European Economic and Social Committee
Employers' Group

Newsletter
October 2017

Trading up for a stronger EU27

FREE TRADE IN THE FUTURE THE SOCIAL PARTNERS' PERSPECTIVE

The future of free trade is far brighter than the public might perceive it to be. Policymakers both at national and international level need to address the concerns of citizens regarding free trade deals. Smooth implementation of future agreements is possible only with broad public support. In order to achieve this, governments must communicate more efficiently about deals and civil society must be involved in the negotiation and implementation of FTAs. These are just some of the conclusions emerging from the discussion entitled "Trading up for a stronger EU27. Free trade in the future – the social partners' perspective." The debate took place on 28 September 2017 in Sopot, Poland in the framework of the European Forum for New Ideas.

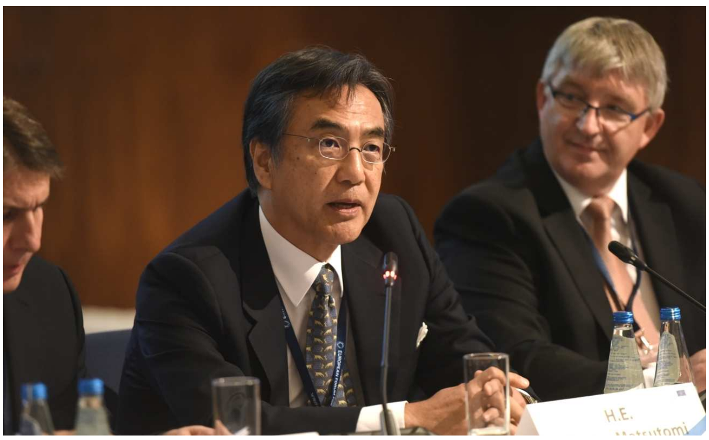
"Recent developments in global politics do not undermine the future of free trade. They are a temporary political approach and, in the long term, rational arguments for free trade will win" – stressed Henryka Bochniarz, president of the Polish Confederation Lewiatan. She also drew the audience's attention to the growing challenge coming from China. According to Ms Bochniarz, Europe was not ready, as far as solutions within the WTO and EU regulations on competition were concerned, to compete with the growing power of China.

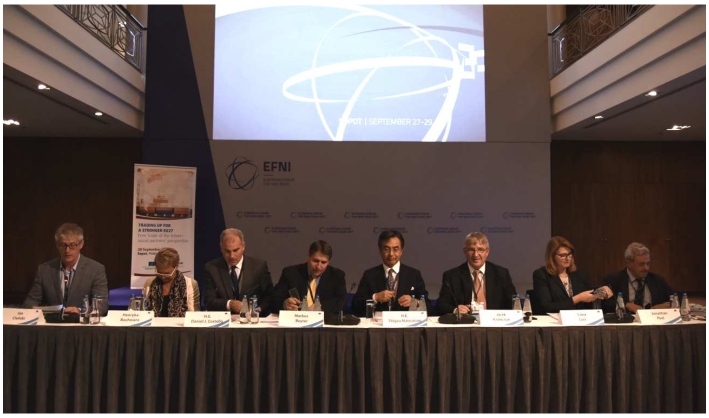
Daniel Costello, Canadian Ambassador to the EU, stated that in order to proceed with more liberalized trade we needed to engage citizens more broadly. He added that we also needed to provide assurances in the FTAs that economic gains would not be achieved at the expense of labour standards, environmental standards, health and safety standards, etc. CETA – an FTA between the EU and Canada – was provided as an example of a modern FTA that addressed citizens' concerns as broadly as possible.

Markus Beyrer, director-general of BusinessEurope, observed that we needed to take criticism of free trade seriously without forgetting that the majority of European society was still in favour of both globalisation and free trade. He admitted that the new US approach to trade, introduced by the Trump administration, made the situation more complex. At the same time, if the US ceased negotiating TTIP and implementing the TPP (Trans-Pacific Partnership), this would allow the EU, Canada, Japan and other global partners to cooperate more closely.

Referring to the recent State of the Union speech by President Juncker, Mr Beyrer stressed that Europe was indeed open but not naïve when talking about free trade, and certain trade defence mechanisms against unfair competition were crucial. At the same time, business was against any form of protectionism.

