business costs to a minimum. Moreover, EU legislation should be innovation-friendly and future-proof.



PEOPLE

- 1 ECONOMIC CONVERGENCE AND SOCIAL COHESION:** The EU should foster gradual economic and social convergence among all Member States, supporting those lagging behind, by encouraging them to continue reforming their labour markets and social systems and to channel structural funds into productive investment. Social policy should be combined with solid economic and cohesion policies as part of an EU strategy for increasing employment, productivity, growth and competitiveness for the benefit of all Europeans. Only an economic Europe can foster a social Europe.
- 2 SKILLS:** The EU should help addressing the labour market mismatches that increasingly act as a break on economic growth, even in countries with high unemployment. This means supporting Member States in their efforts to ensure that education and training systems deliver learning outcomes which are better tailored to labour market and companies' needs, particularly regarding science, technology, engineering and mathematical skills.
- 3 LABOUR MOBILITY:** The EU should take proactive action to eliminate remaining restrictions and combat new administrative burdens hindering the free movement of workers, to fully realise the growth and job potential of free movement of services in the Single Market and to promote intra-EU mobility.
- 4 SOCIAL PROTECTION:** The EU should encourage Member States to maintain high levels of social protection in a way which is financially sustainable now and for future generations. Member States should ensure that welfare benefits accompany people in labour market transitions in an active way.
- 5 EMPLOYMENT:** The EU should support the Member States in their efforts to ensure that the labour market regulatory framework is clear and simple and provide the right balance of flexibility and security for companies and workers. Both need to have easy access to different forms of employment and a variety of work contracts that respond to their changing needs.



- 6 **SOCIAL INCLUSION AND EQUALITY:** The EU should support Member States in their fight against poverty and inequality within the EU by pursuing policies that optimise growth and employment.
- 7 **PENSIONS AND DEMOGRAPHIC AGEING:** The EU should support Member States' efforts to mitigate negative impacts of population ageing. Reforms must encourage people to stay in the workforce longer to combine work and retirement, make pension systems sustainable, strengthen the link between contributions and benefits and removing incentives for early retirement.
- 8 **DIVERSITY:** The EU should remain at the forefront of the promotion of diversity on labour markets, by ensuring proper implementation of the highly developed anti-discrimination and equal opportunities legal frameworks that have been established over the years and supporting efforts to address the non-legal obstacles that women, young, disabled, ethnic minorities or older workers face on labour markets.
- 9 **MIGRATION:** The EU should build a coordinated European solution to better manage migration and move away from ad hoc crisis management solutions for refugees and asylum seekers. Instead, an agreement on a new common European asylum system needs to be found to pave the way for returning to a normal functioning of free movement in the Schengen area. At the same time, the EU should pursue a positive agenda to attract talented people from third countries that are equipped with skills needed on European labour markets.
- 10 **SOCIAL DIALOGUE:** The EU should facilitate and when needed modernise the social dialogue, respecting the autonomy of the social partners, which is a key feature of the European social model and an essential tool to manage labour market changes and find balanced solutions to Europe's economic and social challenges and the changes in the world of work.

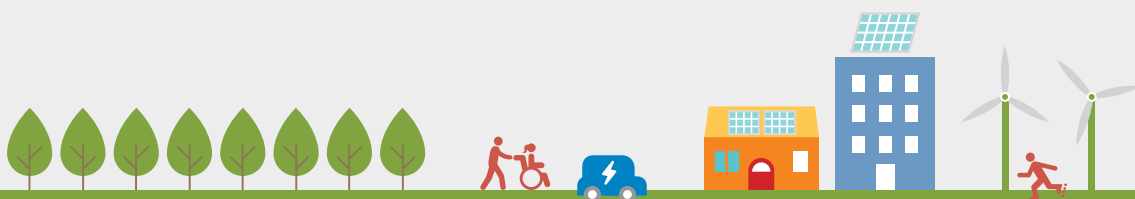


PLANET

- 1 ENERGY AND CLIMATE POLICIES:** The EU should work towards the objective of climate neutrality (net-zero greenhouse gas emissions), while ensuring our competitiveness and security of energy supply. Reaching climate neutrality by around mid-century, as the IPCC Special Report and the European Commission's 2050 climate strategy consider is necessary to limit average global temperature increases to 1.5°C, will fully depend on meeting a set of crucial framework conditions and related actions on both European and global level.
- 2 DIFFERENT ENERGY AND CLIMATE STARTING POINTS:** The EU should recognise different conditions and starting points for EU Member States and boost European coordination for cost-effective policy implementation.
- 3 INNOVATIVE TECHNOLOGIES TO REDUCE GREENHOUSE GAS (GHG) EMISSIONS:** The EU should develop and deploy innovative technologies to support decarbonisation of value chains in Europe in a cost-effective way, unleashing investment through a comprehensive industrial strategy.
- 4 AFFORDABLE LOW-CARBON ENERGY:** The EU should ensure large-scale availability of affordable low-carbon energy, designing an integrated value chain approach for energy supply.
- 5 PUBLIC ACCEPTANCE OF THE ENERGY TRANSITION:** The EU should foster adaptation of consumer behaviour and public acceptance for the low-carbon energy transition, engaging actively with citizens to gain societal acceptance.



- 6 **CONVERGENCE OF GLOBAL CLIMATE AMBITIONS:** The EU should ensure that its major trading partners also commit themselves to ambitions comparable with Europe's as soon as possible and consider additional safeguards to keep industrial production in Europe.
- 7 **ZERO- AND LOW-EMISSION MOBILITY:** The EU should ensure that the emerging value chains and breakthrough technologies of zero- and low-emission mobility (ZLEM) are supported and can rapidly be deployed on a large scale in Europe, and ensure the stability of the energy and climate policy framework to attract the billions of euros of investments needed to bring about this transition.
- 8 **GREEN FINANCE:** The EU should mobilise public and private investments towards all activities that contribute to and enable the transition to a low-carbon economy, building on transparent and reliable frameworks for investors and a common understanding of environmentally sustainable investments.
- 9 **TRADE AND SUSTAINABLE DEVELOPMENT CHAPTERS IN EU FREE-TRADE AGREEMENTS (FTAs):** The EU should continue its efforts on how to better encourage and promote the implementation of sustainability provisions in FTAs. BusinessEurope stands behind the better enforcement of environmental and social norms for the development of third countries and for the competitiveness of European companies through a level playing field.
- 10 **CIRCULAR ECONOMY:** The EU should put more emphasis on removing inconsistencies, filling the gaps and aligning different parts in the existing policy framework to create a real market for secondary raw materials and circular products in order to maximise the value of materials, facilitate the transition to circular business models and achieve a circular economy.





TO INCREASE PROSPERITY, THE EU SHOULD

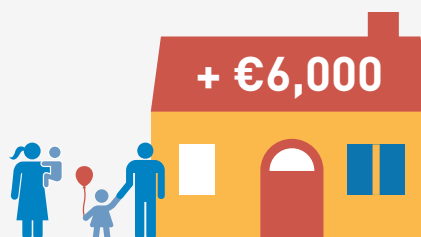
- 1 COMPLETE THE SINGLE MARKET**, which is the basis of European prosperity. This requires bringing the Single Market back to the top of the EU agenda, with priority to making more progress in reducing regulatory barriers to cross-border services and continuing to work on better regulation to reduce administrative burden and compliance costs for companies.
- 2 DEFEND RULES-BASED TRADE**, fight protectionism and create a level playing field by supporting a reformed multilateral trading system while maintaining an ambitious bilateral international trade and investment agenda.
- 3 PUT IN PLACE A MORE PRO-ACTIVE INDUSTRIAL STRATEGY**, combining enabling conditions for industry as a whole with the identification of strategic value chains and Important projects of Common European Interests (IPCEI).
- 4 ACCELERATE DIGITALISATION** of the European economy, seizing the opportunities it creates, promoting uniform application of the General Data Protection Regulation (GDPR) and mirroring its risk-based approach in the ePrivacy proposal.
- 5 SUPPORT AND FACILITATE RESEARCH, DEVELOPMENT AND INNOVATION** throughout the EU and the European Economic Area, fully implementing the innovation principle and protecting intellectual property to regain our world leadership in technology and bring more innovative products and services to the market.
- 6 ENSURE THAT THE POST-2020 EUROPEAN BUDGET IS ADOPTED** without delay, allocating at least €120 billion to Horizon Europe and concentrating on enhancing competitiveness in areas where the EU can deliver concrete benefits and help companies to prepare for megatrends like digitalisation and the energy transition.
- 7 FURTHER STRENGTHEN THE ECONOMIC AND MONETARY UNION**, reinforcing the European Semester role to ensure national structural reforms, completing the Capital Markets Union, putting in place a full Banking Union and following up on EcoFin Council commitments to the Euro-area budgetary instrument for convergence and competitiveness, developing it to include a stabilisation function.

1 SINGLE MARKET

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Free movement of goods, services, people, capital and data in the Single Market must be firmly supported. Completing the Single Market by 2030 could boost overall EU Gross Domestic Product (GDP) by up to 9% and increase household income by over €6,000 per year. The EU Single Market is the world's largest market, with a GDP of €15 trillion, more than 500 million consumers and 21 million small, medium-sized and large enterprises. It is the driving force of a higher GDP, higher employment, higher internal and external trade, higher investment for all Member States. It gives the EU unique leverage in the world and is the best tool to deal with challenges that no EU Member State would be capable of addressing alone. Unfortunately, Single Market achievements are being undermined by rising protectionism which is reversing the trend of progressive removal of obstacles and even sometimes leading to the introduction of new obstacles to free movement in the European Union and European Economic Area.

Completing the Single Market by 2030 could...



boost overall EU
GDP by 9%

increase annual household
income by over 6,000 euros

Source: BusinessEurope staff calculations, European Parliamentary Research Service, 2014

RECOMMENDATIONS

The EU should:

- 1 complete the Single Market, which is the basis of European prosperity.** This requires further strengthening and developing intra-EU trade and investment within a barrier-free Single Market.
- 2 bring the Single Market back to the top of the political agenda** as an overarching instrument in the EU policy-making. Reconciliation of social or consumer or privacy protection interests with the freedoms of the Single Market should not result in less choice, higher costs and slower convergence for Europeans. Europe needs a fair level playing field with the freedoms of movement of goods, services, people, capital and data.

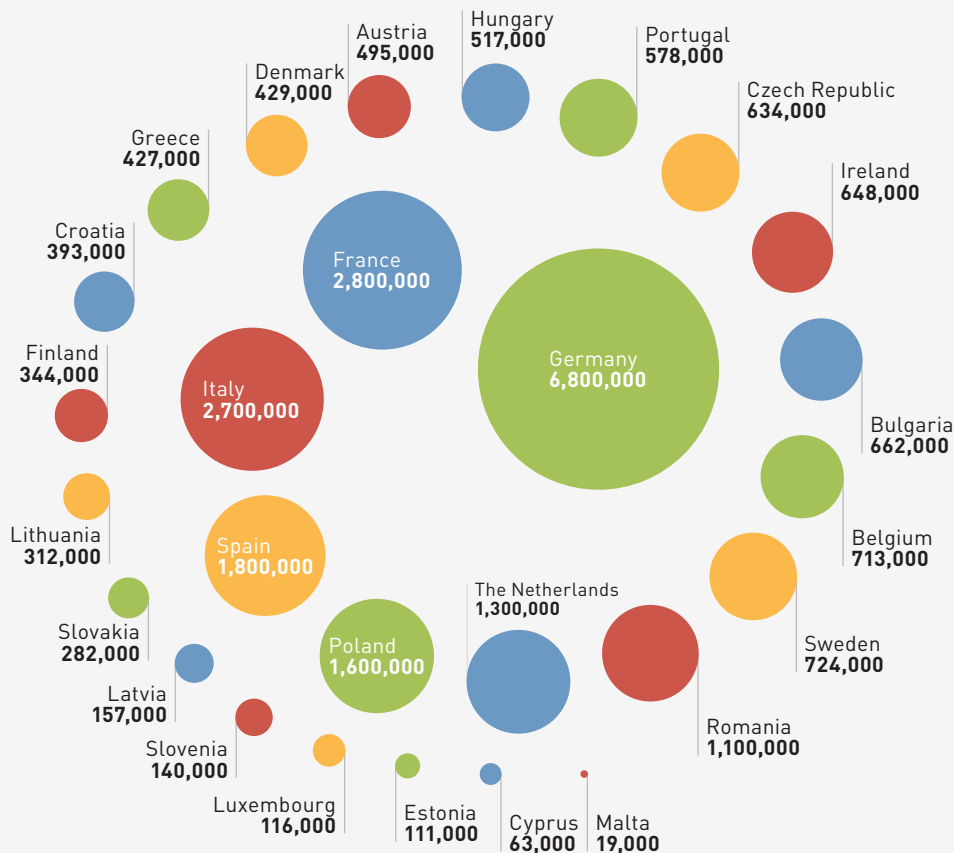
- 3 make the Single Market for services a key priority**, given the lack of progress made in reducing regulatory barriers. Seamless functioning of manufacturing value-added chains calls for effective and barrier-free business services and logistics, including significant improvements in physical and digital infrastructures and their interoperability. Further integration of network industries in general remains very important.
- 4 address inefficiencies in the transport sector** which fulfils a vital function as one of the key enablers of the Single Market. Removing cross-border barriers, facilitating the digitalisation of the industry, and ensuring the interconnection of transport modes will enable businesses to develop more efficient EU-wide solutions. Moreover, further developing our EU-wide and future-proof transport infrastructure network is crucial. The EU and Member States must ensure adequate funding to complete the trans-European transport network on time.
- 5 urgently put in place an effective alternative mechanism to protect cross-border investments** in the Single Market before the termination of intra-EU bilateral investment treaties (BITs) at the end of 2019 to safeguard investment protection and avoid that third-country investors are better treated than EU investors.
- 6 reinforce the Single Market governance infrastructure** at EU and national level in order to strengthen timely, transparent and efficient implementation and enforcement of the Single Market rules. Correct, full and uniform implementation across all Member States is essential to ensure a level playing field on the Single Market. For example, on the public procurement market, it is key to ensure that requirements in public tenders always have a direct link with the subject matter of the contract and that they are not overburdened by unrelated societal goals. This in order to avoid unnecessary complexity and discouragement of (cross-border) bidders.
- 7 ensure that effective and well-coordinated market surveillance systems are established.** In this context, secure sufficient funding for market surveillance of goods from the Single Market Programme under the new Multi-annual Financial Framework (MFF) for the EU budget to ensure a level playing field and prevent circulation of unsafe products on the Single Market.
- 8 restore the role of industry in standardisation** as well as the principle of ‘presumption of conformity’ in the application of harmonised standards. Standardisation is an industry-driven process and its success rests on the relevance of the standards developed for the market. In order to be competitive and keep our role in global standard-setting, we need to ensure that European standardisation is flourishing. Over the last years, the business community has noted changes in the functioning of the EU policy for products standardisation. Industry is forced to follow development of harmonised standards mainly in response to legislative or political requirements. As a result, harmonised standards lose market relevance and it is less attractive for companies to engage in the drafting and usage of harmonised standards. This reduces regulatory homogeneity on the Single Market. A proper balance should be restored between the role harmonised standards play to meet market needs in developing state-of-the-art technical solutions and their role for better compliance with harmonised EU regulations.

2 INTERNATIONAL TRADE

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

The EU has an extensive network of free-trade agreements with partners around the globe and needs to further expand over the next years. Trade with non-EU countries creates millions of jobs in Europe. 1 in 7 jobs in the EU depends on exports. The global decline in trade due to increasing protectionism leads to more uncertainty for business and undermines employment. The EU should respond to these challenges with a strong and multi-faceted trade strategy. A stable, transparent and predictable trade environment is key to promote more investment, more innovation, more growth and job creation in Europe, as well as to promote our values and standards in the world.

CHART 1.1 *The EU needs a strong trade strategy*
Number of jobs linked to trade with non-EU countries



Source: European Commission, 2018

RECOMMENDATIONS

The EU should:

- 1 defend rules-based trade, fight protectionism** and create a level playing field by supporting a reformed multilateral trading system while maintaining an ambitious bilateral international trade and investment agenda. It should ensure that trade in services is enshrined in future FTAs.
- 2 ensure that the future EU-UK relationship is as close and frictionless as possible**, while preserving the integrity of the Single Market. Both partners should also work together multilaterally on trade policy and foreign policy issues of mutual interest.
- 3 maintain strong and stable relations with the USA** and look for opportunities to develop a positive agenda that reduces the costs of trading and investing across the Atlantic. Developing regulatory cooperation in key sectors, eliminating tariffs for industrial goods, reforming the World Trade Organisation (WTO) and developing modern trading rules in areas of common interest are some of the issues that should be addressed in our bilateral agenda with the US. In parallel, we should address trade irritants and the EU should look for long-term cooperation with the USA and other long-standing allies in key strategic areas like digital trade and cybersecurity.
- 4 rebalance its relationship with China** by promoting a framework that takes differences of our respective economic models into account, pursues the elimination of asymmetries in trade and investment conditions, ensures the effectiveness of European trade defence instruments, and improves market access with fair and equal treatment for European companies. The timely conclusion of an ambitious and comprehensive agreement on investment (CAI) should remain a priority. Moreover, the EU should insist on a - long overdue - revised market offer from China in the context of the country's accession to the WTO Government Procurement Agreement. This could pave the way for a better access European companies to the Chinese public procurement market. The EU should also engage with China to address key multilateral challenges such as the WTO reform, while insisting that China complies with its commitments and actively contributes at a level that is proportional to its current economic and technological development.
- 5 implement the agreed EU connectivity strategy** including significant and sustainable funding for infrastructure projects in partner countries in the neighbourhood and in Asia.
- 6 remain strongly engaged in the reform of the WTO**, fighting against unilateralism and protectionism, promoting a more effective international trading order and stronger compliance with WTO rules. It is crucial to ensure that the transparent and independent dispute settlement mechanism which is the backbone of the WTO does not become dysfunctional. A bigger role by the WTO Secretariat in the rule-making pillar of the WTO should also be further explored.

