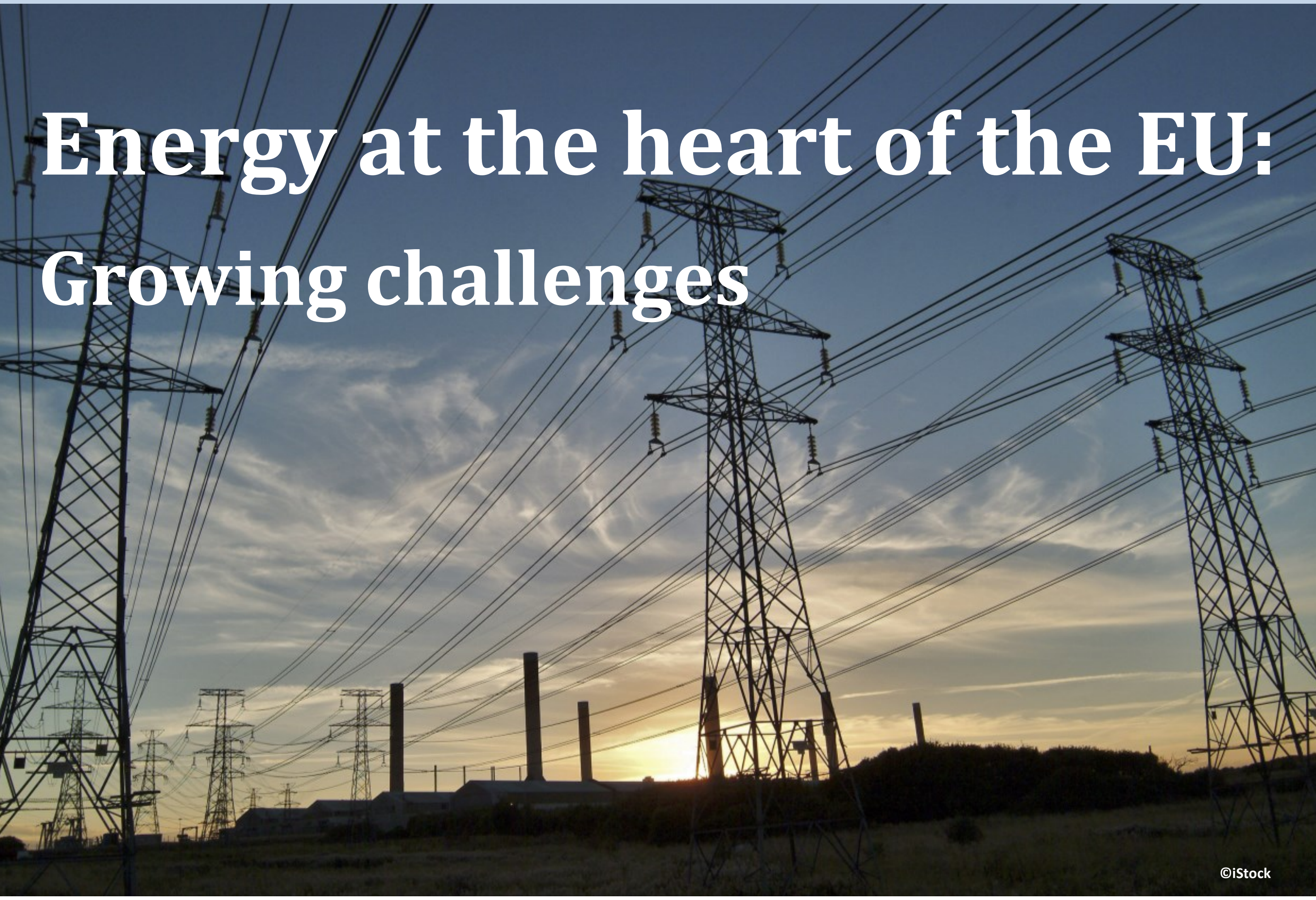
European Economic and Social Committee

Employers' Group

Newsletter April 2015



Modern societies are dependent on a continuous, secure and affordable supply of energy, which has to be produced and used in a manner that is mindful of climate and environmental concerns. Thereby we are also increasingly vulnerable in relation to energy. In the EU, energy is a shared responsibility between Member States and the EU, which complicates matters.