Mr Beyrer also elaborated on the need to change the decision-making process for trade deals. There needed to be a separation of what the EU was exclusively responsible for and what for the time being still needed ratification at Member-State level. This would enable us to avoid potential challenges when approving the deals at national or even regional level (as the CETA case had shown).





Shigeo Matsutomi, Ambassador of Japan in Poland, stated that the EU-Japan FTA would create a unique opportunity for both sides to set standards that could then be extended to the whole Asia-Pacific region. He underlined that Japan was still in favour of open multilateral trade agreements and hoped that the WTO would finish the Doha round. However, due to the stagnation of the multilateral process, Japan was currently focusing on bilateral FTAs.

Mr Matsutomi also underlined that Brexit would not negatively affect free trade issues. In his view, the United Kingdom would leave the EU Single Market but would nevertheless maintain or even develop its open approach to free trade.

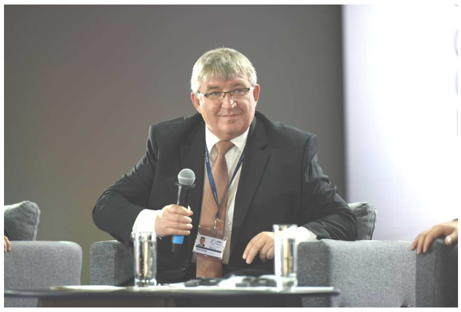
Jacek Krawczyk, president of the Employers' Group, pointed out that uneasiness around TTIP could not be ignored; it demonstrated concerns about trade that would need to be addressed in every future trade deal. In his view, communication and dialogue were the only ways to ensure widespread social support for FTAs. He elaborated on the EESC's approach to TTIP. Certain aspects of the deal, such as investment, agriculture, SMEs etc., had been discussed in detail by the representatives of civil society. This meant that myths about the deals could be dispersed and – in the majority of cases – a compromise between the various stakeholders could be found. According to Mr Krawczyk, such an approach needed to be adopted for all future trade agreements.

Lina Carr, confederal secretary of the European Trade Union Confederation, questioned whether benefits automatically emerged from free trade. In her view, in many cases estimations of job creation fell within a statistical margin. She underlined that nowadays free trade needed to be about far more than just reducing barriers and duties, and the possible negative consequences of trade deals in certain sectors or countries (linked to globalisation) also needed to be addressed. Mechanisms needed to be put in place ensuring a period of adjustment to the new situation and providing protection for workers or less developed countries.

Jonathan Peel, vice-president of the REX section, pointed out that the current negative approach to free trade was partly a consequence of the economic crisis and that we had witnessed similar tendencies in the past, when protectionism was often seen as an answer to economic problems. Referring to Brexit, he emphasised that the level of debate on trade in the UK was worrying and that we could no longer take trade for granted.

The participants in the debate raised a number of other issues related to the future of free trade such as increased focus on removing non-tariff barriers and opportunities to move forward with multilateral trade agreements within the WTO. It was also stressed that companies, especially SMEs, often had no knowledge or capacity to take part in public consultations on trade deals and to assess the possible consequences of such agreements. Therefore, they needed to trust the expertise of their representatives, such as the EESC Employers' Group. Nowadays, international trade was far too often a victim of short-term politics. We needed to try to separate them as much as possible and the role of social partners was crucial in this process.

Members of the EESC Employers' Group took an active role in other panels during the European Forum for New Ideas. In the plenary session "The Turning Point. How Will Transatlantic Economic Relations Change?" Jacek Krawczyk, president of the Employers' Group, underlined that the EU should influence the shape of the globalised world. We needed to promote globalisation and its benefits, and explain them to citizens, he added.

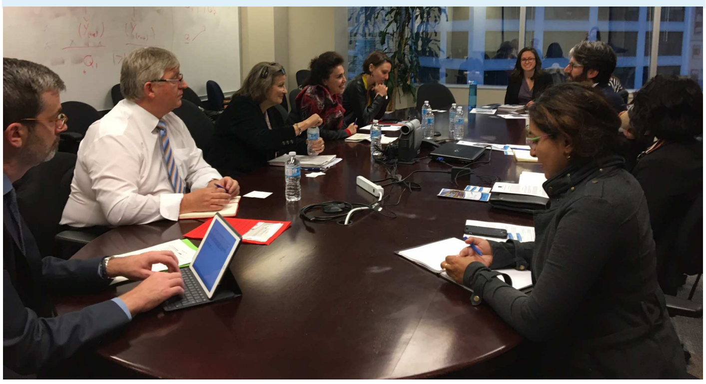


Petr Zahradnik was a speaker on the panel entitled "Will GDP Give Way to the Happiness Index?" Brendan Burns presented SMEs' views on opportunities and challenges emerging from the circular economy in the debate "Circular Economy: a Fad, Philosophy or (simply) the Future?" John Walker took part as a speaker on the panel "Will Economic Patriotism Slow Down the Integration of the Old Continent?"