- 7 stay at the forefront of the development of modern and effective rules** in key areas like digital trade and e-commerce, intellectual property, regulatory cooperation, subsidies and the role of state-owned enterprises, and the role of services in manufacturing. The EU should secure high levels of market access for its businesses outside the EU, including in public procurement, through plurilateral agreements like the WTO Government Procurement Agreement, bilateral agreements and EU instruments.
- 8 continue to develop the EU's network of bilateral agreements** with strategically important, fast growing and promising regions in the world, while standing up against protectionism. The EU should swiftly ratify and implement key trade agreements with Mercosur and with Vietnam and push ahead with free-trade agreement negotiations with Australia, New Zealand and Indonesia. The European Commission should continue to support the creation of an international court for the settlement of investor-state disputes (Multilateral Investment Court, MIC). It should also monitor and enforce the implementation of the trade agreements in force, e.g. Canada and Japan.
- 9 ensure peace and stability at its borders by forging deeper and closer political and economic ties with neighbourhood countries.** With heated debates around migration, it is even more important and a vital EU interest to ensure stability and prosperity near our borders. Trade, especially when it is combined with other policies, plays a very important role in achieving this objective. Considering the current geo-political context, the EU's neighbourhood needs to be seen in a broader setting including: Brexit and the future EU-UK relationship, Russia and the Eurasian Economic Union, Ukraine and enlargement countries, Western Balkans and Turkey, a strategy towards Africa and the Mediterranean countries.
- 10 move closer to Africa** and the negotiations of the Post-Cotonou Agreement between the EU and the African, Caribbean and Pacific countries provide a golden opportunity to do so. Conditions need to be created for African countries to diversify their economies and become part of regional and global value chains. The African Continental Free Trade Area could unlock the tremendous development potential of intra-African trade, joining up Africa's fragmented markets, igniting industrialisation and creating millions of jobs. While it will take time to accomplish this ambitious project, the economic partnership agreements could be important building blocks towards continental free trade as they play a key role in supporting the regional integration processes of the African, Caribbean and Pacific (ACP) countries, for instance in terms of harmonisation of regulation, taxation, customs procedures, free movement of goods or strengthening regional institutions. To increase European private investment, it is critical to fully implement all the 28 guarantees foreseen in the European External Investment Plan by the end of 2019.

- 11 urgently look at new ways of effectively safeguarding its economic interests and protecting its companies against extraterritorial measures.** For instance, extraterritorial effects of non-coordinated US sanctions against Iran and Russia have a significant negative impact on EU companies and undermine the EU economic interests. Finding effective ways of mitigating this negative impact and increasing the margin of autonomy for EU companies is essential, building on the recent recommendations to reinforce the international role of the euro and possibly find alternative tools and means to settle international payments to establish a level playing field on the issue of extraterritoriality.
- 12 better use the instruments at its disposal to ensure a level playing field** in trade and investment. For instance, it should reinforce the Market Access Strategy and resume discussions on the development of an international procurement instrument while safeguarding the interests of European companies. The EU should also use tools to better leverage the export potential of EU companies, especially small and medium-sized enterprises (SMEs).
- 13 support small and medium-sized enterprises** through dedicated tools in the framework of the EU trade policy to grasp the export potential of European SMEs. For instance, the EU should include dedicated SME chapters in all its free-trade agreements and increase the visibility and effectiveness of instruments such as the market access database.
- 14 have the necessary resources** to be able to deliver its ambitious international trade and investment agenda in a way that defends EU's interests. In particular, DG Trade and other relevant European Commission services need to have adequate resources.
- 15 promote best sustainability practices by third countries,** for example by giving them special preferences, as an effective way to boost sustainability provided that there is a close monitoring of the effective implementation of the commitments. For instance, the EU Generalised System of Preferences (GSP) contains a particular pillar - the GSP+ - that supports sustainable development and good governance in the recipient countries based on 27 UN Conventions. "Aid for Trade" is another important scheme, in which the EU is the largest donor.
- 16 use its leverage to generate new market opportunities for European companies in third markets,** by placing economic issues like trade and investment on the agenda during all EU official visits, high-level meetings and missions to third countries and providing political and business leaders with the opportunity to exchange openly on these topics.
- 17 avoid new regulations on transparency and due diligence** which would result in unworkable requirements along the value chains, disproportionate administrative burdens or unmanageable legal responsibilities.

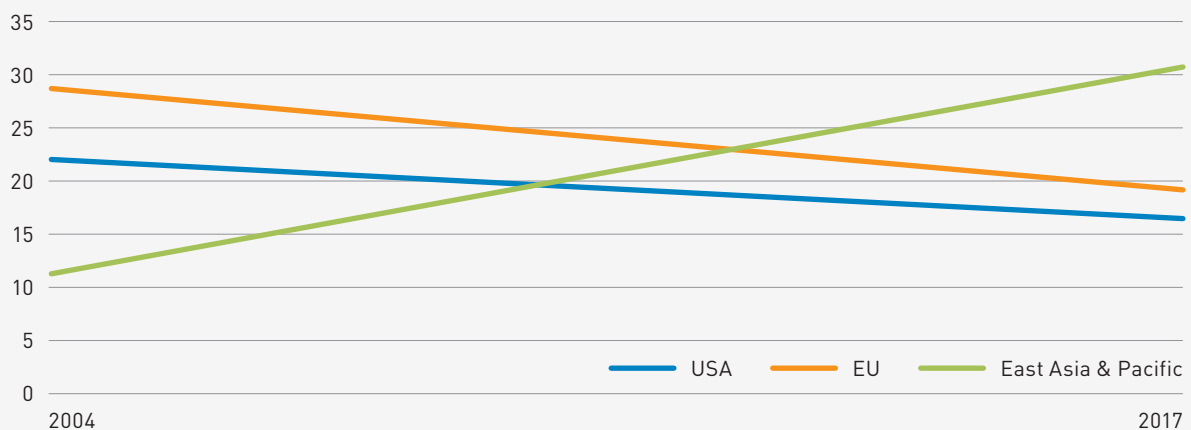
3 INDUSTRIAL STRATEGY

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

A strong and competitive EU industry is essential to deliver value for EU citizens, the environment and the economy and enables us to deal with challenges and grasp opportunities that arise. Due to its beneficial effects on other sectors, industry is very important for the overall functioning of the European economy and wealth creation, significantly contributing to economic growth, employment and innovation. Industry accounts for over half of Europe's exports, around 65% of research and development investments, it provides about 62 million jobs (direct and indirect, meaning 26.5% of jobs in Europe), generally high-skilled jobs and above average pay, and in high economic value-added activities. Industry generates strong positive spill-overs on the economy. In certain countries, industrial frontrunners generate 25% of all added value through direct and indirect effects.

Europe is a global leader in industries which supply high-value jobs, such as the automotive, aeronautics, engineering, chemicals, energy and pharmaceuticals. However, Europe's share of worldwide manufacturing added value dropped by almost 10 percentage points between 2004 and 2017, compared with a decline by only 5 percentage points for the US and a rise of about 9 percentage points for emerging economies. Urgent action is needed to reverse this downward trend and strengthen Europe's industrial base.

CHART 1.2 *The EU's share of global manufacturing is falling*
Share of world manufacturing's value-added in % - selected regions



Source: World Bank, BusinessEurope staff calculation

RECOMMENDATIONS

The EU should:

- 1 Introduce a more pro-active and strategic approach** that will allow European manufacturing and services value chains to compete with global economic powers such as the US or China and increase growth and employment across Europe. The European Commission should elaborate on the concrete steps to put in place the EU's industrial policy as requested by the European Council on 21-22 March 2019.
- 2 combine enabling conditions for the benefit of industry as a whole** (i.e. Single Market, competition, research and innovation, trade, intellectual property, etc.) with the identification of strategic value chains where public authorities will need to support and co-invest more intensively with the private sector. The work by the Strategic Forum on Important Projects of Common European Interest (IPCEI) on strategic value chains should be further developed, in a clear and transparent process. Building on the first experiences, the IPCEI instrument should be kept under review to make sure it is agile enough to cope with a fast-changing global playing field.
- 3 foster industrial cross-border cooperation** and networks around value chains that are key to the EU's industrial competitiveness and strategic autonomy. For instance, the work around microelectronics, batteries, low-carbon industries, hydrogen or cybersecurity is important to position the EU in areas of key technologies and to find solutions to societal challenges.
- 4 smooth the way for a pooling of public and private resources**, including investments, at the critical phase of moving technologies from labs to first industrial deployment and commercialisation as this is the moment when public support is most necessary to fill the financial gap to overcome market failures.
- 5 complement a new industrial strategy with a solid industrial governance structure** to monitor implementation on a strategic level. This comprises a set of appropriate and future-proof indicators, as well as consequent mainstreaming of industrial competitiveness throughout the European policy-making processes to strengthen the European industrial base and minimize unintended regulatory costs and negative impacts.
- 6 further develop an inclusive defence industrial policy** in order to boost the competitiveness of EU industry in such a strategic sector. In this regard, it will be crucial to implement the European Defence Fund.

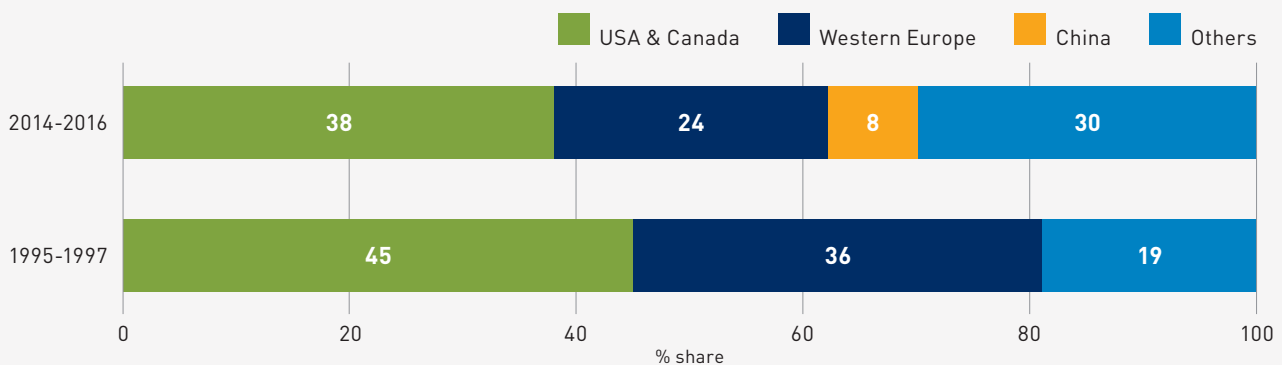


4 COMPETITION POLICY

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

The EU is losing ground in terms of developing world-leading companies. For example, none of the top 10 global companies by market capitalisation is based in the EU. When considering the most profitable global firms, we see that the global share of 'superstar' firms (companies with an annual revenue greater than \$1 billion) in Europe declined over the last two decades. While Western Europe hosted 36% of the top 10% of global firms by economic profits in the mid-1990s, its share has dropped to around 25% in recent years.

CHART 1.3 *The global share of 'superstar' firms in Europe declined over the last two decades*
Most profitable 10% of global firms by country or region



Source: McKinsey, BusinessEurope staff calculation, 2018

RECOMMENDATIONS

The EU should:

- 1 pursue a strong EU competition policy** that guarantees sound competition between companies of all sizes on our Single Market and benefits consumers, whilst ensuring that EU companies can better compete at global level with the necessary level playing field for all business models allowing them to be competitive and to respond to customer demand, also in a rapidly changing digital environment.

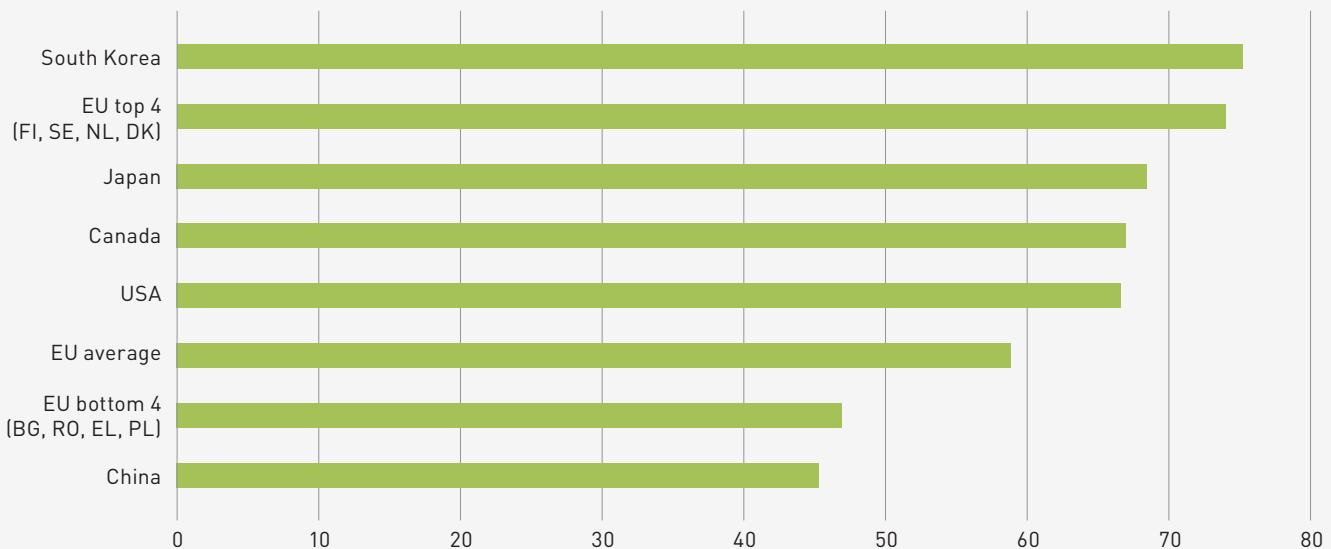
- 2 **carry out effective and independent competition law enforcement** preserving legal certainty, a level playing field in the internal market and non-discrimination.
- 3 **ensure that the administrative and procedural framework of EU competition proceedings**, particularly in EU merger control, is sufficiently speedy, transparent and proportionate. For example, the creation of a non-political, technical, specialised chamber at the General Court, which could appoint economic experts, should be considered. In addition, the use of the accelerated procedure should be contemplated more often, especially if the Court detects a procedural flaw.
- 4 **ensure effective checks and balances** in competition procedures to assure a proper due process and an independent objective check of both the procedural and substantive aspects of cases. In practice, the Commission acts both as investigator and decision-maker in merger proceedings. It is therefore crucial that there is a proper due process and that there are effective checks and balances within the system.
- 5 **put in place an effective leniency framework** which provides incentives to companies which are able to provide relevant information about competition law infringements.
- 6 **make sure that merger rules define markets in a realistic way**, taking account of global market conditions and adopting a dynamic analysis and long-term view to assess the existence of competitive pressure to allow European industrial and services value chains to compete with global economic powers such as the US or China and increase growth and employment in Europe and ensure that competition in the internal market is not distorted by competing companies, in and outside the EU, that are not operating under the same rules.
- 7 **ensure that the EU state aid policy** supports good aid and investment in large research and innovation projects that contribute to growth, jobs and EU global competitiveness while fundamentally safeguarding a market-driven European economy. The EU should also ensure effective state aid control to safeguard fair competition and a proportionate and speedy treatment of state aid cases which do not raise competition concerns.
- 8 **make certain that EU rules on horizontal cooperation encourage companies to collaborate** to carry out joint technology development or achieve objectives of other EU policies (e.g. environmental and sustainability objectives). Especially in the age of Industry 4.0, such joint research projects or collaborations through industry platforms play an important role. The Commission should therefore give clear guidance to companies intending to collaborate, including in the context of temporary consortia.
- 9 **ensure that technological innovations, notably in the context of the digital economy, foster market integration**, enhance consumer welfare and allow EU companies to effectively compete in digital markets, in the same market under the same regulation.

5 DIGITAL ECONOMY

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Despite the Digital Single Market strategy, Europe is falling behind in the global digital race. Even though digitalisation will benefit society and industry, for now, we have lost the business-to-consumer battle to the US and China. So, Europe must do its very best to win the next big tech battles of business-to-business and business to public tech-applications and digital services. For the digital transformation of industry to succeed, we need 5G, cybersecurity, a single market that is not divided into online and offline as well as a proper framework for artificial intelligence (AI) and data flows. We already have a lot of ground to make up. The US digital economy accounts for 8% of its GDP, higher than the EU28 average of 5%, with a large variation within Europe. For instance, the digital economy accounts for 4% of Italy's GDP, 5.5% in France and 6.9% in Sweden. Only the very best EU28 countries (Denmark, Sweden, Finland and the Netherlands) have digital performances at the same or higher levels than the best global countries (South Korea, Japan).

CHART 1.4 *In the digital economy, Europe is lagging behind the rest of the world*
International Digital Economy and Society Index, 2018 ranking¹



Source: European Commission, 2018

¹ The DESI index measures performance in five dimensions or policy areas: connectivity, human capital (digital skills), use of Internet by citizens, integration of technology and digital public services.

