BUSINESSEUROPE

THE PRESIDENT

Mr Donald Tusk
President
European Council
Rue de la Loi 175
B-1048 Brussels
BELGIUM

15 December 2014

Dear President,

EU investment plan
Message to the EU Council meeting on 18-19 December 2014

On 18-19 December 2014, the European Council will discuss the new European investment plan.

The EU has not yet returned to pre-crisis levels of economic output. EU investment as a share of GDP is at its lowest level in over 20 years. Global competition for business investment is increasing. Our share of global foreign direct investment has fallen from over 40% in 2000 to less than 20% today. Without urgent policy changes and better implementation of structural reforms, we risk damaging the foundations of our future prosperity.

The plan published by the Commission on 26 November 2014 is a first important step forward. However, its success will depend on more ambitious steps to follow. The real challenge starts now. Words must be turned into action. If we are to lay the foundations for our future competitiveness and prosperity, we need a step change in efforts to tackle the obstacles hampering private investment in Europe.

We agree that the key focus is on raising investment by the private sector. BUSINESSEUROPE has identified barriers that need to be addressed if we are to improve long-term investment:

- <u>Economic, political and regulatory uncertainty</u> undermines investment. Companies need a clear commitment from governments to structural reforms, stable public finances, further strengthening of EMU, better regulation and a predictable regulatory environment which supports long-term decision-making.

- <u>The cost of doing business in Europe</u> is too high. High energy prices, uncompetitive tax regimes, and high labour costs must urgently be addressed.

- <u>Access to finance</u> remains a concern. Bank lending must be supported through balanced regulation. Non-bank financing sources must be expanded. Greater use should be made of EU and EIB funds to leverage private-sector lending, taking into consideration the specificity of SMEs.

- <u>Unnecessary Single Market access constraints</u> create bottlenecks to growth and employment. Barriers discouraging companies to work cross-border in our single market must be addressed as part of our strategy to strengthen it.

- Market access outside the EU must be improved if we want to be successful in the global economy. Concluding ambitious trade agreements, in particular with the United-States to boost transatlantic trade and investment, is essential for European growth and employment.

- Risk aversion must be addressed. To support innovation and entrepreneurship, we need an innovation principle and a balanced approach to the precautionary principle. EU rules tend to focus on minimising risks to the maximum and funds for innovative projects do not allow for much risk-taking.

We also agree that public investment, carefully directed to support competitiveness, can play an important role. We call on Member States to give greater priority to productive investment within their overall expenditure plans, while ensuring the sustainability of public finances, supported by the flexibility provided within the rules of the Stability and Growth Pact.

We support the creation of the new European Fund for Strategic Investment (EFSI) designed to draw on a guarantee of €21 billion to attract over €315 billion in new investment over the 3 year period. Using a small amount of public funds to leverage private sector provision through the EIB can be an effective way to ensure that we choose projects that best drive productivity and growth. Nevertheless, given the urgent need to raise competitiveness, we would have liked to have seen the allocation to the new fund result in an increased focus on competitiveness within the overall EU budget, rather than drawing on key areas such as Horizon 2020 and Connecting Europe.

It will be fundamental to make sure that the new fund is used to support additional, more-risky projects and that projects are not those that would have been financed by the private sector anyway. We also recommend investing in particular in key transport, energy and broadband projects with a cross-EU dimension that can enhance the Single Market as well as R&D and innovation, skills and ICT.

Given the ambitious leverage ratios, synergies with existing national funds will be of strategic importance. In order to avoid any delays in making the EFSI fully operational, swift clarification will be needed on how to develop the proposal that Member States could provide additional capital to the fund. It will also be important that the Commission maintains its promise not to take capital contributions to the EFSI into account in their assessment under the stability and growth pact. More generally, Eurostat should be required to give greater ex-ante guidance and certainty to Member States on exactly how they intend to classify their investments.

Last but not least, if we are to maximize private involvement in the fund, it will be important that the fund has a clear governance structure with transparent eligibility and selection criteria for projects.

You can count on BUSINESSEUROPE's support for the implementation of the EU investment plan, knowing that more will need to be done in order to close the investment gap. Encouraging industrial investment will require special attention and a coherent industrial competitiveness roadmap still remains necessary.

Yours faithfully,

Emma Marcegaglia
President