The European Forum for New Ideas is an international gathering of businesses aimed at discussing the future of Europe and its economy in the broad, global context. This year's edition was entitled "Globalism, Bilateralism, Economic Patriotism? Challenges for Societies and Business". The Employers' Group was an institutional partner of the conference.

EESC delegation to US and Canada

From 8 to 13 October, a delegation from the European Economic and Social Committee paid an official visit to the United States and Canada. The EESC members took part in a number of meetings with representatives of American and Canadian business, trade unions, consumer associations and academics.



The discussions in Washington revealed that it was still very challenging to anticipate how EU-US relations might evolve under the Trump administration. Despite the EU and the US having a mutual policy agenda with regard to NATO and the fight against terrorism, fundamental differences persist in areas such as trade policy and climate change, which make it difficult to speculate on future relations. Several interlocutors expressed their views that relations with the EU were not among the top priorities for the US administration as it currently needed to deal with the renegotiation of the NAFTA agreement as well as with domestic policy issues such as tax reform and migration.

The mission to Canada centred around CETA, which had provisionally entered into force. The EESC wanted to have an in-depth discussion with Canadian civil society and authorities about the way they envisaged civil society's monitoring of CETA taking place, and in particular about the setting-up and running of the Domestic Advisory Groups.

Both sides highlighted their expectations for CETA, not only in terms of trade and economic benefits but also with regard to the way it might contribute to Canadian and EU efforts to build a more progressive trade agenda. CETA needed to serve as an example of how to promote the benefits of trade and contribute to sustainable development. The importance of CETA for the Canadian economy in the event of the breakdown of NAFTA negotiations was also discussed.

Employers on the services e-card

On 27 September 2017, the EESC Employers Group participated in the EPP Group Hearing in the European Parliament on "The Services Package - An alternative to enforcement action?" As one of the main themes, we presented our position on the services e-card – which was adopted by our Group on 31 May 2017 – analysing whether the proposal had real added value or would simply mean more bureaucracy.

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Director-General of DG Grow Lowry Evans explained the European Commission´s proposal in the context of its internal market package, first presented on 10 January 2017. DG Grow is aware that the results of this regulation represent less than 50% of its full potential and they are working hard on the procedural breaches.

We in the EESC Employers Group are opposed to the introduction of a services e-card in the current form for the following reasons:

- The proposed services e-card will not include information on the country of origin, allowing service providers to deal exclusively with the home Member State; this would mean that the host Member States accept Member States´ national decisions on the authenticity of the documents.
- Given the possible limitations of each Member State, a full electronic procedure will make it easier to establish "letterbox companies" for purposes of tax evasion and social dumping.
- In order to ensure the information is up-to-date on the services e-card, the EESC recommends reconsidering the once-only principle and introducing an expiry date for cards.
- The procedures for cancelling the services e-card may require a final Court decision to take effect, leaving service providers with several mechanisms for continuing their services in the meantime.

Overall, it seems that the European services e-card would not be up to the task of eliminating the real obstacles to cross-border trade in services. The biggest obstacles are language problems and differing requirements of legal frameworks.

The e-card proposals have far-reaching consequences for some SME sectors, such as in the construction sector, where many companies complain that the proposal does not meet their needs. It is important to take into account the needs and concerns of the relevant sectors.

At the EESC, we strongly support the mobility and the ability of smaller companies to conduct cross-border trade and welcome measures to reduce the administrative burdens for businesses. The advantages and lighter administrative burdens will depend on the directives being implemented in national law.