RECOMMENDATIONS

The EU should:

- 1 accelerate digitalisation** of the European economy, seizing the opportunities it creates for society and ensuring that the EU does not miss the ongoing digital revolution. We must make sure that the possibilities of IT and digitalisation can be used to improve and make public-sector services, not least in health care, more efficient.
- 2 continue cybersecurity capacity building**, for Europe's digital economy to benefit companies and employees alike. Sharing of best practices in terms of prevention needs to be encouraged and national responses to threats need to be coordinated. A European response to growing cyber-enabled economic espionage is urgently required.
- 3 ensure that Single Market regulations are not artificially divided in online and offline rules** and provide a barrier-free and technology neutral framework, that aids roll-out to accelerate digital transformation of the European economy. This should allow us to lead in the development of strategic digital areas, facilitate investment in networks as well as fostering cross-border e-commerce. Legislation should also consistently reflect market integration through reduction of barriers and be future-proof. It should support innovation, flexibility for business to respond to fast-changing environment and enable new business models.
- 4 fully engage in the global AI race where Europe has ground to make.** This will bring benefits for citizens (e.g. making mobility safer, resources more efficient, improving healthcare, etc.). Whether these benefits can be delivered depends on the abilities of companies to research, test, have access to a skilled workforce, appropriate infrastructure and a sound legal framework. Existing national initiatives should be better coordinated. Europe has to get the balance right between open innovation and societal protection. Otherwise, the only option will be to buy superior AI solutions from third countries.



- 5 encourage Member States to take a coordinated European approach to the cybersecure roll-out of 5G networks** in order to bring the strategic benefits that this new technology can bring to the European economy. We need to avoid digital gaps between regions. State-of-the-art connectivity should not stop with Europe's digital leaders or in highly populated cities but be evenly spread to offer opportunities for all. Progressive 5G network deployment will increase connectivity allowing greater traffic at lower latencies. Our framework should enable investment agreements, ease deployment and foster new use models.
- 6 uphold the free flow of data and voluntary data sharing to support a vibrant data economy,** since the value of industrial data will become a new production factor. Our success will be based on its ability to move and be used. Member States should no longer be permitted to apply unjustified localisation measures in practice. Data has become vital for internal and external trade in and goods and services. We should not limit the ability of companies to utilise the full power of the Single Market through heeding the power of data.
- 7 promote uniform application of the General Data Protection Regulation (GDPR)** across all Member States, ensuring an innovative framework and supporting companies' efforts to comply with these rules. The provisions of the proposed ePrivacy proposal should be fully consistent with the GDPR and the new EU AI strategy. If Europe wants to be a world leader in the digital economy, a risk-based approach that aligns with GDPR is required.



- 8 **achieve a good balance between strong IP protection**, on the one hand, and legal certainty to encourage new technologies, on the other hand taking into account both the new challenges and new opportunities that the digital revolution creates in the IP environment. New technologies such as 3D printing, artificial intelligence, the Internet of Things and data managing should be part of any IP policy discussion in the future.
- 9 **swiftly adopt the MFF so that the Digital Europe programme can begin** to support crucial areas such as supercomputers, artificial intelligence, cybersecurity, digitalisation and skills. We view the €9.2 billion for the Digital Europe programme as the low water-mark.
- 10 **encourage Member States to invest in digital skills** in order to bridge the current skills gap. This requires improving basic digital education at early curricular levels as well as basic and advanced science, technology, engineering, and mathematics (STEM) which are fundamental for the ongoing industrial revolution to be a success. STEM skills are also important for developing systemic and critical thinking. The EU should support them by allocating sufficient resources to digital skills training in the European Social Fund (ESF) and other relevant funds.



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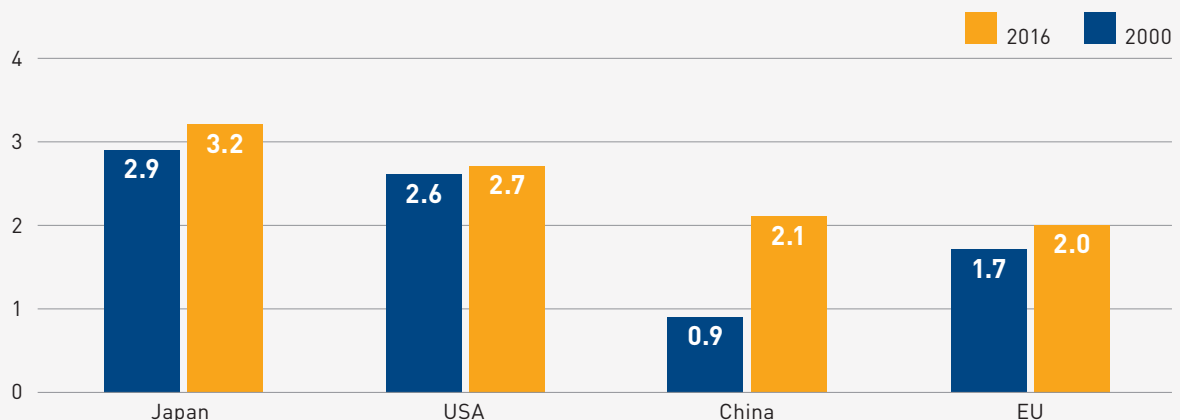
RESEARCH & INNOVATION

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Research, development and innovation (RDI) is one of the most important levers to boost Europe's economy and competitiveness. It can help to increase a company's market share, as well as foster job creation. Through RDI, entirely new markets can be created, leading to new business opportunities at potentially massive scale. The societal benefits of RDI are equally important: RDI can make substantial contributions to dealing with today's and tomorrow's societal challenges, such as poverty, ageing, social exclusion, health, climate change and energy security. Being largely accessible to all categories of the population, rapid innovation can foster overall well-being and improve the European way of life.

The EU accounts for 20% of global R&D investment, produces one third of all high-quality scientific publications, and holds a world-leading position in industrial sectors such as pharmaceuticals, chemicals, aerospace, mechanical and electrical engineering, fashion or research output in artificial intelligence. However, R&D investment across the EU falls short of the 3% GDP target the EU has set itself for such investment. The EU has fewer start-ups valued at over \$1billion ("unicorns") and young leading innovators ("yollies"). The EU policy environment is still less attractive for private RDI investments than key competitors. As a result, private RDI investment reaches only 1.3% of EU GDP compared to 1.6% in China, 2% in the United States, 2.6% in Japan or 3.3% in South Korea.

CHART 1.5 *EU spending on R&D remains well below US and Japanese levels*
R&D intensity as % of GDP in 2016 and 2000

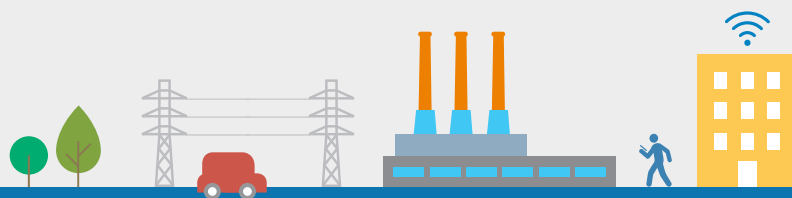


Source: World Bank, 2016

RECOMMENDATIONS

The EU and its Member States should:

- 1 support and facilitate research, development and innovation** throughout the EU and the European Economic Area to regain our world leadership in technology and bring more innovative products and services to the market.
- 2 develop a more coordinated and strategic approach to intellectual property (IP)**, focusing on how IP policy can contribute to European industrial competitiveness as a whole. Innovators and businesses in Europe must rely on a solid IP system. A stable legislative framework is key to facilitate investment and ensure that companies continue to innovate and grow. Moreover, it is important to ensure effective enforcement and real commitment to fight counterfeiting and piracy.
- 3 increase R&D spending and support stronger private-sector R&D investment**, in order to reach the EU's 3% target. The EU should allocate at least €120 billion to the Horizon Europe programme to take European RDI to the next level. This financial ambition will be key to unlock private funds, address societal challenges and narrow the gap in R&D spending to other regions.
- 4 pursue more business-oriented innovation policies** to ensure a greater economic return on investment in research and innovation. Targeted initiatives must stimulate private R&D investment and incentives for cooperation between companies, research institutes and education in networks and clusters of knowledge, and competence should be improved in order to facilitate the commercialisation of innovation. EU funding programmes should be agile and aim at reducing risks for companies so as to foster market uptake of innovative solutions.
- 5 fully implement the Innovation Principle**, as part of the impact assessment for all relevant new EU legislation and across the whole policy cycle, from evaluation to implementation. This is essential to enhance the development of “make or break” technologies for Europe's future prosperity and shape the regulatory environment with a positive approach on emerging technologies. Regulation excessively focused on precaution and risk avoidance will stifle investment in innovation.



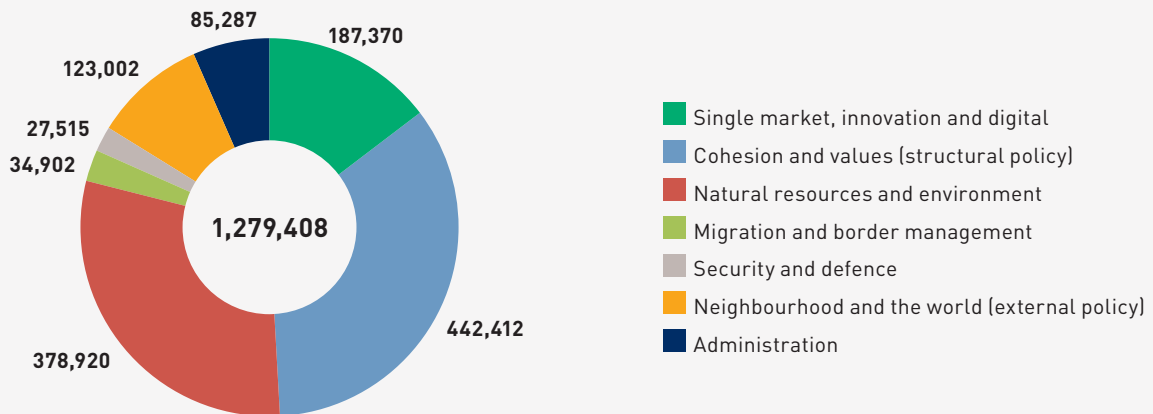
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MULTIANNUAL FINANCIAL FRAMEWORK (MFF) AND EU BUDGET

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Developments in recent years have made it clear that the EU's finances are in need of fundamental reform. Moreover, the withdrawal of one of the EU's largest net contributors will leave an annual financing gap of tens of billions of euros. The European Commission has put forward its response to these challenges in the form of proposals for the 2021–2027 MFF. The proposals include the MFF Regulation as well as 37 spending programmes, which must be finalised and adopted in time.

CHART 1.6 2021-2027 Multiannual Financial Framework (MFF) according to the European Commission's proposal in million euros

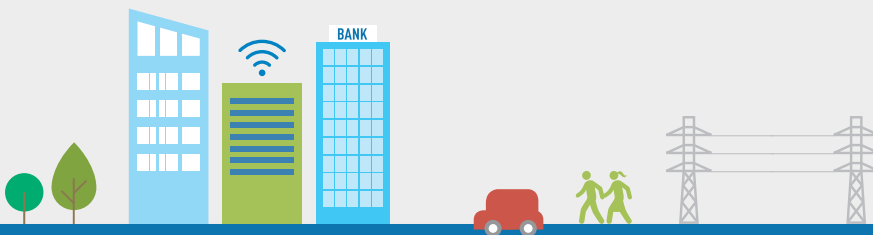


Source: European Commission, 2018

RECOMMENDATIONS

The EU should:

- 1 ensure that the post-2020 European budget concentrates on boosting** sustained growth, investment, value added and job creation, as well as supporting Member States in implementing necessary reforms. For that, the European budget should focus on enhancing our competitiveness in areas where the EU can deliver concrete benefits and help prepare industry and companies for megatrends like digitalisation and the energy transition.
- 2 urgently adopt an MFF** with a size adequate to address common challenges. An agreement on the MFF should be reached as soon as possible. We cannot afford delays in powerful investment incentives and sectoral programmes, in particular research and innovation.
- 3 reach its own 3% of GDP research and development investment target** in order to stay competitive with countries around the world that are investing massively. Horizon Europe can boost the EU's efforts, provided it is equipped with an appropriate budget. Investment in Horizon Europe is absolutely vital for Europe's future. BusinessEurope also counts on Member States to reach an ambitious programme of at least €120 billion, with 60% allocated to the 'Global challenges and industrial competitiveness' pillar.
- 4 boost the success of the cohesion policy** by turning it into an integral part of a European investment strategy, with an adequate financial framework to support a cohesive Europe. It must be further simplified, and the selection of projects must be made on the basis of their quality and not on the size of the companies.



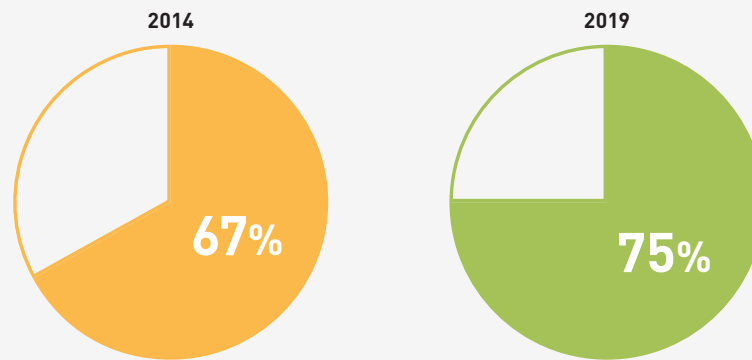
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ECONOMIC AND MONETARY UNION (EMU)

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Completing the Economic and Monetary Union (EMU) and strengthening trust in the euro is essential. In June 2019, a record high 75% of respondents across the Euro-area said that they thought the euro was good for the EU. A well-functioning EMU also provides investors with a safe and predictable environment. On 14 December 2018, the European Council endorsed the terms of reference of the common backstop to the Single Resolution Fund and of the European Stability Mechanism (ESM), asked to prepare the necessary amendments to the ESM Treaty, to advance work on the Banking Union and called for ambitious progress on the Capital Markets Union by spring 2019. These are positive steps forward. However, more needs to be done to ensure that our Economic and Monetary Union delivers convergence towards strong growth rates in all Member States.

CHART 1.7 *Public support for the euro is rising significantly*
Respondents across the Euro-area supporting the euro



Source: European Commission, 2019



RECOMMENDATIONS

The EU should:

- 1 further strengthen the EMU and trust in the euro** to provide a stable environment to investors. Reforming and enhancing economic governance in the EU through a deepening of the EMU is crucial to ensuring long-run stability and growth and the international role of the euro.
- 2 reinforce the European Semester's role** to ensure that all Member States implement agreed growth and employment enhancing structural reforms and strengthen implementation of the Macroeconomic Imbalance Procedure in both deficit and surplus countries.
- 3 follow-up on Ecofin Council commitments** to implement a Euro-area budgetary instrument for convergence and competitiveness to strengthen structural reform and economic resilience of EMU countries in normal times. This instrument needs to be enhanced by including the stabilisation function proposed by the European Commission, namely the investment protection mechanism.
- 4 foster progress on completion of both the Banking and Capital Markets Union** and further integrate EU capital markets to increase financing options for businesses, such as Venture Capital provision, and remove barriers to cross-border investment.
- 5 make sure that Member States respect the Stability and Growth Pact (SGP)** whilst being able to continue to draw on the in-built flexibility to support structural reforms and productive public investment.
- 6 ensure that new prudential rules, when transposing Basel III, do not significantly increase capital requirements overall** to support companies' need for capital for investment and trade (bank loans, equity investments, trade finance) and ensure access to risk management products on competitive terms.
- 7 review the rules on securitisation** as they discourage the use of this important tool to increase lending.

9 TAXATION

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

In 2017, businesses paid over EUR 2 trillion of taxes in the EU, through corporate tax, social security contributions, property, resource, energy, environmental and other taxes. In addition to paying taxes, enterprises help tax systems to run smoothly by collecting value-added tax (VAT) and income tax from their employees. Taxation is necessary to finance public goods and services, and fighting fraud and evasion is essential to ensure a level playing field for the vast majority of businesses who pay their taxes in full. The EU and its Member States need to keep improving cooperation between the different national tax administrations to establish greater levels of trust and efficiency. The automatic exchanges of information amongst tax authorities, through the country-by-country reporting, is a positive step. However, commercially sensitive information that companies provide must be protected as this can put European companies at a competitive disadvantage.

In general, governments and businesses must work together to ensure that international tax agreements remain fit for purpose as globalisation evolves, while ensuring that European regulation is reformed in order to reduce administrative burdens on companies and improve our competitiveness.

Over €2 trillion taxes paid by business in the EU every year



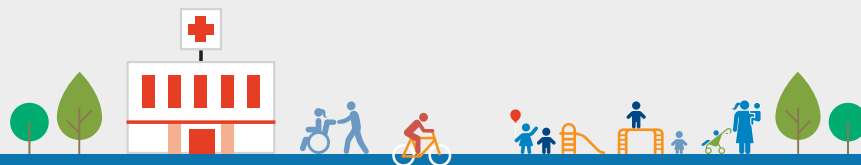
Source: BusinessEurope staff calculations based on Eurostat, 1,000 pupils per school

RECOMMENDATIONS

The EU should:

- 1 respect international taxation principles and Member States' competences** regarding taxation and promote tax systems which support long-term investment and entrepreneurship.