In many ways energy policies in Europe have been successful. Targets for decreasing greenhouse gas emissions and increasing the use of renewable energy sources by 2020 will be met ahead of time and efforts to increase energy efficiency appear to be on target. Markets have been opened up and consumer choice increased.

Still, in practice energy issues have been dominated by national interests and approaches. EU legislation has not been fully implemented and a fully-fledged internal market has not been achieved. At EU and national levels, policies on different aspects of energy have been fragmented and often unbalanced.

Recently new energy challenges have come to the fore. Because of the crisis in Ukraine, concerns about security of energy supply have become acute in some Member States. Consumers, especially vulnerable consumers, suffer from increased energy costs in the face of the economic downturn. Industry struggles to be competitive faced with lower energy prices in competing regions. In spite of great successes in the field of renewable energy, Europe is in danger of losing its frontrunner position. In some countries a high share of intermittent renewable energy has challenged the balance of the whole electricity system.

It seems that the potential of the current policy has reached

its limits in achieving the energy policy goals of sustainability, security of supply and competitiveness. There is widespread concern about overregulation and interference in too many aspects of the energy economy. In order to deliver what Europeans expect, in particular in relation to new challenges, energy has to be tackled in a more coherent way. This applies to the different policy goals and areas as well as national vs. wider common EU interests.

Only cooperation between Member States and a fully functioning internal energy market can enhance security of energy supply. More renewable energy sources are needed to decrease external dependence and emissions. It is already obvious that, in order to function, an electricity system with bigger shares of intermittent renewables requires a market that goes beyond the national level. Back-up, peak and storage costs are also lower on a bigger market. The cost-effectiveness of climate policies is already, in principle, backed by the EU-wide ETS, but this has not functioned as expected.

Key EU action

To respond to all these challenges it was necessary for the new Commission under Jean-Claude Juncker to make energy policy one of its ten priority areas. The "Communication on A framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy" has five mutually reinforcing and interrelated dimensions designed to bring greater energy security, sustainability and competitiveness:

- Energy security, solidarity and trust;
- A fully integrated European energy market;
- Energy efficiency contributing to moderation of demand;
- Decarbonising the economy, and
- Research, Innovation and Competitiveness.

The vision presented by the Commission, as an argument for the new Energy Union approach, will hopefully win over Member States, Parliament and stakeholders. It should be clear to all involved that this is the only way forward and success requires commitment by all.

To ensure the broad support needed, a clearer message is required on what European citizens and enterprises will gain from the Energy Union. This leading vision should be at the forefront of the minds of all decision-makers involved.

Top priorities out of many

The most urgent priority should be action on energy costs for citizens and enterprises. In a situation when citizens feel more and more alienated from the EU and are distressed by the ongoing economic slowdown, their main energy concern is undoubtedly energy costs. The same is true for enterprises and their workers competing on international markets. As the increases in retail energy prices, in particular for electricity, are mainly due to political decisions, correction of this can be rightfully expected.

Closer co-operation and exchange of information between Member States is necessary in a market – gas or other – where they are faced with a dominant supplier or a cartel. Co-operation should however not prevent the market from working. Solidarity is to be expected between Member States, particularly those in crisis situations, but this can only be based on trust and respect of common commitments and rules.

Updating electricity and gas networks is of key importance for the implementation of the Energy Union. Normally these investments should be financed by private sources, but against the turbulent background of energy transition, public support is to some extent needed. Efforts to shorten approval procedures are most necessary and welcome. The need for more interconnection capacity is in many cases obvious, even pressing. It is astonishing that in so many cases the 10% target is so far from being reached.

Energy efficiency offers enormous opportunities and requires a wide variety of smart actions. Most of the work has to be done nationally and locally. Especially in the building and transport sectors, the energy efficiency – or actually saving - potential is big and should be tapped by carefully designed measures. In the future, efficiency measures and demand-side response should compete on equal terms in the energy market.