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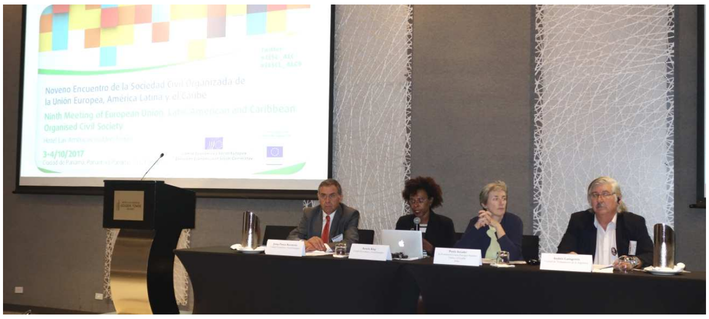
The European Union, Latin America and the Caribbean:
FOSTERING DIALOGUE BETWEEN THE TWO REGIONS

During the first week of October, while the Panama Canal was welcoming the 2000th "Neopanamax" vessel to pass through the recently expanded waterway, more than 120 representatives of civil society organisations from the EU, Latin America and the Caribbean where meeting in Panama City.



The meeting started with the employers and business associations discussing and agreeing, as a group, on the outcomes they wanted from this 9th meeting. This session was chaired by our colleague Josep Puxeu Rocamora and it was felt that the timing for this Summit appeared ideal for a variety of reasons. First, there is President Trump's scepticism to trade agreements with his southern neighbours. Secondly, Mexico and Mercosur are in trade talks with the EU and thirdly, countries within Latin America are progressing intra-regional trade. For example, this year, for the first time, 94% of goods moved tax-free across borders in the Pacific Alliance, a trading bloc that includes Mexico, Colombia, Chile and Peru. Formed in 2011, it accounts for half of all trade in the region and covers about 200 million people. So it is with regret that the planned EU-CELAC Summit 2017 scheduled for this month has been postponed with the possibility of cancellation.

One of the key outcomes was a statement that urged political leaders to propose multilateral solutions for achieving the UN Sustainable Development Goals that promote and uphold human rights, democracy, peace, sustainable development, sustainable businesses, decent work, multilateral cooperation and fair globalisation.

Completing EMU Makes Good Sense

The introduction of a single currency and monetary policy without common economic and fiscal policies was always going to be a problem. That is why the Commission's reflection paper on the Deepening of the Economic and Monetary Union is so important and should be heeded.

We need to deepen EMU, because, as the Reflection Paper says, it is incomplete, with economic union lagging monetary union. The euro and its institutions provided a stabilizing element in the global financial crisis and, before that had brought to business and citizens benefits in the form of low inflation and interest rates, and ease of cross border trade and travel. But the euro alone could never have brought about the economic convergence of heterogeneous Member States as some had hoped. Without strong complementary economic and fiscal policies, economic divergence was inescapable leading to a monetary policy where "one size fits none."

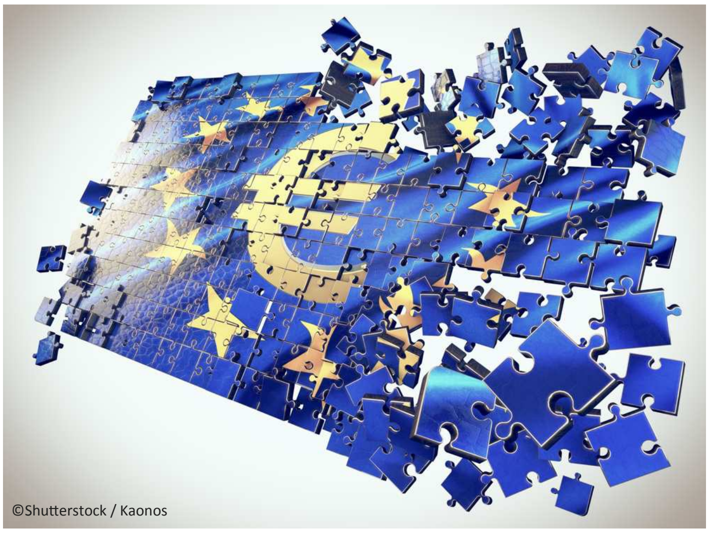
Much of the thrust of this Reflection Paper goes along the lines that the EESC has advocated for many years and is welcome. Our major concern, however, is the lack of political urgency to complete the task and achieve stability and prosperity for all Member States by operating together. We must recognize that economic responsibility goes hand in hand with solidarity and equally risk-reduction goes with risk sharing.

Why the urgency? Reforms are best done in times of calm, not under the pressure of crisis, which, as we have seen, resulted in friction and distrust between Member States, the splitting of the EU into North and South and creditor countries dictating terms to debtor countries. The framework was simply not in place to implement the necessary actions to combat the financial crisis and emergency measures were introduced through an intergovernmental system. We cannot continue to wait for crises to dictate governance.