- 2 promote only tax systems which support long-term investment.** The Financial Transaction Tax, which could undermine capital market development whilst offering no support to financial stability, particularly if focused only on secondary share trading, should be withdrawn.
- 3 work towards an intensification of efforts to find a solution for the tax challenges of the digital economy on a global level.** This is a global issue that requires a global solution at OECD level. It should be ensured that any solution agreed at the OECD is in line with international taxation principles (by taxing profits and not revenue), is easy and simple to administer and comes together with strengthened dispute resolution mechanisms to solve double taxation cases more swiftly.
- 4 bring forward work to modernise the EU VAT system and create a single VAT area.** The proposed definitive VAT system however will not improve today's VAT system as it risks creating more administrative burdens, with significant impacts for cash flow without reducing overall VAT fraud. Further steps are needed to simplify the VAT system, in particular for SMEs, by exploring how digital technologies can help to close the VAT gap and simplify VAT reporting. Setting up a VAT web information portal, whereby businesses can swiftly access relevant and accurate EU-wide information about the implementation of the VAT system in the different Member States in a language that they can understand, would be a significant step forward.
- 5 encourage the simplification of Member States' corporate tax systems :** A Common Consolidated Corporate Tax Base (CCCTB) has the potential, by improving the functioning of the Single Market and making it easier and cheaper for cross-border companies to expand, to promote investment and jobs. However, putting in place a CCTB without consolidation will raise costs, without providing competitiveness benefits. Only on the crucial condition of consolidation, and with an allocation key reflecting economic reality, has the CCCTB the potential to provide a boost to investment and reduce administrative costs. Many companies also see a need for the CCCTB to be optional for all companies regardless of size. However, we are concerned that the ongoing discussions at the Council on the CCCTB could actually end up in reducing the competitiveness of the European economy.
- 6 ensure that the Energy Tax Directive (ETD) remains effective** and operational, without hampering competitiveness for business while meeting wider climate policy objectives. The EU should keep the tax burden on energy limited to avoid a negative impact on the competitiveness of the European (energy-intensive) industry. Minimising the discrepancies in ETD implementation across Member States is the best guarantee to prevent level playing field distortions.

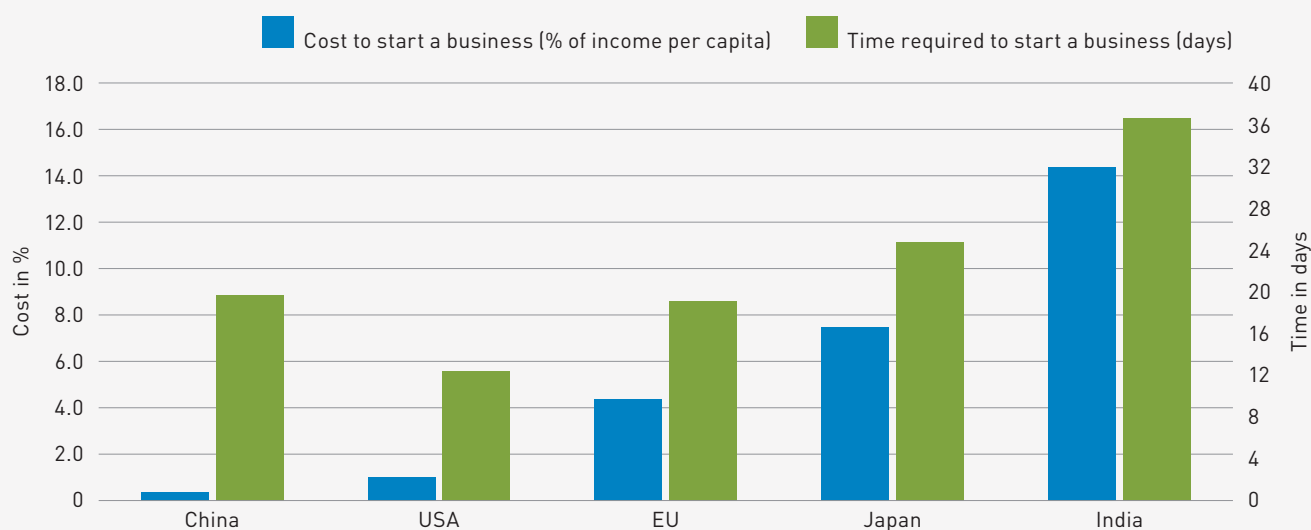


10 BETTER REGULATION

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

A competitiveness-friendly regulatory environment is essential for growth and job creation. We welcome the substantive progress made under the Juncker Commission on the Better Regulation agenda. However, companies wanting to do business in the EU are still facing significant regulatory costs and burdens that could be avoided, such as inconsistent legislation or unnecessary complex procedures. By way of illustration, starting a business in the EU still costs over three times more than in the USA and takes almost twice as long. Importantly, it is also easier to scale up in the USA than in Europe. We therefore urge the new Commission, in cooperation with the co-legislators, to further develop the Better Regulation agenda and to continue to focus on regulatory simplification and improvement, evidence-based decision-making and transparency.

CHART 1.8 *Further scope for the EU to reduce administrative burdens*
Cost and time to start a business in 2018 (weighted average of GDP)



Source: BusinessEurope staff calculation based on World Bank, 2019

RECOMMENDATIONS

The EU should:

- 1 continue working on better regulation**, giving more attention to the impact of new EU legislation on our competitiveness and our attractiveness as a place to invest as well as continuously evaluating existing regulation. EU legislation should be innovation-friendly and future-proof.
- 2 limit EU rules to what is necessary to deal with pan-European aspects**, in line with the subsidiarity and proportionality principles.
- 3 fully apply the political principle of discontinuity** and re-assess the cost and benefit of all pending EU proposals to decide which ones should be maintained, which ones should be modified and re-submitted, and which ones should be simply withdrawn.
- 4 warrant that a sound impact assessment** is carried out on all new EU proposals and that the final legislative text is also covered by an impact assessment. All three EU institutions should feel responsible for carrying out an impact assessment. The assessment should take account the cumulative effect of EU legislation on companies, especially SMEs, and the impact of new EU legislations on EU's competitiveness and attractiveness as a place to invest compared to the rest of the world, and make sure that this assessment is updated throughout the EU legislative process.
- 5 ensure that the REFIT platform pursues its mandate** and becomes a permanent body making proposals towards regulatory burden reduction through its bottom-up approach.
- 6 make sure Member States implement and enforce EU-related legislation** in a more consistent and coordinated manner, avoiding gold-plating and divergent transposition.
- 7 increase transparency of trilogue negotiations**, reconciling the Treaty-based principles of transparency and participation with the need for an efficient and speedy legislative process. In practical terms, this means that meeting dates and agendas of trilogues and the negotiation positions established for individual negotiation rounds should be made publicly available in a manner that is easily accessible.





TO DELIVER FOR PEOPLE, THE EU SHOULD

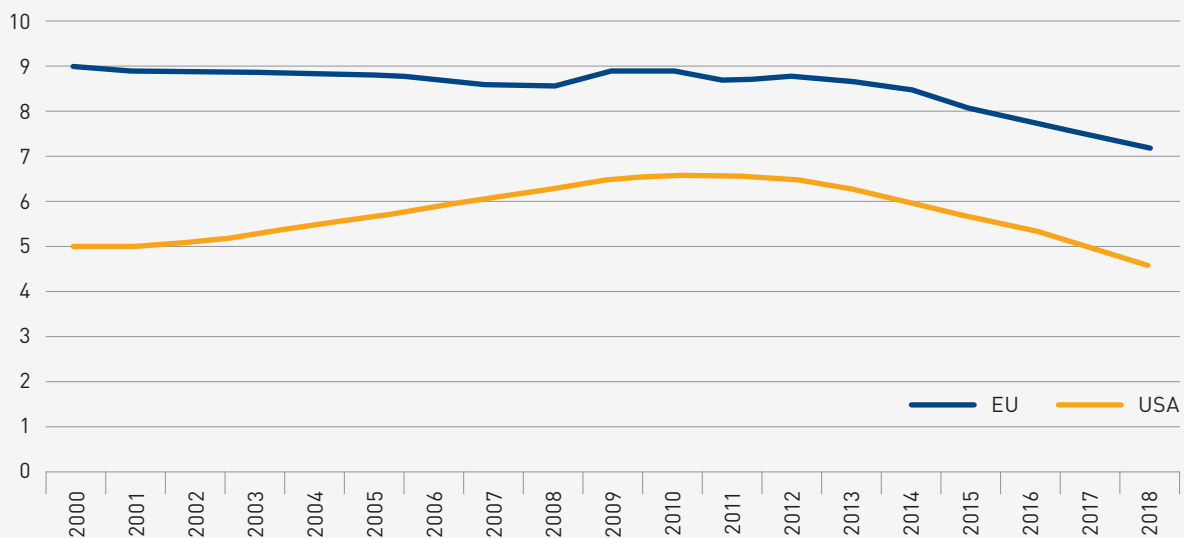
- 1 FOSTER GRADUAL ECONOMIC AND SOCIAL CONVERGENCE AMONG MEMBER STATES**, supporting those lagging behind, by encouraging them to continue reforming their labour markets and social systems and by channelling structural funds into productive investment. Social policy should be combined with solid economic and cohesion policies as part of an EU strategy for increasing employment, productivity, growth and competitiveness for the benefit of all Europeans.
- 2 HELP ADDRESS SKILLS MISMATCHES** that increasingly act as a break on economic growth, even in countries with high unemployment. This means supporting Member States in their efforts to ensure that education and training systems deliver learning outcomes tailored to labour market needs, particularly regarding science, technology, engineering and mathematical skills.
- 3 COMBAT RESTRICTIONS TO FREE MOVEMENT OF WORKERS** and gold-plating in the implementation of the posting of workers directive and regulation on social security coordination.
- 4 ENSURE THAT THE LABOUR MARKET REGULATORY FRAMEWORK PROVIDES THE RIGHT BALANCE OF FLEXIBILITY AND SECURITY** for companies and workers, facilitates job creation and does not stifle innovation.
- 5 REMAIN AT THE FOREFRONT OF PROMOTING DIVERSITY IN LABOUR MARKETS**, by ensuring proper implementation of existing anti-discrimination legislation as well as combating stereotypes that fuel gender gaps and the root causes of youth unemployment.
- 6 BUILD COORDINATED EUROPEAN SOLUTIONS TO BETTER MANAGE MIGRATION**, moving away from ad hoc crisis management towards an agreement on a new Common European Asylum System to return to a normal functioning of the Schengen area. At the same time, the EU should pursue a positive agenda to remain an attractive destination for talented people from around the world.
- 7 FACILITATE SOCIAL DIALOGUE**, respecting the autonomy of social partners, increasing support for capacity building for social partners in countries where they are less established and consulting them in a timely manner on all EU labour market initiatives.

1 ECONOMIC CONVERGENCE AND SOCIAL COHESION

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Europe is one of the most equal continents in the world. The economic and social situation in Europe has been improving. The economic recovery we have experienced during the last years had a positive impact on labour markets and social progress. Between 2013 and 2017, 12 million additional jobs were created in the EU and employment levels reached 73 % in 2018. This is good news. However, there are big differences in the employment performance of different Member States and European unemployment still remains high in comparison. Euro-area unemployment remains at almost 7 % compared to 3.8 % in the USA at the end of 2018.

CHART 2.1 *The EU's 'natural' rate of unemployment has decreased in the post-crisis period, but at a lower rate than that in the USA*
Non-accelerating wage rate of unemployment in %

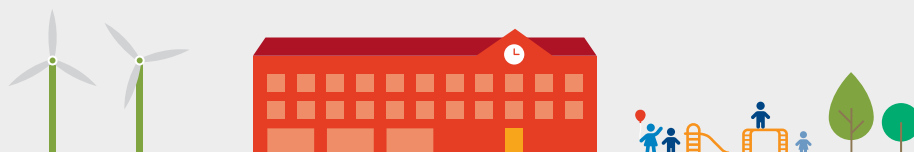


Source: European Commission, 2018

RECOMMENDATIONS

The EU should:

- 1 foster gradual economic and social convergence among Member States**, supporting those lagging behind, by encouraging them to continue reforming their labour markets and social systems and by channelling structural funds into productive investment. Social policy should be combined with solid economic and cohesion policies as part of an EU strategy for increasing employment, productivity, growth and competitiveness for the benefit of all Europeans.
- 2 put in place policies that can raise long-term productivity**. Growth in labour productivity is essential to maintain high levels of social protection in a way which is financially sustainable. This is a must for peoples' long-term employment, prosperity and well-being.
- 3 improve the governance of European coordination of national policies on employment and social protection**, ensuring that employers, the trade unions, European Commission and Member States are working together and deepening the cooperation between social partners and the Council's Employment and Social Protection Committees.

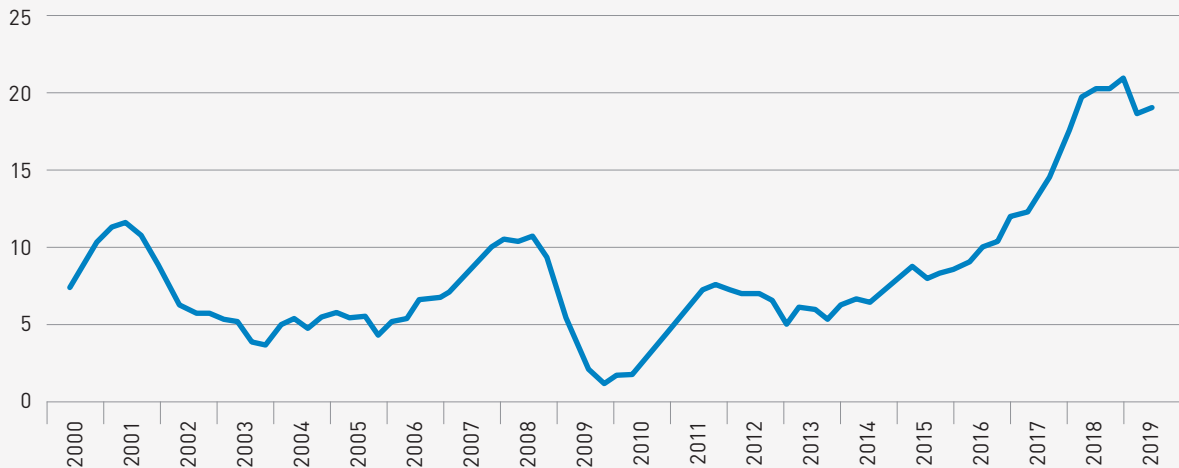


2 SKILLS

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Businesses across the EU report rising difficulties in hiring qualified workers since the beginning of 2016. Around 40 % of European employers have difficulties in finding people with the skills they need to grow and innovate. This is particularly challenging not only for those companies that miss the talented technical people, but also for the EU as a whole as it reduces prosperity and employment opportunities in Europe. Whilst increasing skills shortages might be expected when the economy grows stronger, the share of industrial enterprises in which insufficient labour limits their production is now twice the pre-crisis share and the highest on record since 1985. With almost half of Europeans still not having any digital skills today and 9 out of 10 future jobs requiring at least basic digital skills, the digital skills gap is of particular concern.

CHART 2.2 *Companies are increasingly concerned that a lack of labour hampers production*
Share of industrial enterprises which indicate that insufficient labour limits production in %

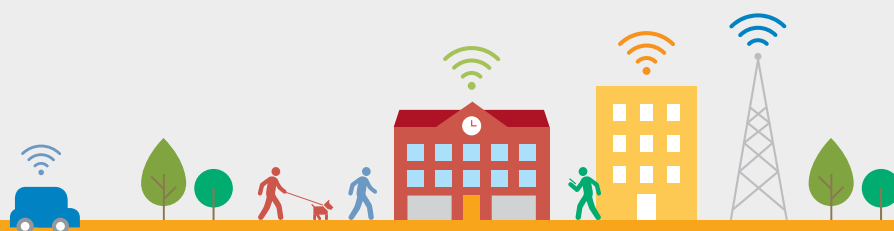


Source: European Commission, 2019

RECOMMENDATIONS

The EU should:

- 1 help address the labour market mismatches** that increasingly act as a break on economic growth, even in countries with high unemployment. This means supporting Member States in their efforts to ensure that education and training systems deliver learning outcomes which are better tailored to labour market and companies' needs, particularly regarding Science, Technology, Engineering and Mathematical (STEM) skills.
- 2 continue to support the development of quality and effective apprenticeship** systems across Europe, with a majority of the apprentices' training time taking place in the company as it is done in the best performing apprenticeship systems.
- 3 encourage Member States to invest in digital skills** in order to bridge the current skills gap. This requires improving basic digital education at early curricular levels as well as basic and advanced science, technology, engineering, and mathematics (STEM) which are fundamental for the ongoing industrial revolution to be a success. STEM skills are also important for developing systemic and critical thinking. The EU should support them by allocating sufficient resources to digital skills training in the European Social Fund (ESF) and other relevant funds.
- 4 develop a set of guidelines on entrepreneurship skills.** The EU could provide guidance on how to reform school curricula and help today's students to acquire the skills that they will need to become entrepreneurs or pursue successful careers in enterprises and help share best national practices.
- 5 help to strengthen the reputation of European universities,** together with Member States, in order to attract international students and fund exchanges of experiences on pilot projects involving forward-looking universities.
- 6 encourage up-skilling and re-skilling, as part of lifelong learning,** to support the existing workforce and those starting their career, to adapt to new technologies and forms of working. This requires modernising vocational education and training (VET).

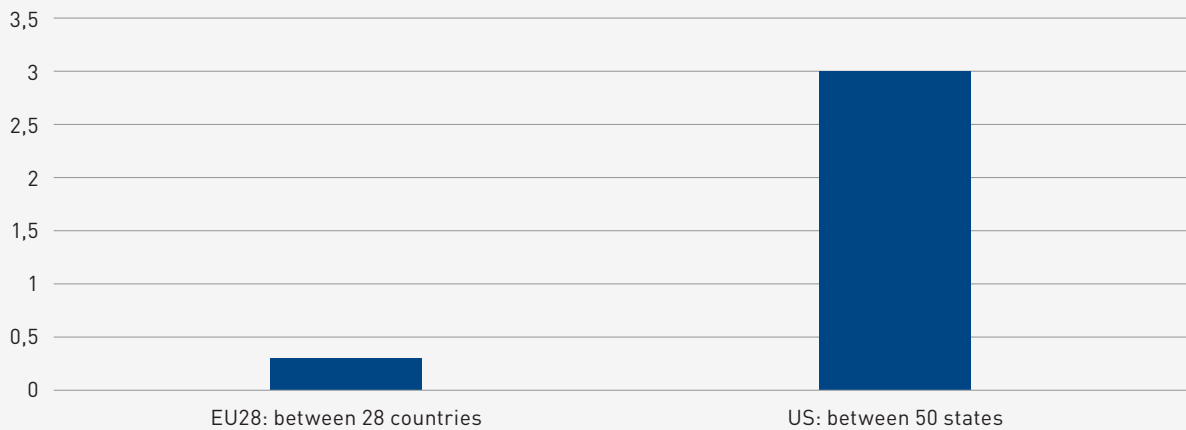


3 LABOUR MOBILITY

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Labour mobility is an essential freedom for EU workers and citizens as part of the Single Market. Beyond benefits it provides for each individual, mobility boosts employment and allows those companies facing labour shortages to access a skilled workforce throughout the EU. Today, only around 0.3% of the population is moving from one country to another each year in the EU, compared with 3% in the USA. There is clearly room for improvement to deliver real free movement of people in Europe.