On decarbonisation of the economy, the COP-21 meeting in Paris is absolutely crucial to achieve sufficient commitments and a level playing field globally.

The problem of carbon leakage must be taken fully seriously by the EU in the event that Paris does not deliver a real level playing field. Energy-intensive industries under threat of carbon leakage must be secured, in relation to their GHG efficiency, full compensation for both direct and indirect cost increases.

It is important to ensure that the EU is the world number one on renewable energy. The measures have to respect competition and market rules, be market based and avoid increasing end-user energy prices – rather they should aim to lower end-user costs.

In addition to renewables, the development of all kinds of decarbonisation technologies – clean tech – should be an EU goal. In particular energy efficient products of all kinds – from cars, boilers and steelworks to phones and coffee machines – could be a European asset.

It should be kept in mind that EU competitiveness is not only about being the best at energy and climate-related technologies. It is just as much, or even more, about dealing with energy as a production input as efficiently and sustainably as possible, better than competitors. This is a broader and securer way to ensure growth and more jobs in Europe.

Better governance is a must

Better coherence between different aspects of energy policy as well as the many flanking policies must be ensured in the future. Member States should coordinate their actions, and Commission activity to achieve this is clearly needed. However, more planning or reporting obligations should not be put on Member States, instead current requirements must be streamlined.

The EESC is pleased to see that its initiative for an energy dialogue with stakeholders has been taken on board by the Commission. A detailed action plan on this is now expected.

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Creating an attractive environment for business competitiveness

Europe must improve the attractiveness of its business environment in order to enhance competitiveness and increase investment. This change is crucial for all Member States but from the perspective of a relatively small economy such as the Portuguese economy, it is critical. The cost of doing business in Europe is still too high.

As BUSINESSEUROPE has pointed out, for example, a number of poorly-designed, disproportionate or insufficiently assessed EU policies have severely impeded the cost-competitiveness of EU companies.

In the areas of the environment and consumer protection, in particular, the Commission has developed unnecessarily onerous legislative instruments, imposing disproportionate obligations on companies compared to the objectives pursued by these laws.

When transposing Directives into national law, Member States often exceed the requirements of EU legislation, leading to additional burdens. This gold-plating impacts negatively on competitiveness and growth.

Competitiveness must be given fresh impetus, by making EU and national legislation more proportionate, simpler and less costly for business, allowing companies to develop their full potential and enabling investment.

Solving the problem of late payment and expenditure arrears on the part of public entities is crucial for injecting liquidity into economies and promoting greater payment discipline in business life.

The CIP, Portuguese Industrial Confederation, believes there are a few priorities that need addressing in this particular area:

- Guaranteeing real competitiveness mainstreaming in all EU policies, through efficient implementation of the European Commission's new internal governance tools.
- Impact assessment of new legislative proposals has to be improved. It cannot be turned into a mere bureaucratic procedure. Competitiveness proofing, including the SME test, must become an integral part of ex-ante impact assessment, for all policy initiatives and legislative

proposals, at both European and national levels, taking account of the cumulative effects of different rules.

- An independent board should be created at EU level to systematically review impact assessments of all new EU proposals.
- A new quantitative target for the reduction of administrative burdens must be set and pursued by systematic ex-post evaluation of EU legislation, based on clear methodologies, to identify excessive burdens, inconsistencies and obsolete or ineffective rules. In particular, further work is required to make REACH workable and proportionate.
- Stakeholders should be involved in ex ante and ex-post impact assessment exercises. The Commission should develop new methods for receiving information from stakeholders about onerous measures linked to implementation of EU legislation.
- Member States must be more transparent when transposing EU legislation, in order to avoid gold-plating. Any additional requirement should be justified.
- The European Commission should strictly monitor the implementation of the late payments directive and give top priority to implementing strategies to urgently settle existing arrears via Country Specific Recommendations.

