



Mr Donald Tusk
President of the European Council
European Council
Rue de la Loi 175
BE – 1048 Brussels
BELGIUM

13 March 2019

Dear President,

Message to the European Council meeting on 21-22 March 2019

The EU does not have enough world-leading firms

BusinessEurope's Reform Barometer 2019 shows that the EU is falling behind in its ability to develop world-leading firms and that only 20% of the country-specific recommendations endorsed by the European Council last year were satisfactorily implemented.

The recovery is slowing and governments are not stepping up their efforts to carry out growth-enhancing reforms in order to fix the roof whilst the sun continues to shine. There is an urgent need to reaffirm the EU commitment to making our continent the best place to start and grow a business.

1. How can the EU develop more world-leading firms?

A **supportive business environment** is crucial. The EU ranks only 53rd in terms of the ease of starting a business and 29th for the ease of doing business.

Innovation and skills are the drivers of future growth and employment. The EU only invested 2.0% of GDP in research and innovation in 2015 and companies are faced with increasing skills shortages. This will hamper future economic growth.

Without **access to finance** it is impossible to have high-growth firms and our companies do not have the variety of financial support channels which US companies enjoy.

Proper enforcement of **EU competition rules** is essential for the well-functioning of the Single Market. Furthermore, competition policy is one of the few areas where the EU has extra-territorial teeth. However, in a changing global setting, the assessment of the implications for the EU market only is no longer enough. We need to check whether some of the existing rules are still fit to address the competitive pressures coming from other parts of the world.

The EU needs a more strategic **industrial policy** aimed at creating horizontal enabling conditions at EU level, including a common reflection on key EU value chains. This industrial policy should go hand-in-hand with finally walking the talk on the **completion of the Single Market**. Proper attention must be paid to free movement of **services** to increase productivity in the 27% of EU value added in manufacturing generated by services.

The EU is lagging behind in the development of unicorns in the digital economy. Accelerating the **digital transformation** of our economy is essential. In addition to investing in networks, vigorous action is needed to eliminate barriers to cross-border e-commerce, and address legal fragmentation in consumer legislation, copyright and data protection rules.

BusinessEurope therefore counts on the European Council to ensure that the EU and its Member States:

- live up to the **reform** commitments they take in the context of the European semester,
- reduce **administrative burdens** for business,
- promote **innovation and skills** development because this is essential if we want to have sustained and inclusive growth in the future,
- **better link companies and research institutes** and create **clusters of expertise** throughout the EU,
- improve EU **Venture Capital** provision and implement the **Capital Markets Union**,
- consider the implications of changes in the global economy when implementing EU **competition policy**. A strong European competition policy is crucial for the well-functioning of the Single Market but it might be necessary to re-assess the European approach to company size in order to avoid unnecessarily preventing the emergence of sizeable European companies able to compete with global enterprises operating by different rules.

Furthermore, to provide the domestic base from which European companies can compete globally, the EU must put the development of the **Single Market** back at the centre of the EU agenda, paying special attention to its digitalisation. The next Single Market strategy should focus on:

- further opening and integrating markets for **goods and services**, including logistics and network services,
- providing a barrier-free framework that helps the wide scale roll-out of **digital** technologies;
- reinforcing the Single Market **governance tools** at EU and national level to ensure that such a framework delivers.

2. What does this mean for the EU long-term climate strategy?

European industry has embraced the need to transition to low-carbon economy. The 40% emissions reduction target by 2030 is ambitious and the EU now has a solid set of policies in place to reach it. The focus between now and 2030 should therefore 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.

Ahead of the European Council debate on the overall direction of Europe's long-term climate strategy, we would like to recall 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;



- EU decision-makers must **avoid picking winners at a too early stage**: 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 struggle 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 European industry continues receiving protection against unfair international competition.

At the same, it is essential to complete a truly integrated Single Market for energy, with cross-border gas and electricity interconnections.

3. What should be the focus of the EU external agenda?

Increasing trade tensions around the world and unilateral actions undermine growth and threaten the multilateral trading system and the WTO. To respond to this, the EU must pursue a double track approach:

- acting as a herald of **rules-based trade** and pursuing **mutually beneficial trade and investment agreements** on the one hand, and
- using better existing enforcement tools including **dispute settlement and trade defence instruments** to **safeguard European interests** both in the EU and globally


BusinessEurope supported actions such as:

- EU decision to have a new methodology in **anti-dumping** procedures,
- the compromise found on the **screening of foreign direct investments**, and
- the measures taken to **safeguard EU rights in the WTO** after the imposition of additional duties on European steel and aluminium.

However, at the same time, maintaining a positive agenda with the **US** and China is crucial. We therefore favour the adoption of the two proposed mandates to start negotiations on regulatory cooperation and industrial tariffs between the EU and US.

Furthermore, we count on the EU to ensure that ongoing negotiations on investment with **China** lead to an ambitious outcome as soon as possible. We support the EU's strong engagement in the trilateral talks with Japan and the US on subsidies and state-owned enterprises. BusinessEurope counts on the European Council to continue with this firm approach at the EU-China summit on 9 April 2019.

Yours sincerely,



Pierre Gattaz

enclosure: *BusinessEurope Reform Barometer 2019*