CHART 2.3 *EU labour mobility limited compared with the USA*
Annual cross-border mobility (% of total population, 2016)

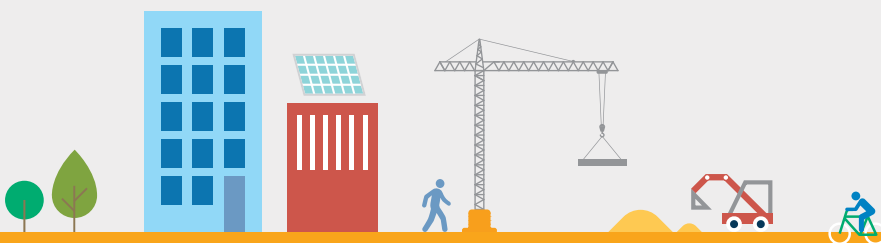


Source: CEPS, Eurostat, 2016

RECOMMENDATIONS

The EU should:

- 1 take proactive action to eliminate remaining restrictions and combat new administrative burdens hindering the free movement of workers**, to fully realise the growth and job potential of free movement of services in the Single Market.
- 2 ensure coherent implementation of the posting of workers directive and regulation on social security coordination** and urgently provide clear guidance to Member States on how to implement it. As a first step, the Commission needs to urgently clarify that Member States are not allowed to require A1 forms for short business trips as these cannot be considered as postings of workers.
- 3 carefully screen measures taken at national level to implement EU legislation on posting of workers**, to make sure that it is proportionate and non-discriminatory for foreign service providers and that foreign service providers have easy access to relevant information in order to be able to comply with the rules.
- 4 ensure that national authorities dealing with mobility cooperate better** across Europe and provide easy access to accurate information for companies and mobile workers. This should include making good use of the new European Labour Authority to support mobility across Europe and removing barriers to postings.

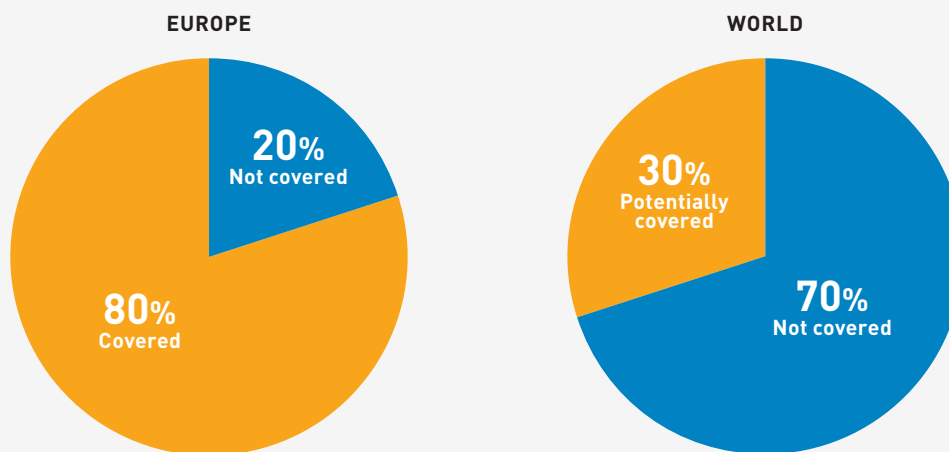


4 SOCIAL PROTECTION

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Europe's investment in social safety nets is unparalleled. 50% of the global population lacks access to any type of social security, whereas the EU28 has the highest level of expenditure on social protection in global comparisons nearly 29% of GDP compared to just above 20% in Japan and below 20% in Australia or Canada. Access to unemployment benefits in Europe is very high in global comparisons: less than 30% of workers worldwide are potentially eligible for unemployment benefits, whereas 80% of workers are covered in Europe.

CHART 2.4 *Europe's investment in social safety nets is unparalleled*
Access to unemployment benefits in comparison



Source: own illustration based on International Labour Organisation, 2015

RECOMMENDATIONS

The EU should:

- 1 encourage Member States to maintain high levels of social protection in a way which is financially sustainable** now and for future generations. Member States should ensure that welfare benefits accompany people in labour market transitions in an active way.
- 2 create positive synergies between EU and national social policy actions.** It is essential to respect the principle of subsidiarity by taking action at the right level. By doing this, the EU can support and complement Member States' actions as specified in the Treaties. The EU social model is based on different national systems. It is absolutely crucial to preserve this diversity as these systems respond to different economic and social realities and are based on deeply rooted political choices and societal traditions.
- 3 encourage Member States to enhance incentives to work and support smooth transitions between jobs** and employment statuses by modernising social protection systems to make them more employment-friendly. Open, dynamic and mobile labour markets are needed to support new and more diverse career paths and smooth transitions between jobs, sectors and employment statuses. More diversified careers need to be accompanied by adequate social security systems promoting transitions.
- 4 build on the common approach developed by the Council's Social Protection Committee (SPC) on development of indicators and benchmarking,** to support national implementation of the country-specific recommendations developed as part of the European Semester process. Tripartite discussions should be prioritised between the Commission (involving both DG ECFIN and DG Employment), national governments, European social partners and their members, to exchange information and practices on pension reforms.
- 5 continue to use the existing Open Method of Coordination,** whilst improving its effectiveness to benchmark national progress towards better performing labour market and social systems in all Member States.

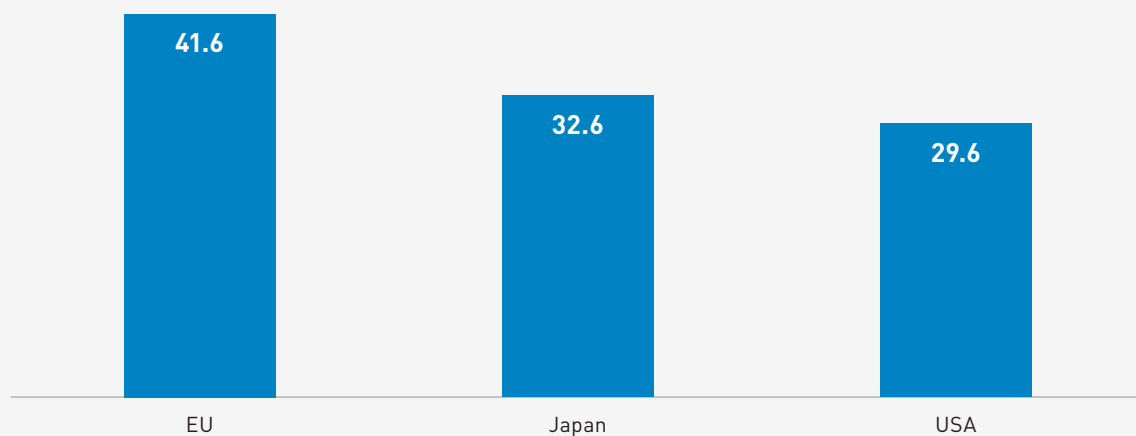


5 EMPLOYMENT

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Both the OECD and the European Commission stress that high levels of labour taxation may have detrimental effects on employment by reducing incentives both for workers to enter the labour market (if net gains after taxes and benefits are small) and employers to hire more staff (if labour costs are very high). Thus, it is a clear concern that the average tax wedge (non-wage labour costs) in the EU is about 30% higher than in the USA and Japan, with no effective progress made in the EU over the last decade.

CHART 2.5 *The tax wedge on labour in the EU needs to come down*
Tax wedge on average income earners (single person) in 2018 in %



Source: OECD, 2019

RECOMMENDATIONS

The EU should:

- 1 ensure that the labour market regulatory framework is clear and simple and provides the right balance of flexibility and security for companies and workers.** Both need to have easy access to different forms of employment and a variety of work contracts that respond to their changing needs. This should include moving away from the negative discourse on so-called 'non-standard' forms of work, setting in motion a genuine partnership for labour market reforms. Rather than trying to solve labour market challenges across the board at European level, the EU's primary role is to provide information, incentives and know-how for Member States and social partners to design, implement and evaluate policies addressing the structural labour market challenges they face.
- 2 facilitate job creation and employment through cuts to tax wedges and lower social security contributions,** in particular for low-income workers.
- 3 ensure that European companies are not constrained in hiring people,** by making sure that national employment protection legislation does not restrict job creation and hiring.
- 4 ensure that policies to accompany the changes on labour markets, including due to digitalisation,** do not stifle innovation in business models and forms of work and are flexible enough to reflect their diversity.

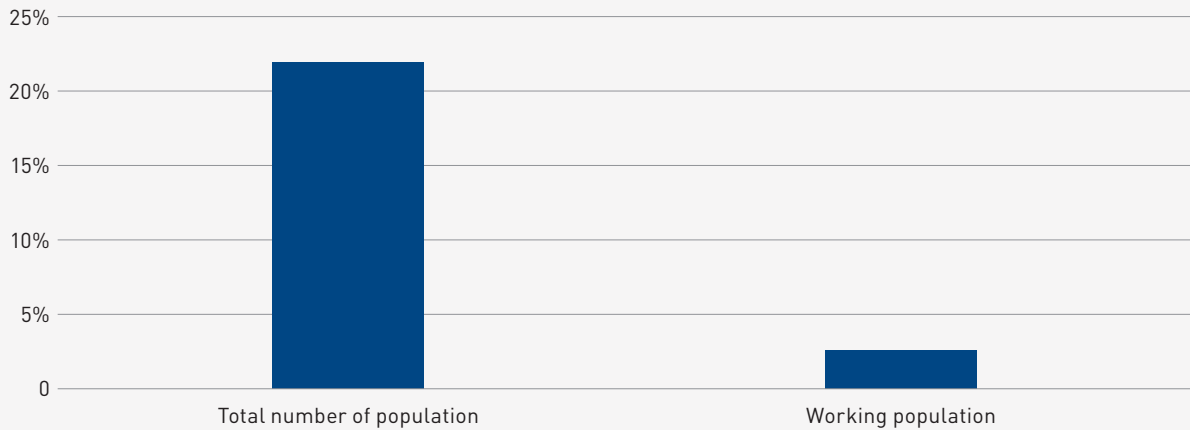


6 SOCIAL INCLUSION AND EQUALITY

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Whilst poverty levels in some EU countries remain too high, the overall development is positive. Poverty has decreased significantly in the past decade: in 2017, less people were at risk of poverty or social exclusion in the EU than in 2010. Employment reduces considerably the poverty risk. We need to build on this and make further progress in raising employment to be able to deliver social goals of reducing poverty and inequality, provide opportunities for all and empower people to maximise their chances in the labour market.

CHART 2.6 *Employment is the best way to stay out of poverty*
Percentage of population at risk of poverty and social exclusion (AROPE) in the EU in 2017



Source: European Commission, 2018

RECOMMENDATIONS

The EU should:

- 1 support Member States in their fight against poverty and inequality** within the EU by pursuing policies that foster growth and employment.
- 2 encourage Member States to continue to implement structural reforms on labour markets,** to ensure good conditions for economic progress, which is the basis for social progress and raise employment to be able to deliver social goals of reducing poverty, inequality and providing opportunity for all.
- 3 encourage Member States to target public resources to active employment strategies,** whilst continuing to provide adequate income for people who cannot work or find employment, or who are facing poverty or social exclusion.



7 PENSIONS AND DEMOGRAPHIC AGEING

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

EU countries generally rank very high in terms of human well-being. Europeans also have longer healthy life expectancy than people in other parts of the world. However, Europe's population is ageing. In 2017, nearly one fifth of the EU population was aged 65 and more. This means that more people will be reliant on pension and healthcare systems, leading to higher age-related public expenditures, whereas less people will be working to support this. The EU28's old-age dependency ratio was nearly 30% in 2017, meaning there were just over three persons of working age for every person aged 65 or over. And this is projected to rise to over 50% by 2080.

CHART 2.7 *We need to do more in view of demographic changes*
Old-age dependency ratio in international comparison



Source: own illustration based on United Nations, 2017

RECOMMENDATIONS

The EU should:

- 1 support Member States in their efforts to mitigate negative impacts of population ageing.** Reforms must encourage people to enter the work force earlier but also stay in the workforce longer (through active ageing policies, life-long learning, re-skilling and up-skilling, and flexible work arrangements) to combine work and retirement, make pension systems sustainable, strengthen the link between contributions and benefits as well as remove incentives for early retirement.
- 2 encourage Members States and social partners to learn from each other** how to design and implement a successful and fair pension reform for different age cohorts having a good mix between state, occupational and private pensions, respecting national practices and traditions, and balancing the interests of those paying contributions with the needs of those receiving pensions.
- 3 build on the common approach developed by the Council's Social Protection Committee (SPC)** on the development of indicators and benchmarking, to support national implementation of the country-specific recommendations adopted as part of the European Semester process.



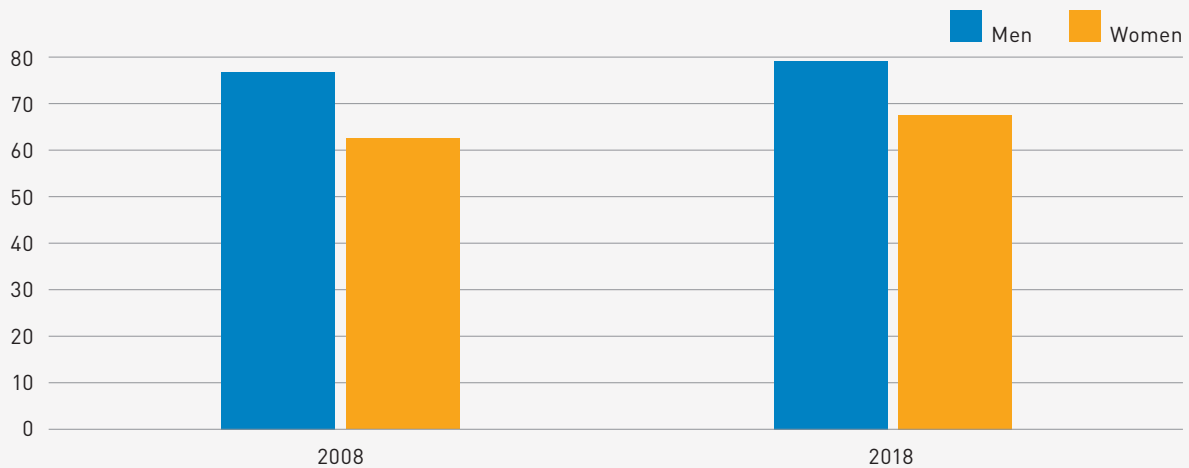
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DIVERSITY

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Promoting diversity and combating discrimination is at the heart of European values. Moreover, an efficient use of talent, irrespective of age, gender, ethnicity, disability, sexual orientation and religious beliefs, is important for company competitiveness, economic growth, social development and inclusion. Much has been achieved over the past decades, but we still need to do better at activating the inactive parts of our societies. Today women's labour market participation rate stands at only about 68% in the EU compared to about 79% for men while youth unemployment remains stubbornly high, especially in some Member States. Integrating all gender and age groups on labour markets remains an important challenge.

CHART 2.8 *We need to do better at activating the inactive parts in our societies*
Gender employment gap in %



Source: European Commission, 2019



RECOMMENDATIONS

The EU should:

- 1 remain at the forefront of the promotion of diversity in labour markets**, by ensuring proper implementation of the highly developed anti-discrimination and equal opportunities legal frameworks that have been established over the years and supporting efforts to address the non-legal obstacles that women, young, disabled, ethnic minorities or older workers face on labour markets, through non-legal measures, such as awareness-raising campaigns.
- 2 aim at getting more women into work**, by encouraging Member States to invest in accessible and affordable child and other care infrastructures. This should include revising the Barcelona target on the availability of childcare for 0-3-year-olds and finding a way to ensure it is implemented in all countries.
- 3 continue to contribute to the reduction in gender inequalities** by running EU and national campaigns to address the cultural reasons at the root of the persisting gaps, by combating gender stereotypes, promoting women in leadership, and by taking action to tackle gender segregation in education and in our labour markets. These have a direct impact on career choices, sharing of care and household duties, achieving a gender balance across sectors and roles and the gender pay gap.
- 4 redirect EU funds to tackle youth unemployment** towards addressing structural causes. The youth guarantee was designed as a response to the crisis at a time when youth unemployment skyrocketed in a number of countries. Now that the economic and employment situations have improved, it is important to reorient available resources at EU and national levels to address the real causes behind structurally high levels of youth unemployment in many European countries.
- 5 encourage the relevant players in the Member States to look at their minimum wages and seniority-based pay systems**, to ensure that they don't undermine youth or older people's employment prospects.
- 6 support learning between Member States on how to improve effectiveness of active labour market policies** to target groups underrepresented on our labour markets, such as people with disabilities. This should include better cooperation between public and private employment services, to find a good match between available jobs and a productive workforce.
- 7 promote good practices on ability** through information campaigns and exchanges of experiences on how to focus on the tasks and jobs that individuals are able to do rather than on what they are not able to do and how to promote role models from diverse groups in society.