Clearly there are specific requirements in this respect for improving the rehabilitation of European companies, especially SME's. Access to finance on reasonable terms is a pre-condition for companies making the investment needed to drive growth, strengthen their competitive position and create jobs. Yet, access to finance is limited and uneven throughout Member States. Bank lending to business is still falling and lending costs vary substantially across Europe. As the economy picks up and investment plans expand, access to finance threatens to become a more widespread and increasingly sharp constraint, especially for small and medium sized enterprises.

There is a strong case for advocating non-bank financing sources, such as venture capital and market-based development of financing instruments for SMEs, in a context where:

- there is a high dependence on bank lending, especially for SMEs;
- banking markets are undergoing a period of retrenching and adjusting to a new legal framework and the driving forces of monetary policy are largely being absorbed by the banks' balance sheets and are not filtering through to the real economy;
- international investors are accumulating liquidity and giving greater consideration to investment alternatives

At national level, the tax systems should become more attractive for equity than for debt. In this respect there are also a few priorities to address.

- The Commission must closely monitor the cumulative impact of the various financial reform measures on access to finance and act accordingly to **strike the right balance between increasing the stability of the financial system and supporting companies' financing needs.**
- **Ensure an effectively functioning Banking Union** to restore confidence and halt fragmentation of financial markets. This means implementing the single supervisory mechanism and the single resolution mechanism and completing the whole process by putting in place a joint deposit-guarantee scheme.

- **Make progress in the process leading to the proposed Capital Markets Union**, making sure that it supports the EU-wide development of equity and corporate bond markets, particularly to SMEs, encourage venture capital, and restore confidence in securitisation, within a properly regulated environment, taking into account the needs and constraints of SMEs.
- Promote the establishment of national programmes aimed at strengthening the financial structure of small and micro -enterprises, through well-designed financial instruments and tax incentives targeted towards consolidating companies' own capital base.
- The European Union will have to **ensure that public funds leverage private investment**. It is important that the EFSI fulfils its full potential in supporting investment and growth and that public financial entities such as the EIB, EIF or European public development banks, are guided towards the provision of guarantees and other financial instruments for corporate investment projects, making sure that credit effectively feeds into the real economy.

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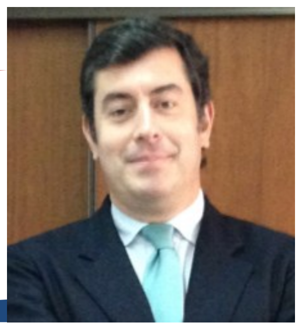


The impact of TTIP in Malta

The Transatlantic Trade and Investment Partnership (TTIP) creates numerous opportunities for business and consumers in both the EU and the USA. These two economies account for more than half of the world's GDP. Therefore, closer transatlantic cooperation will have implications not only for both sides but also for other global players and the trade system as a whole. Small and medium-sized enterprises are among those that will benefit the most from an ambitious trade agreement. These were some of the conclusions drawn during the conference on "The impact of TTIP in Malta", that took place on 9 March 2015 in Valletta. The conference was organised by the EESC Employers' Group and the Malta Chamber of Commerce.

TTIP goes far beyond a basic free trade agreement, will benefit business and investment and strengthen the strategic partnership between the EU and US, stated David Curmi, President of the Malta Chamber of Commerce, in his welcome speech. He emphasised the numerous new market opportunities that would flow from the easing of regulatory burdens and reduction of tariff barriers. In his view, the current debate on TTIP in society resembles the discussion that took place before Malta's accession to the EU. There is a lot of fear and a lack of information.

Daily trade flows between the EU and the US are valued at approximately EUR 2 billion. If we cannot make this agreement happen, who else can? This was a point made by Jacek Krawczyk, President of the Employers' Group and EESC rapporteur on TTIP. Referring to his recent discussion with the chief EU negotiator, he said that progress in the talks was promising but that there were still significant challenges ahead. The EESC is currently working on two detailed opinions related to TTIP: one on ISDS, the second on the SME chapter. Mr Krawczyk noted that the transparency of the negotiations had been improved. He pointed out the strategic aspect of the deal: it was a unique chance to create a set of rules in global trade that other players would have to adopt.

Trade agreements are always good tools for growth, underlined Christian Cardona, Maltese minister for the economy, investment and small business. He listed international maritime services, the maritime industry and financial services as the sectors of the Maltese economy that could benefit the most from TTIP. He also underlined the importance of the transparency of the deal, which helps to demystify this agreement.

The US Ambassador to Malta, Gina Abercrombie-Winstanley emphasised the benefits emerging from TTIP for SMEs. In her opinion, the deal can bring trade to people who currently think that certain markets are out of reach.

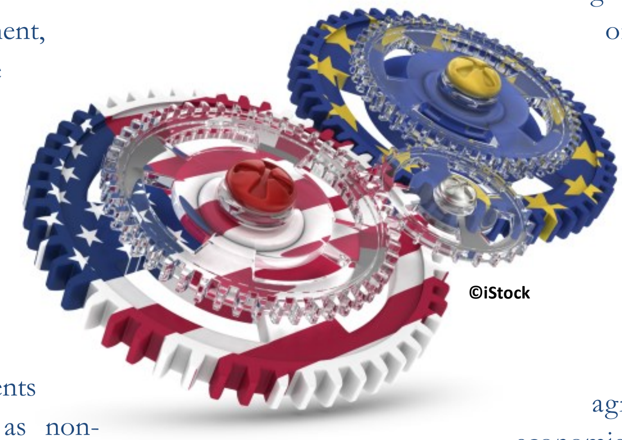
Keynote speakers from the US and EU sides of the negotiations drew attention to the impact of the deal on third countries. "If we get it right, TTIP will truly open the markets and demonstrate to third countries that transparency benefits our citizens", stated Carolina Hidea, representing the US Department of State. She underlined that a joint position on standards and consumer protection could have a positive influence on third countries' positions.

Eoin O'Malley from the European Commission's DG Trade expressed regret that in the public perception international trade is dominated by multinational firms. The truth is that half of the EU's exports stem from SMEs. Reducing regulatory burdens was especially important for SMEs. Such burdens impact more severely on SMEs as they generate fixed costs, irrespective of production volumes.

Why we need the ISDS mechanism in TTIP?

The EU and the US account for 30% of global trade in goods and 40% of global trade in services. The transatlantic relationship is unique, and is of the utmost economic importance for both sides of the Atlantic. Foreign investment is important for both economies; US companies invest more in Europe than any other country and the same holds true for European companies in the US.

In order to attract more investment, it is important for TTIP to ensure that foreign investors are adequately protected against direct or indirect expropriation and unfair treatment. The ISDS -mechanism has therefore been a prominent issue in the TTIP negotiations. The ISDS-mechanism is designed to ensure that governments will respect key principles such as non-discrimination and the fair and equal treatment of investors. Additionally, it prevents direct or indirect expropriation without fair compensation.



The main argument in favour of ISDS is that it provides a depoliticised, neutral space to resolve disputes between investors and governments. Both the EU and the US have sound legal systems, but the right of non-discrimination is not guaranteed in the US, unless there is an international agreement that a foreign investor can refer to. Therefore, it is not guaranteed that investors will receive adequate protection without ISDS.

It is very important to protect investors if we want to secure economic recovery and growth in the EU. ISDS is an effective way of enforcing obligations between the trading partners, and is mutually beneficial for investors and states. Business communities on both sides of the Atlantic regard the ISDS-mechanism as a fundamental layer of protection for inward investors. At the same time, countries will be able to attract more foreign investment that could otherwise have been inhibited by poor governance.

Nine EU Member States already have an investor protection agreement with the US. Allowing investor protection to be a part of the TTIP will give the remaining 19 Member States the same advantages, thus ensuring that all EU countries face the same competitive conditions in the US. All EU members will thus benefit from a uniform and modernized version of ISDS.