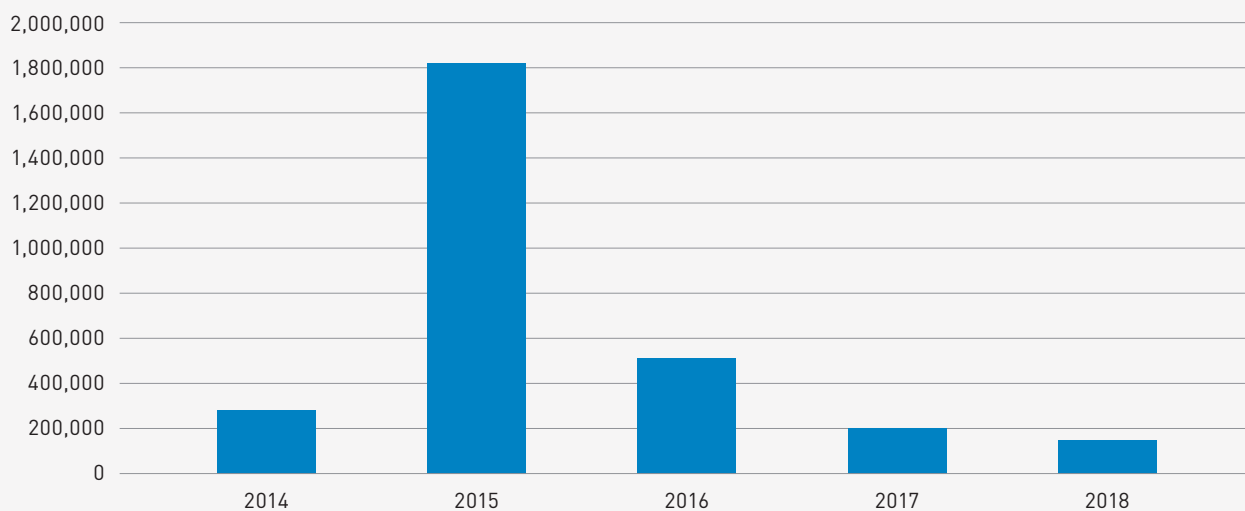
9 MIGRATION

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

The EU was much more successful in tackling the migration crisis than is often acknowledged. Since the peak of the crisis in 2016, when over 200,000 migrants arrived at European shores per month, we have seen the numbers of arriving migrants reduced to pre-2015 levels. However, we are still working with ad hoc crisis management solutions regarding migration which undermines the normal functioning of free movement in the Schengen area and fuels a divisive debate among Member States. Different forms of global migrations are an inherent feature of the 21st century. Rightful asylum seekers from war-torn countries have to be given shelter. We have to live up to our common European values and work towards a European solution. Companies are contributing to finding practical solutions to help deal with this huge challenge. However, Europe cannot accommodate unlimited numbers of people coming to our continent and must therefore be fully equipped to prevent and tackle illegal economic migration.

Nevertheless, given the ageing of our population and the shortages of skilled labour, it is in our interest as companies and society to ensure that skilled and talented people from around the world regard Europe as an attractive destination to study, work and live legally. Europe tends to attract low-skilled migrants and seems to be less appealing for skilled international migrants than other advanced economies, despite the development of a broad range of instruments to put in place a common framework for the management of legal migration the EU has developed since 2003. We also need a renewed European legal migration policy framework which respects Member States' competency to determine the number of labour migrants to be admitted in their countries.

CHART 2.9 *The migration crisis has subsided / Illegal border crossings into the EU*



Source: Frontex, 2019

RECOMMENDATIONS

The EU should:

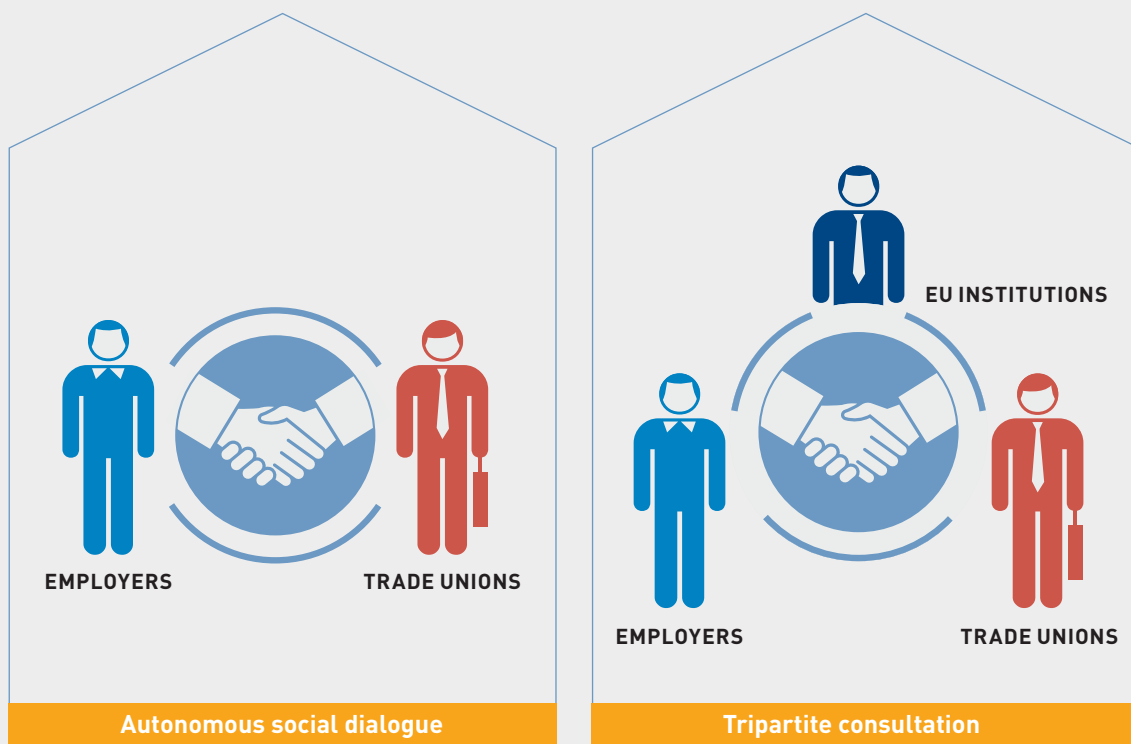
- 1 build coordinated European solutions to better manage migration** and move away from ad hoc crisis management solutions for refugees and asylum seekers. Instead, an agreement on a new Common European Asylum System needs to be found to pave the way for returning to a normal functioning of free movement in the Schengen area. Schengen is key to guarantee free movement. At the same time, the EU should pursue a positive agenda to attract talented people from third countries that are equipped with skills needed on European labour markets.
- 2 consider actions to accelerate the reinforcement of the European border and coast guard agency** with the agreed European standing corps to assist Member States protecting the EU external border.
- 3 better target migration policies**, improve the way the EU and its delegations around the world promote Europe as a destination of choice for people with the skills needed in our European labour markets, and conclude the ongoing debate on the revision of the Blue Card Directive to facilitate highly skilled migration, to fill skills gaps and help address labour shortages.
- 4 facilitate cooperation between European regions and national governments** on how to address different forms of migration, and successfully manage their integration on European labour markets.
- 5 enhance cooperation with public employment services and universities or colleges** in third countries through the network of EU delegations.



10 SOCIAL DIALOGUE

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

In accordance with the national industrial relations systems, employers and workers and the organisations representing them in the social dialogue contribute to create a labour market which is productive, flexible and protective. Employers and trade unions are best placed to tackle questions linked to the world of work. We want social dialogue to continue to have an important role in designing and implementing labour market policies and measures that really help companies and workers. Enterprises and their organisations will continue to engage in social dialogue to ensure that it helps improve competitiveness, growth and employment. This will be possible if the EU legal framework respects the diversity of collective bargaining practices and leaves enough room for manoeuvre for employers and workers to find mutually beneficial ways to adapt to changing economic and social circumstances.



RECOMMENDATIONS

The EU should:

- 1 facilitate the social dialogue**, respecting the autonomy of the social partners, which is a key feature of the European social model and an essential tool to manage labour market changes and find balanced solutions to Europe's economic and social challenges and the changes in the world of work.
- 2 increase its support for capacity building of social partner organisations by Member States**, in those countries where they are less established, or where there is a lack of or insufficient capacity to get involved in the European social dialogue, in a spirit of mutual trust among representative organisations freely willing to engage in social dialogue. This should include a dedicated track in the European Social Fund.
- 3 give more space to social partners**, in full respect of their autonomy and of the outcomes of the social dialogue at European level as well as in Member States. The European social partners must be fully consulted and in a timely manner by the Commission on all labour market-related EU initiatives.



PLANET



TO PROTECT THE PLANET, THE EU SHOULD

- 1 WORK TOWARDS THE OBJECTIVE OF CLIMATE NEUTRALITY** while ensuring our competitiveness and security of supply. Reaching climate neutrality by around mid-century, as the IPCC Special Report and the European Commission's 2050 climate strategy consider is necessary to limit average global temperature increases to 1.5C, will fully depend on meeting a set of crucial framework conditions and related actions, such as recognising different conditions and starting points for EU Member States, developing and deploying innovative technologies in a cost-effective and tech-neutral way, engaging with citizens to gain societal acceptance for the transition efforts.
- 2 MAINTAIN THE SOLID SET OF POLICIES IN PLACE TO REACH THE EU TARGET OF AT LEAST 40% EMISSIONS REDUCTION BY 2030**, focusing on a successful implementation to give investment certainty.
- 3 ENCOURAGE MEMBER STATES TO COORDINATE AND TO FURTHER INTEGRATE EUROPE'S ENERGY MARKETS** in order to move to a full Energy Union with integrated short-term energy markets and better interconnections, where clean energy can easily and safely flow from one Member State to another.
- 4 MAKE SURE THAT MAJOR TRADING PARTNERS ALSO COMMIT TO COMPARABLE AMBITIONS** and, in the meantime, use appropriate safeguards to keep industrial production in Europe such as free allocation of licences under the European emissions trading system (ETS).
- 5 ENSURE LARGE-SCALE AVAILABILITY OF AFFORDABLE LOW-CARBON ENERGY, DESIGNING AN INTEGRATED VALUE CHAIN APPROACH FOR ENERGY SUPPLY**, starting with initiating a strategic mapping process linking future industry low-carbon energy needs to infrastructure development through a bottom-up approach. The EU should also analyse the import needs for low-carbon energy in Europe in cases of risk of energy insufficiency to cover the estimated domestic demand.
- 6 CREATE THE CONDITIONS TO MOBILISE PUBLIC AND PRIVATE INVESTMENTS TOWARDS ALL ACTIVITIES THAT ENABLE AND CONTRIBUTE TO THE TRANSITION TO A LOW-CARBON ECONOMY**, building on transparent and reliable frameworks for investors and a common understanding of environmentally sustainable investments.
- 7 REMOVE INCONSISTENCIES AND GAPS IN THE POLICY FRAMEWORK GOVERNING THE CIRCULAR ECONOMY** by creating a real market for secondary raw materials and ensuring a level playing field with standards across the G20 countries.

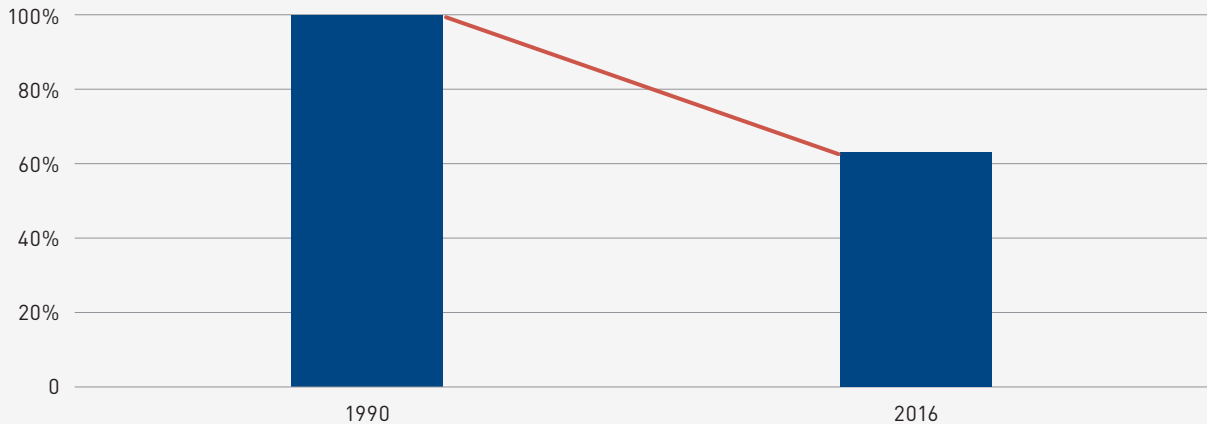
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ENERGY AND CLIMATE POLICIES

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Europe needs to transform its economy to operate in a state of net-zero greenhouse gas emissions (“climate neutrality”), while at the same time improving our competitiveness and securing a supply of critical resources. The implications of this transformation are huge, with far-reaching impacts on society at large that will gradually materialise. European business is conscious of its responsibility and committed to act. Greenhouse gas (GHG) emissions in Europe decreased in the majority of sectors between 1990 and 2016 and industry has reduced its CO₂ emissions by 37% between 1990 and 2016. This is more than the emission reduction of the EU as a whole (-24%). At the same time, European businesses do not hold all the cards in their hands. The ambition for climate neutrality will also require a radical shift in mindset by all actors. Countries throughout the world must act now if we want to live up to the Paris agreement, and the G20 economies have a special responsibility.

CHART 3.1 European industry has reduced its CO₂ emissions by 37% between 1990 and 2016 (1990=100)



Source: European Commission



RECOMMENDATIONS

The EU should:

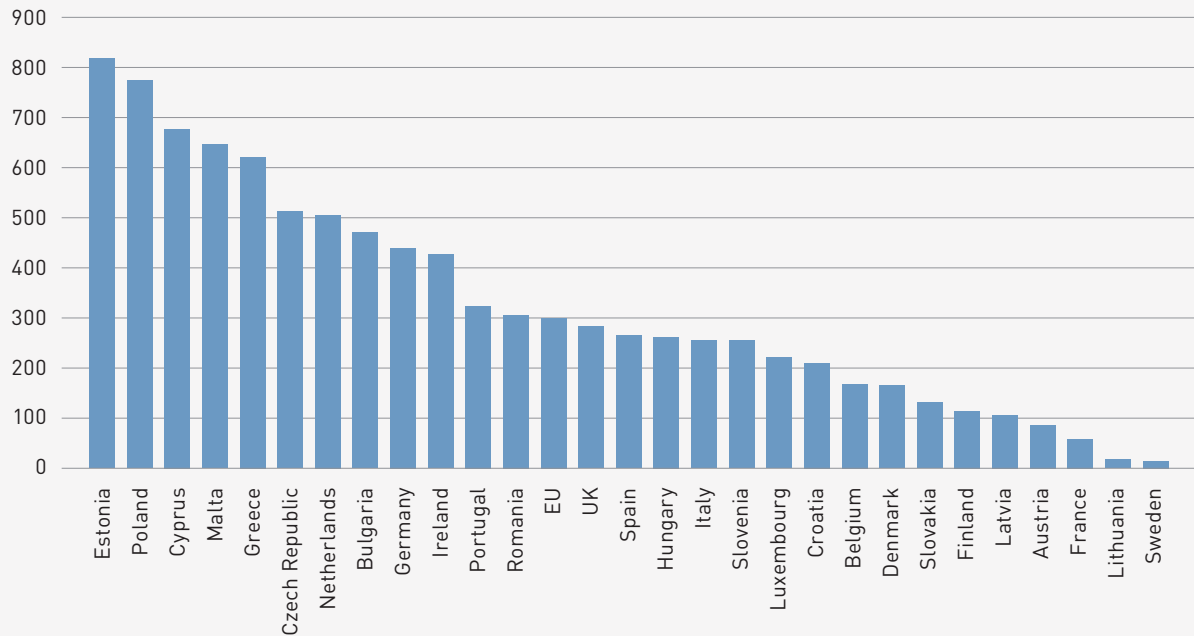
- 1 **work towards the objective of climate neutrality** (net-zero greenhouse gas emissions), while ensuring our competitiveness and security of energy supply. Reaching climate neutrality by around mid-century, as the IPCC Special Report and the European Commission's 2050 climate strategy consider is necessary to limit average global temperature increases to 1.5°C, will fully depend on meeting a set of crucial framework conditions and related actions on both European and global level. Furthermore, political decisions and their effects on labour markets must be taken into account. Upcoming EU actions need to cater for the specific situation of sectors and regions vulnerable to the low-carbon energy transition. European cooperation is needed to help them come forward with credible plans to support economic development, create new jobs and retain existing ones by supporting companies and adaptation of their workforce to changing realities (the so-called "just transition" agenda). *The conditions to achieve this goal are laid out in chapters 2 to 6.*
- 2 **maintain the solid set of policies in place to reach the target of at least 40% emissions reduction by 2030.** The focus between now and 2030 should be on a successful implementation that gives investment certainty. Nevertheless, if existing policies allow us to go beyond 40%, then this is a very positive outcome.
- 3 when defining further energy and climate policy actions, take into account that:
 - > the real answer lies in **technological innovation**: European companies are pioneering and are well positioned in many different segments as they see clear opportunities arise from the energy transition;
 - > **avoid picking winners** at a too early stage as the range of technologies and fuels to support the low-carbon transition is broad; policy should let them all compete to deliver the needed solutions;
 - > having a **sound and stable legislative outlook** is key: given the early stages for many zero- and low-carbon technologies, market penetration and scale-up take time and resources in an environment of constant regulatory changes;
 - > **global trading partners** did not catch up with the EU's level of ambition so far; as long as this continues, it is vital that the European industry continues receiving protection against unfair international competition.