It is important that ISDS is accessible to companies of all sizes, including SMEs. SMEs are usually more constrained in terms of resources, which limits their ability to invest in foreign markets. For this reason SMEs are more sensitive to legal uncertainty. OECD data shows that, of 100 cases between 2006 and 2011, 22% were filled by SMEs, which is in line with their overall investment level.

Reaching agreement on the ISDS is not only important in terms of the negotiations with the US but will also send a signal to negotiators of other free trade agreements with new emerging economies.

Critics have suggested that the ISDS will undermine legislators' right to regulate and to achieve legitimate public policy objectives such as public health, environmental protection and consumer protection. As long as regulators respect international legal norms, investors will not be able to raise claims through ISDS procedures. Furthermore, even if a claim is decided in favour of the investor the state is not obliged to change or withdraw the legislation on which the claim is based.

In addition, it should be noted that ISDS is a last-resort tool. Launching a case is not only expensive, but can seriously harm a company's future business opportunities in the host country. Since 1997, only 500 ISDS cases have been launched, the majority of which haven been filed by European investors.

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Innovation and Entrepreneurship across European Innovation Networks. A New Model for Growth

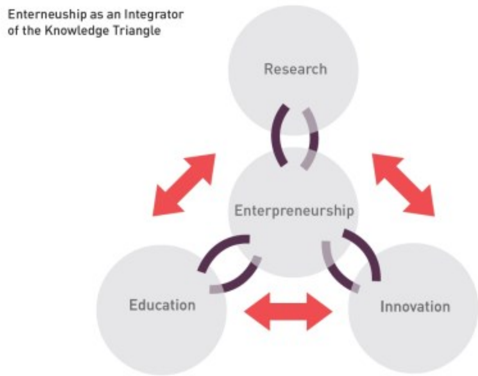
A global financial crisis, triggered by the bankruptcy of Lehman Brothers in 2008, continues to overshadow the growth of the European economy. With the exception of Poland, which has achieved over 20% GDP growth, Europe's economy has shrunk by 1% (Eurostat). Over the seven years of struggle, the financial crisis forced banks to tighten credit procedures, companies to get leaner by laying off workers, and governments to bail out banks and stimulate demand with public spending and subsidies. This situation is not sustainable. Europe needs to return to a path of growth and job creation.

On top of Europe-specific challenges, we are witnessing a number of emerging megatrends in business, technology and society that will seriously affect European as well as global industries. According to a recent foresight exercise among leaders of key European universities, corporate R&D directors and industry experts, these megatrends will cause major discontinuities.

Emerging megatrends in business, society and technology

Emerging mega-trends	Challenges and opportunities for Europe in 2030
Changing demographics	• Working population in Europe will decline by 21 million by 2030 • Radical shift in workplace will require new work design, organisational structure, and leadership style
'Blue sky' research	• 21st century will be defined by convergence of different disciplines, with research in biology as a key component • Main research directions: human brain and next generation robotics
Disruptive technologies & disruptive business model	• Growth will be based not on cutting-edge discoveries but on business model innovation • Business model innovation will be driven by growing social networks including networks of suppliers, producers, customers, users, employees
Complex systems: integration & volatility	• Events at the peripheries of the network can cause a failure of the complex system and change the logic of whole industries • But the system can just as quickly rebound
Digital society: communication & power	• Content will be available on-demand and produced by users • Mass-self communication across horizontal networks with interactive virtual and real-time exchange empowers individuals to act

Source: D. Tataj, "Views of 2030. Transport, health, manufacturing and education" Science|Businesss , Brussels, 2015



By 2030, European companies will be challenged by radically changing business models such as the shared economy, hybridisation of healthcare, and the ubiquitous presence of embedded systems creating massive amounts of data – the crude oil of tomorrow. Members of the Berlin foresight roundtable noted that disruptions and developments can be beneficial for the European economy on condition that it is able to deploy a new growth model based on its key capacities and strengths.

In my forthcoming book "Innovation and Entrepreneurship. A Growth Model for Europe beyond the Crisis" I propose a new growth model for Europe based on innovation, entrepreneurship and the networking logic of the global economy. Here are some of the growth drivers and key directions for policy makers which I discuss:

Acceleration integration of the Knowledge Triangle. Europe has been investing in all areas of the Knowledge Triangle: research, education and innovation. However, they often function in silos. Policy makers need to create better mechanisms to integrate these areas, and universities should play a catalytic role in this process.

Fostering entrepreneurship as a missing link in the Knowledge Triangle. While integrating research, education and innovation is critical to overcome Europe-specific fragmentation, producing knowledge, educating the younger generation and innovating are not goals in themselves. The ultimate objective is to create solutions to major societal challenges, and stimulate economic growth and job creation. Broadly defined entrepreneurial activity is the fastest way to achieve these ambitions.

Linking networked innovation ecosystems across Europe and beyond. The entrepreneurial achievements of certain areas and regions such as Oxford and Cambridge, Northern Brabant or Greater London, and the recent entrepreneurial history of the emerging markets of Central and Eastern Europe form natural synergies due to the availability of knowledge, talent and funding. Policies could make better use of diverse funding instruments such as Horizon 2020 and the Structural Funds.

Unless more effective policies are deployed at national, regional and European levels, the free flow of knowledge, talent and funding across the global innovation network will slowly yet steadily lead to exploitation of these resources beyond Europe. As I contend, it is a critical mass, multilayering of networks and switching capacity across them that creates, attracts and retains high-growth companies, entrepreneurial talent and capital – the three core elements for forward-thinking global economies of today.

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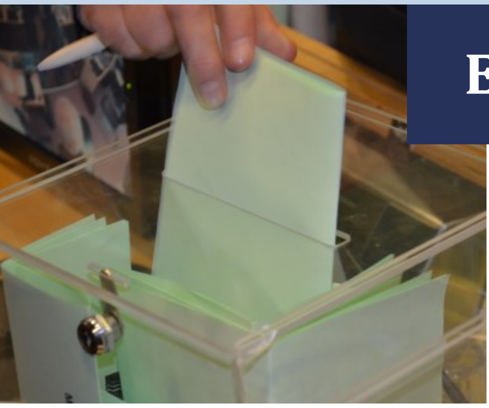

Elections within the Employers' Group

On 14th April 2015 the Members of the Employers' Group proceeded with the first wave of elections for posts available to Group Members for the first half of the 2015 -20 mandate. 90 Members participated in the elections. The Group re-elected for its President Mr Jacek Krawczyk.

The Group proposed Mr Gonçalo Lobo Xavier for the EESC Vice-President responsible for communication. Mr Antonello Pezzini was designated as the EESC questor.

The Group also elected the presidents of two sections and two observatories. Mr Joost van Iersel was re-elected for the President of the ECO Section, Mr Brendan Burns was approved as Group's candidate for the Presidency of NAT section. Mr Pedro Augusto Almeida Freire will preside Single Market Observatory and Ms Brenda King will become the President of the Sustainable Development Observatory. Milena Angelova will lead TEN Permanent Group dealing with Services of General Interest.

The results of the elections are to be confirmed by the renewed mandate of the Members in October 2015.

New Member of the Employers' Group

The Employers' Group would like to welcome a new member to its ranks, Rudi baron Thomaes. Mr Thomaes is currently Chairman of the International Chamber of Commerce in Belgium (ICC Belgium), Chairman of Beheersmaatschappij Antwerpen Mobiel (BAM), Chairman of the Board of REstore, a member of the Board of Directors of Umicore and Armonea, and a member of Europalia.

Between 14 June 2004 and 21 June 2012, he was Chief Executive Officer at the Federation of Enterprises in Belgium (VBO-FEB), and he was a regent of the National Bank of Belgium until 27 May 2013. He was also Secretary General of ICC Belgium between 12 May 2011 and 1 September 2014. Mr Thomaes began his career as a financial export coordinator at Bell Telephone in 1976 and rose to become Managing Director and Chairman of the Management Committee of Alcatel Bell in 1999. His qualifications include a Masters degree in law from the University of Antwerp.

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