2 DIFFERENT ENERGY AND CLIMATE STARTING POINTS

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

While the potential to decarbonise is significant, there is a large variation between EU Member States in terms of starting points that make the shift towards climate neutrality more challenging for some than others. For example, Nordic countries have already achieved an electrification rate of 32% in their industries, buildings and transport sectors, whereas the figure is much lower in Eastern European countries. The economic structure also matters, with countries like the Czech Republic, Germany, Poland and Romania generating more than 20% of their GDP from the manufacturing sector. The difference in economic situation, share of industrial activities and energy mix means that each EU Member State will require a different pathway to undertake a successful energy transition. Europe therefore needs to become more cohesive and inclusive to implement energy and climate policies as cost-effectively as possible.

CHART 3.2 *The potential to decarbonise electricity is much larger in some Member States than in others*
CO₂ emissions intensity of electricity generation (in gCO₂/kWh), 2016



Source: European Environment Agency (EEA), 2019

RECOMMENDATIONS

The EU should:

- 1 **recognise different conditions and starting points for EU Member States to boost European coordination for cost-effective policy implementation** by encouraging Member States to coordinate and to further integrate Europe's energy markets. We need to move to a full Energy Union with integrated short-term energy markets and better interconnections, where clean energy can easily and safely flow from one Member State to another.
- 2 **help to improve cooperation between economic sectors** (electricity and gas, transport and heating, etc.) in order to reduce emissions more cost-effectively. For example, the electricity sector can help reuse or repurpose existing gas pipelines for green hydrogen so as to prevent the costly premature writing-off of gas infrastructure. This also means that the right decisions must be taken at the right time in order to prevent excessive subsidies and unnecessary interconnection delays.
- 3 **recognise that different approaches need to be followed per sector.**
 - > For **buildings**, Member States must increase efforts on renovation and develop incentives to increase their energy efficiency. The EU should also make sure that buildings become energy-intelligent and are able to communicate with the grid. In addition, more should be done to provide affordable, low-carbon heat for household and industrial applications.
 - > In the **transport** sector, practical and affordable alternatives across all transport modes need to be promoted. For example, the expected increased demand for zero- and low-emission vehicles (ZLEVs) needs to be met with more affordable models, to avoid measures that are not acceptable to the wider public. Moreover, we need a wider deployment of charging and refuelling infrastructure for alternatively powered vehicles.
 - > In **agriculture**, we need more incentives for climate-friendly agricultural services, more efficient (reuse of agricultural waste, fertilisers, soil and water management, and to reduce or mitigate methane emissions from animals).



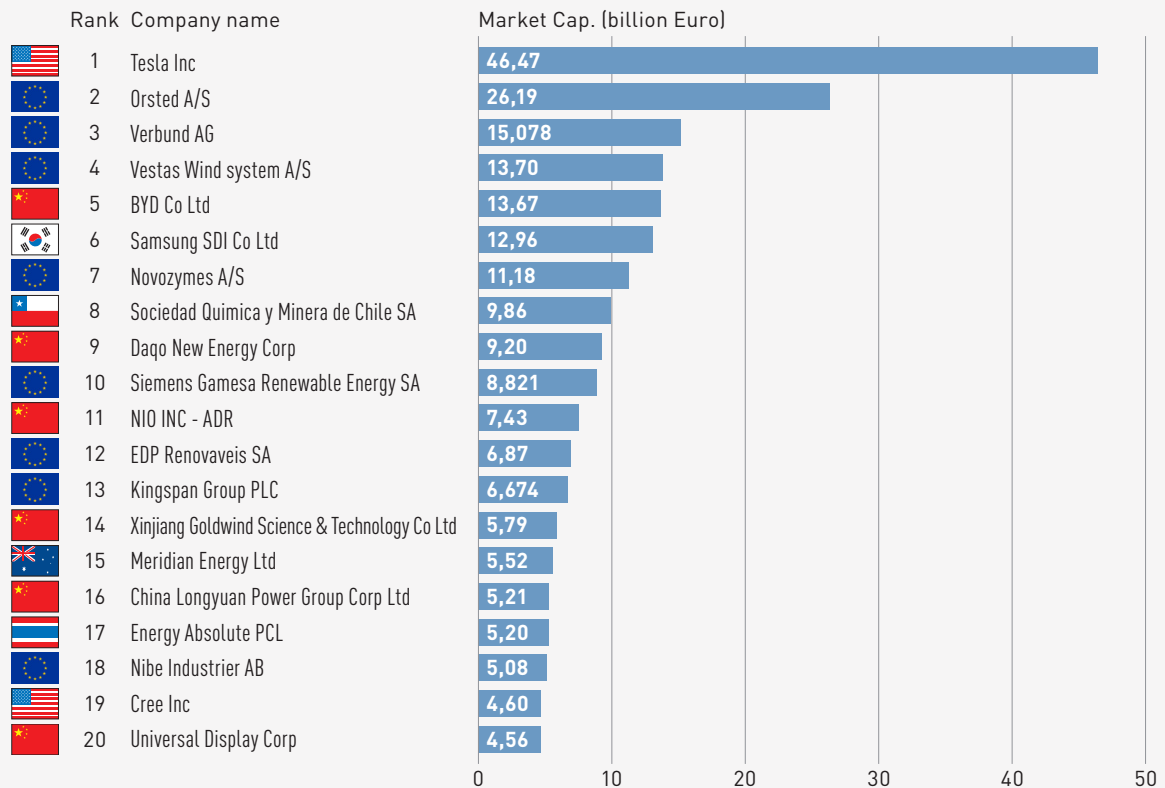
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INNOVATIVE TECHNOLOGIES TO REDUCE GREENHOUSE GAS (GHG) EMISSIONS

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Radical innovation is the lifeline for many industrial sectors, not only to reduce their emissions but also to remain competitive. How are we in Europe going to make sure that innovative technologies are developed and deployed here on an industrial scale? Companies in China, Japan, South Korea and the USA are developing fast through public-private partnerships. For mature technologies, Europe is right to trust free market forces as the most efficient way to allocate capital. However, this is not true for emerging technologies with scope for many breakthrough solutions, which typically emerge when cooperation between governments and businesses is strongest.

CHART 3.3 *European are still well represented among the world's biggest clean tech companies*
Largest companies in the New Energy Global Innovation Index (NEX), by Market Capitalisation, 2019

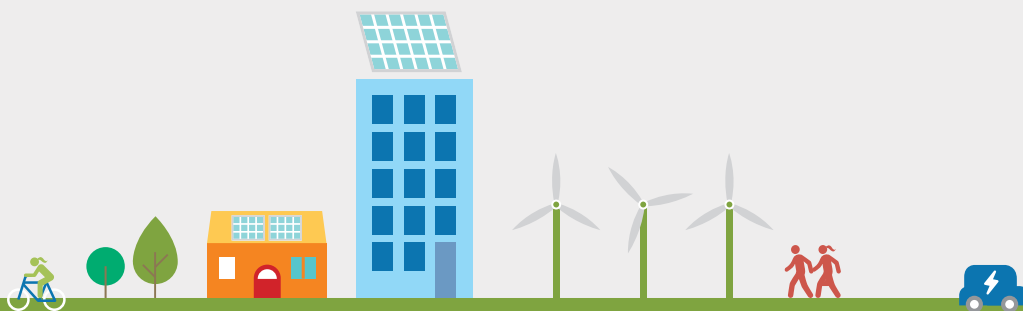


Source: New Energy Global Innovation Index, 2019

RECOMMENDATIONS

The EU should:

- 1 should develop and deploy innovative technologies** to support decarbonisation of value chains in Europe in a cost-effective and tech-neutral way, **unleashing investment through a comprehensive industrial strategy**. This includes greater flexibility for public-private partnerships, state aid and other political decisions that reduce costs and determine the magnitude of private investments that will flow into Europe.
- 2 financially support the business case for breakthrough technologies** to help companies make them competitive whilst reducing their GHG emissions. It therefore needs to put in place the right enabling framework that includes the possibility to underwrite risks that are unique to new business models for breakthrough technologies. Extra government support should be focused on those sectors that must make the transition without current commercially available technologies. The EU ETS Innovation Fund (estimated total size: €10 billion between 2021-2030) and the 35% share for climate-friendly technologies in the Horizon Europe budget for the period 2021-2027 are significant steps in the right direction.
- 3 rethink the public finance approach to fund energy infrastructure**. Currently the energy transition is often financed through energy bills. However, Member States could consider other financing sources, such as the general government budget. Integration in the wider budget allows for a comprehensive industrial strategy that foresees the emergence of new value chains and uses the entire toolbox of government support to implement them in Europe.

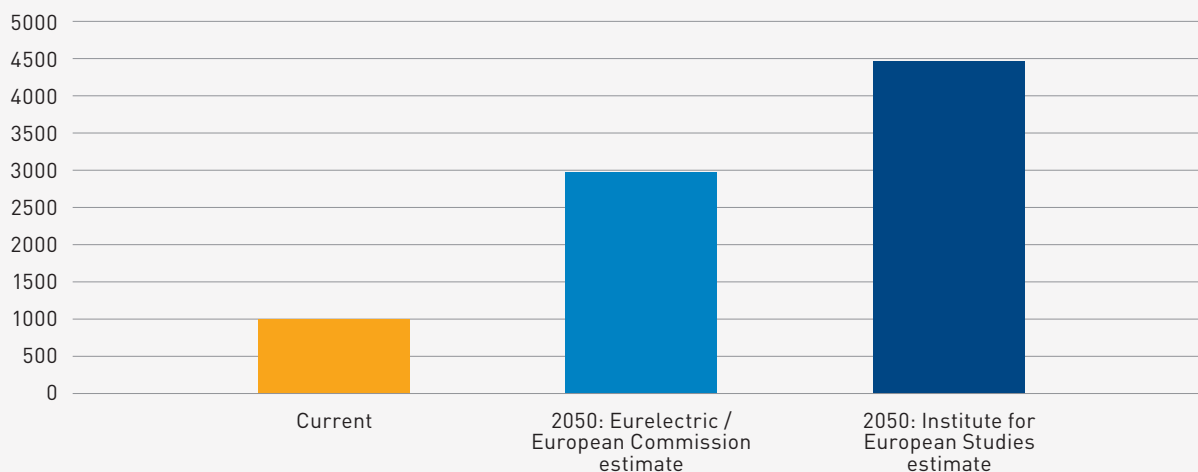


4 AFFORDABLE LOW-CARBON ENERGY

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

By 2050, the electricity capacity needed to meet the demand for energy-intensive industries is estimated to increase by 3 to 4 times compared to today. This is more than even the most extreme scenario considered in the European Commission's long-term climate strategy. For low-carbon energy sources to be cost-competitive internationally and investments to be made, the power sector will have to provide affordable, low-carbon electricity as soon as possible.

CHART 3.4 *Industry demand for electricity is expected to quadruple in the next decades*
Industry demand for electricity (in TWh)

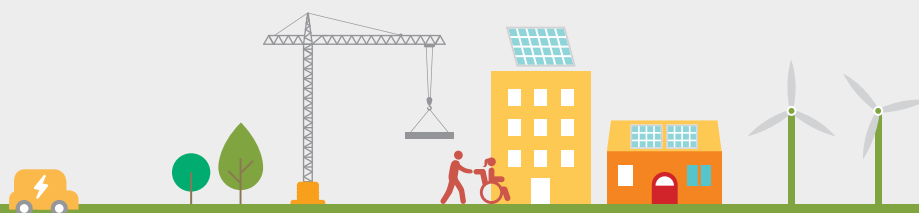


Sources: Eurostat, 2016; Eurelectric, 2018; European Commission, 2018; Institute for European Studies, 2018

RECOMMENDATIONS

The EU should:

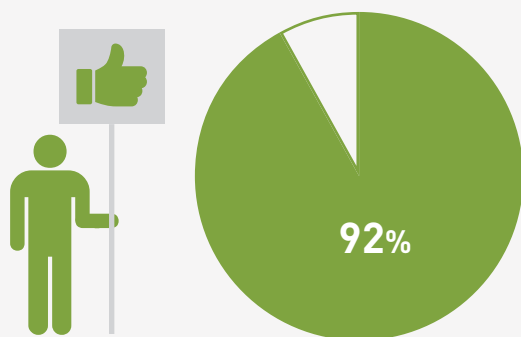
- 1 ensure large-scale availability of affordable low-carbon energy, designing an integrated value chain approach for energy supply.** Therefore, it should initiate a strategic mapping process linking future industry low-carbon energy needs to infrastructure development through a bottom-up approach. This can include local and regional roadmaps identifying the preconditions for GHG reductions in industry. It should also consider where governments can co-invest with industry in carbon storage solutions such as carbon capture storage (CCS), bioenergy with CCS, carbon capture utilisation (CCU) and natural sinks, which will be needed to abate unavoidable emissions (such as process emissions).
- 2 ensure adequate security of supply** by providing, where necessary, adequate low-carbon back-up power capacity. In various industrial production processes, high-quality energy and uninterrupted supply is crucial for product quality, to prevent damage to highly sensitive machinery and equipment and to ensure safe working conditions.
- 3 analyse where existing energy infrastructure can be upgraded,** interconnectivity and storage increased, and demand-side management improved to make efficient use of rapidly increasing renewable electricity across Europe.
- 4 analyse the import needs for low-carbon energy** in Europe in the event of risk of energy insufficiency to cover the estimated domestic demand.
- 5 incentivise further improvements in energy efficiency,** as this will remain crucial to balance the significant increase in overall energy demand.



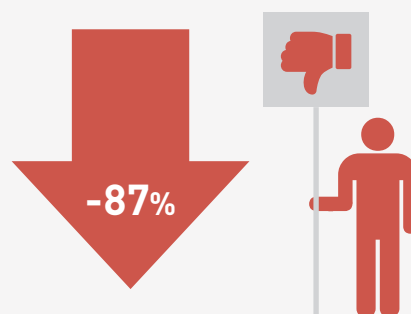
5 PUBLIC ACCEPTANCE OF THE ENERGY TRANSITION

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Public support for a political move towards climate neutrality is crucial and public attention is growing fast. However, public support will be tested if certain policy decisions touch upon restricting or limiting consumers in their current lifestyles or lead to an unjust transformation that leaves the most vulnerable groups of society behind. In this context, businesses are important players providing products and services that reduce emissions, make more efficient use of resources and simultaneously boost well-being.



The percentage of Europeans supporting Europe's move to a climate neutral economy by 2050



Percentage drop in new onshore wind capacity in Germany during the first quarter of 2019 compared to a year before, mostly due to public opposition and regulatory hurdles

Source: European Commission, 2019; cleantechnica.com, 2019

RECOMMENDATIONS

The EU and its Members States should:

- 1 foster adaptation of consumer behaviour and public acceptance for the low-carbon energy transition, engaging actively with citizens to gain societal acceptance.** It should also pave the way for technology acceptance and changes in consumption patterns. Cost-effective policies need to be combined with educational and awareness-raising campaigns, improved product information and community approaches that accelerate the understanding amongst citizens that their own actions significantly influence their carbon footprint, and that they should act upon this. This can spur new demand, which in turn allows businesses to adapt their product and service portfolios accordingly. Concretely:
- 2 inform citizens** about how to reduce their energy use through energy efficiency measures, and how to use energy in a way that shifts load away from peak hours towards hours when demand is lower (demand response).
- 3 increase consumer empowerment** to self-generate clean energy.
- 4 help increase social acceptance and interest** for large renewable energy projects, zero- and low-emission vehicles (ZLEVs), and other technologies such as carbon capture, utilisation and storage (CCU and CCS).



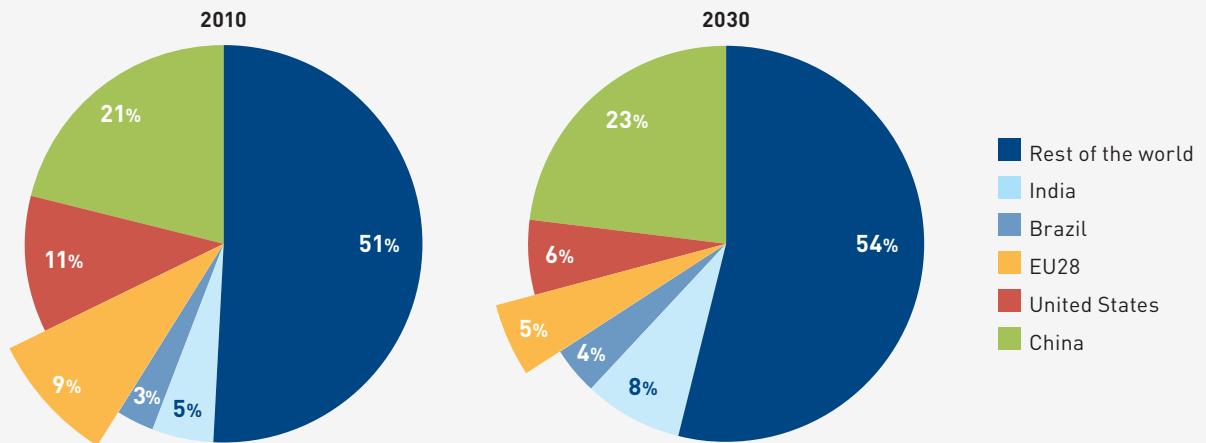
6

CONVERGENCE OF GLOBAL CLIMATE AMBITIONS

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

All Paris Agreement signatories have agreed to collectively review and increase their climate ambitions. Whereas Europe's energy-related CO₂ emissions continued to fall by 1.3% in 2018, they rose globally by 1.7% to hit a new record due to sharp increases in China (2.5%), the United States (3.1%) and India (4.8%). Even with current climate pledges by major economies, which are less ambitious than Europe's, there are many uncertainties as to how they aim to achieve these targets.

CHART 3.5 *Europe's share in global emissions is below 9% and projected to go down to 4-5%*
Total GHG emissions including land-use change and forestry (GtCO₂e)



Source: Boys et al., 2015

RECOMMENDATIONS

The EU should:

- 1 **ensure that its major trading partners also commit themselves to ambitions comparable with Europe's** as soon as possible and consider additional safeguards to keep industrial production in Europe. These additional safeguards should be considered in close dialogue with business and other stakeholders from now until 2023, when many of the EU's key energy and climate legislation will be reviewed and during which time the 2023 global stocktaking exercise under the Paris Agreement will take place.

The following options could be carefully assessed:

- 2 **better protection for sectors facing international competition**, including but not limited to more free allocation and indirect cost compensation under the EU ETS, if other major economies do not face similar costs and regulatory burdens;
- 3 **climate provisions in free-trade agreements** in the context of the sustainability chapter.



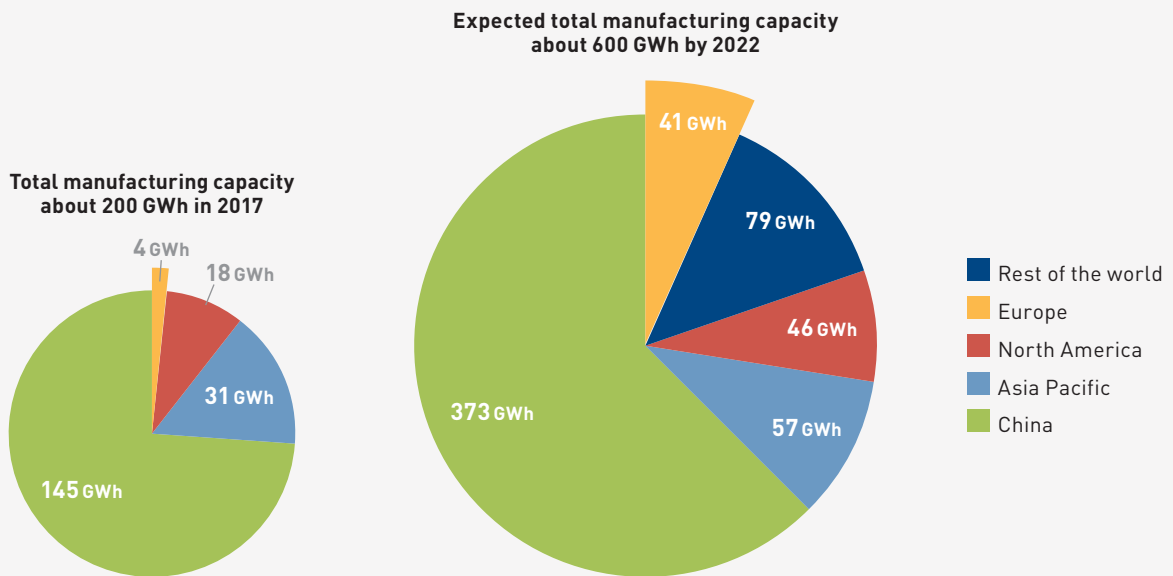
7

ZERO- & LOW-EMISSION MOBILITY

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

European business is investing heavily to ensure that all modes of transport help to achieve the common goal of climate neutrality. Over the past few years, many European businesses have made strong commitments to decarbonise their modes of transport, often linked to billions of euros in investments. However, it is not certain whether a significant part of these investments will be made in Europe. The USA and China are heavily competing for the financial and human capital that will drive these future value chains.

CHART 3.6 *The global battery cell market is expanding hugely, but Europe's role is limited*
Global battery cell manufacturing capacity growth globally and in the EU (in GWh)

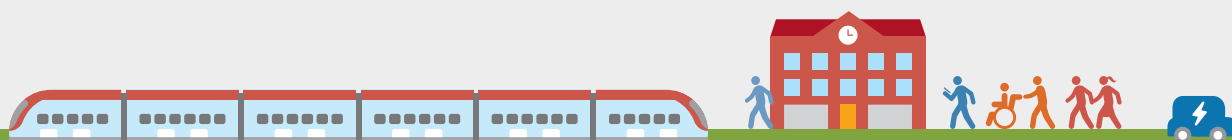


Source: International Energy Agency, 2017

RECOMMENDATIONS

The EU should:

- 1 be aware that all options of low- and zero-carbon technologies are needed** for transport to contribute effectively to a climate-neutral economy. The full potential of all such solutions should be explored in a technology- and fuel-neutral way.
- 2 ensure that the value chains and breakthrough technologies of zero- and low-emission mobility (ZLEM) are supported** and can rapidly be deployed on a large scale in Europe, and with it attract the many billions of euros of investments needed for the transition. Research and development play a key role in the transition to climate-friendly mobility.
- 3 engage with all relevant stakeholders** in public-private partnerships and conduct a strategic mapping exercise on where industry's competitive advantages lie, how to deliver new strategic value chains, match labour skills to future needs and create policy synergies in order to be globally competitive.
- 4 coordinate demand-side measures** across all modes of transport, in particular in designing cost-effective consumer and customer purchasing incentives, make sure Member States meet their obligations under the Alternative Fuels Infrastructure Directive, and standardise technology and infrastructural solutions.
- 5 connect zero- and low-emission mobility legislation to other key areas**, in order to have an integrated approach. It is essential to involve stakeholders in reflecting about the feasibility of a reliable methodology for a lifecycle approach, and to develop a stable and enabling policy framework for sustainable, synthetic and advanced fuels and gases.



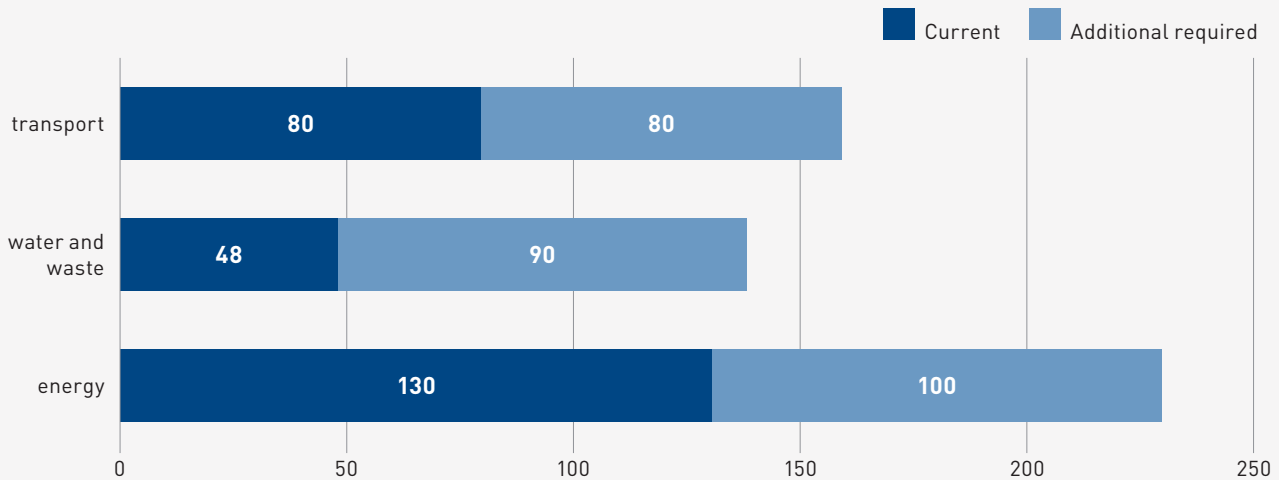
8

GREEN FINANCE

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Environmental degradation is a major challenge that societies and economies across the globe need to address very seriously. There will be hardly any sustainable paths without overcoming these challenges. Reaching climate neutrality will require huge, transformative investments by both the public and private sectors. According to the European Investment Bank, the EU's finance gap for reaching its 2030 energy and climate goals is estimated to be around €270 billion per year, including the goals for the energy, transport, water and waste sector¹. European industry is at the core of this transformation. Access to investment will be of critical importance to make it successful. The European business community is therefore supportive of the objective of the Sustainable Finance Action Plan to further mobilise investments in the EU with a view to achieving sustainable growth aligned with the Paris Agreement and EU climate goals. To effectively contribute to these objectives, it is essential that the policy framework is proportionate, practicable and accommodates the needs of both the financial markets and the real economy.

CHART 3.7 Mobilise investments to achieve sustainable growth and reach the EU climate goals
Annual investment needs for sustainable development in the EU (EUR bn)



Sources: European Commission, 2019

¹ EIB sustainability report 2018

RECOMMENDATIONS

The EU should:

- 1 mobilise public and private investments towards all activities that enable and contribute to the transition to a low-carbon economy**, (in particular industrial activities that will have to undergo profound transformations), building on transparent and reliable frameworks for investors and a common understanding of environmentally sustainable investments.
- 2 ensure that all activities that contribute to the green transition or demonstrate a credible path towards notable emission reductions** will have easier access to finance. On the contrary, “punitive” legislative instruments that would hamper companies’ access to finance must be avoided.
- 3 guarantee a balanced representation** in the stakeholders and experts groups preparing recommendations on sustainable finance, including industry (in particular manufacturing and energy), financial sector, civil society and public authorities.
- 4 make sure that policies are underpinned by credible scientific evidence** and reflect the latest, relevant technological developments as well as the complexity and functioning of industrial value chains.



9 TRADE AND SUSTAINABLE DEVELOPMENT CHAPTERS IN EU FREE-TRADE AGREEMENTS

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Value chains today are global and operating in the framework of such global value chains requires mastering complex production processes, scattered around different locations, in many cases using inputs that come from many different suppliers. The question is how authorities can help create added value in a “sustainable” manner and help businesses in their effort to build a model that is competitive while promoting high-level environmental and social standards. European companies are committed to delivering sustainable solutions and lead sustainability efforts, both in the EU and abroad, in close cooperation with governments, local communities and the broader civil society.

EU free-trade agreements with trade and sustainable development chapters

FTAs IMPLEMENTED

Antigua and Barbuda	Georgia	Peru
Barbados	Grenada	Saint Kitts and Nevis
Belize	Guatemala	Saint Lucia
Canada	Guyana	South Korea
Colombia	Honduras	St Vincent and the Grenadines
Costa Rica	Jamaica	Suriname
Dominica	Japan	The Bahamas
Dominican Republic	Moldova	Trinidad and Tobago
Ecuador	Nicaragua	Ukraine
El Salvador	Panama	

FTAs NOT YET IMPLEMENTED

Argentina
Brazil
Mexico
Paraguay
Singapore
Uruguay
Vietnam

FTAs UNDER NEGOTIATION

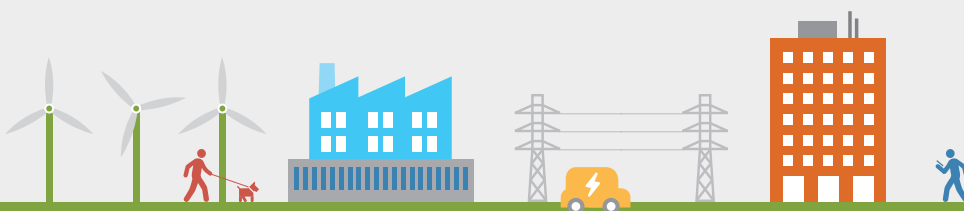
Australia
Chile
India
Indonesia
Malaysia
New Zealand
Philippines
Thailand

Sources: European Commission, 2019

RECOMMENDATIONS

The EU should:

- 1 continue its efforts to better encourage and promote the implementation of sustainability provisions in FTAs.** BusinessEurope stands behind the better enforcement of environmental and social norms for the development of third countries and for the competitiveness of European companies through a level playing field.
- 2 focus on actions which have a real added value for sustainability and strengthen the EU's global competitiveness,** while recognising how far the EU has already come in implementing the UN 2030 Agenda and the Sustainable Development Goals. This includes encouraging others around the world to implement this agenda. The European Commission should ensure a partnership approach between business, civil society and Member States, fostering better understanding between different stakeholders of their priorities and needs for economic, social and environmental sustainability.
- 3 take into account the fact that there are different approaches** and different levels of understanding of sustainability between the EU and its partners, when promoting implementation of sustainability provisions. Sustainability is a process, where we should develop a common understanding with our partners and empower civil society organisations.

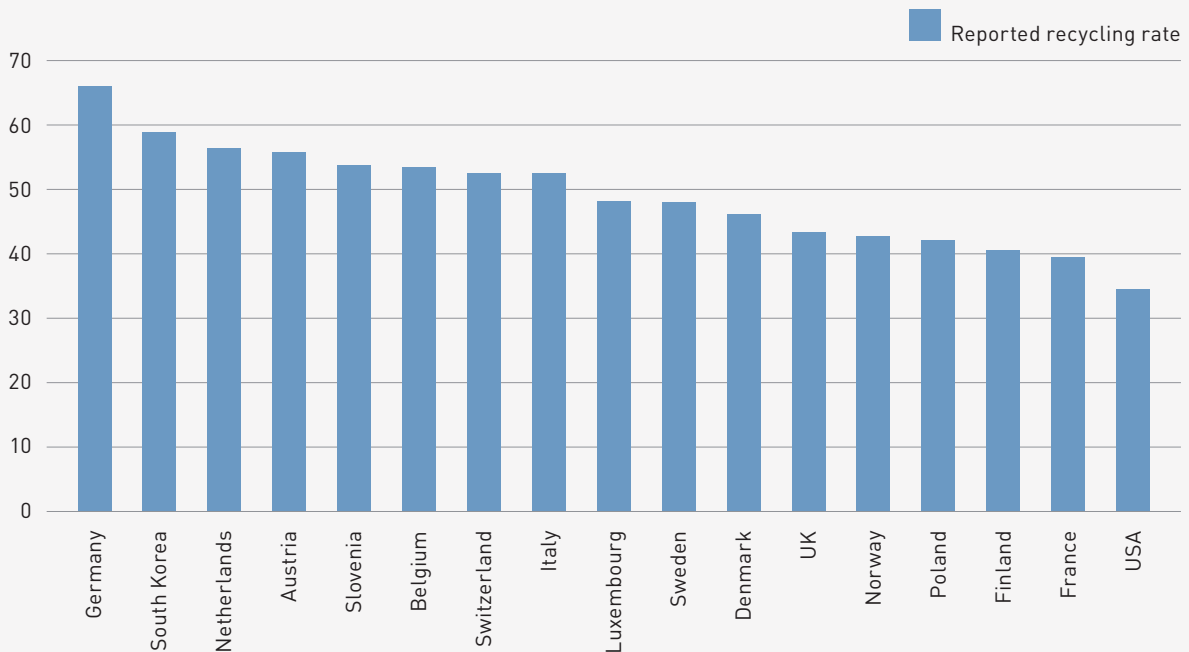


10 CIRCULAR ECONOMY

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

The circular economy is about maximising the value of raw materials to society through waste prevention, reuse and recycling. In order for this to happen, the circular economy priority from a business perspective is to develop a market for quality secondary raw materials (SRMs) and circular products. Such a market if designed properly can help commercialise more circular processes, products and services, both in domestic and export markets. This will contribute positively to the domestic supply of raw materials, make Europe the frontrunner for initiating ideas, solutions and global standards related to circular designs, reuse, recycling, repair, remanufacturing and refurbishment. Many companies show a large willingness to move forward and become even more circular but identify barriers and untapped opportunities to create such a market.

CHART 3.8 *Recycling rates vary widely across the globe*
Reported recycling rate per country (in this example: municipal waste) in %



Source: Eunomia, 2017

RECOMMENDATIONS

The EU should:

- 1 put more emphasis on removing inconsistencies, filling the gaps and aligning different parts in the existing policy framework** to create a real market for secondary raw materials (SRMs) and circular products in order to maximise the value of materials, facilitate the transition to circular business models and achieve a circular economy.
- 2 promote an enhanced investment strategy for SRMs** to help the market, supported by more public and private spending on innovation, education and reskilling, an effective circular public procurement strategy, and a smart eco-modulation of fees.
- 3 integrate circular economy thinking into other legislation** to maximise its benefits, in particular in the fields of product and material design, climate change, digitalisation, bioeconomy, security of supply and waste shipments.
- 4 ensure a global level playing field** with similar regulatory frameworks and standards across the G20 to attain a real market for SRMs.
- 5 collaborate with stakeholders** to improve consumer engagement by reducing barriers and increasing incentives, improving awareness and knowledge on consumption behaviour and the lifecycle of materials.
- 6 boost the opportunities for industrial symbiosis**, giving more guidance to Member States to promote the different kinds of symbiosis that exist in each country.



EU environment policy encompasses a number of key issues to enhance our quality of life including biodiversity, air quality, waste, water and chemical safety to name but a few. While some of the key challenges for European climate policies and circular economy have already been addressed in this document, BusinessEurope will contribute to the preparation and success of the new environmental agenda of the Commission with more detailed future position papers outlining the solutions industry can offer in this respect. Business is and wants to be part of the solution.

For more information about what EU businesses do to reduce their greenhouse gas emissions and to add to the circular economy in Europe, please visit: <http://www.industry4sustainability.eu/>



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BusinessEurope is the leading advocate for growth and competitiveness at the European level, standing up for companies across the continent and campaigning on the issues that most influence their performance. A recognised social partner, we speak for all-sized enterprises in 35 European countries whose national business federations are our direct members.



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Belgium



Bulgaria



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Cyprus



Czech Republic



Denmark



Denmark



Estonia



Finland



France



Germany



Germany



Greece



Hungary



Iceland



Iceland



Ireland



Italy



Latvia



Lithuania



Luxembourg



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