Currently, the EU economy is in a welcome recovery phase, but we will be complacent at our peril. The drift towards protectionism globally, the eventual unwinding of low interest rates and quantitative easing makes for a more uncertain world, leaving limited time to make progress. The EESC reiterates to political leaders that it is even more important now that Europeans commit to a common sense of purpose by enhancing their influence and power through further integration. We require the Commission and the Council to take bold decisions before the end of this mandate to advance the necessary elements of EU wide governance.

For stability we need upward convergence of Member States, which requires national politicians and social partners to accommodate a European dimension into their national deliberations about economic, fiscal and social policies.

Policies for economic growth and wellbeing for the EU as a whole should be crafted with Commission input for efficacy, balance and fairness; for reasons of democratic accountability and ownership, the process of the European Semester should involve the European Parliament, national parliaments, social partners and civil society. The social dimension must be included on a par with the economic dimension.



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The EESC recognises that the failings in the governance of the financial sector were a key fragility leading to the financial crash alongside the failure to recognise mounting private sector debt and imbalances. It fully supports the steps to complete the Financial Union. Completing the Banking Union is fundamental to deepening all aspects of EMU, especially finding the solution to break the toxic sovereign debt/banking nexus. That is why the Committee's opinion supports the creation of sovereign-bond backed securities (SBBSs) as proposed in the reflection paper. In the medium-long run the creation of a European safe asset would be necessary to reduce financial market volatility and ensure the stability of the Member States' economies in case of an asymmetric shock.

An EU Deposit Insurance Scheme (EDIS), taking into account existing schemes should be pursued without delay to ensure savings in deposit accounts have the same better protection across the EU. Immediate solutions are required to tackle non-performing loans, which are a drag on banks' financial and human resources to provide finance for investments and are a deterrent to investors.

An own resource budget greater than the MFF 1% of GDP is called for to fund the enhanced European Stability Mechanism, which should morph into a European Monetary Fund able to resource Member States in crisis and also be a backstop to the banking sector. A bigger budget should also be a resource for maintaining essential investment levels in the euro area in productive infrastructure of a European-wide benefit. Access to such funds should be linked to the achievement of agreed progress on economic and social standards.

There is a need for fiscal policy capable of stimulating the euro area economy in times of downturn. In their current form, the fiscal rules and Country Specific Recommendations (CSRs) act pro-cyclically, further depressing weak economies in times of downturn. The MIP is an important part of the Semester process, which should be at the forefront of macroeconomic imbalance prevention on a euro-wide basis. This reflects competitiveness differentials often requiring harsh internal devaluations. There should be more emphasis placed on the adverse euro area impact of Member States that run chronic balance of payments surpluses.

While a full fiscal and political union may be medium to long term projects there are essential measures in this direction needed in the short term to strengthen EMU and provide more stability. We need to build up the necessary conditions to pool the essential elements of sovereignty, without fear of moral hazard to ensure that the EU works for the well-being of all. The Committee advocates the exploration of tools to improve economic governance in the EMU, for instance by creating a permanent Euro Finance Minister, while ensuring full democratic accountability. Bundling competences would enhance coherence of EMU policies that are currently fragmented due to the number of different institutions.

Recent ECOFIN Council meeting in Luxembourg

The reluctance to transfer sometimes only formally exercised political sovereignty to the EU level is understandable, but we should not be discouraged. There are an increasing number of expressions of political union today that we would not have thought possible a decade ago. We have the Banking Union – an area, which was a jealously guarded national competence. Other such competences are economic and budgetary policies. Nevertheless, within the European Semester, all euro area Member States have politically agreed surveillance of draft budgets, of macroeconomic imbalances and Country Specific Recommendations. It was accepted in the last European Parliament elections that a candidate chosen in advance by the parliamentary group with the most votes would be put forward as the President of the Commission. Against this background, a finance minister to oversee a larger European budget and the relevant Commission Institutions does not seem such a big step.

The financial, economic and fiscal measures are self-reinforcing and need to progress in tandem. Lack of political impetus to move forward has been the major impediment to progress. Part of this stems from the Council of Ministers, whose electoral mandate is to their national electorates, not the EU as a whole. The Committee supports more involvement of the European Parliament and more democratic involvement in the European Semester. Such democratic structures would be an important foil to recent growing anti-European populism as well as simply better governance.

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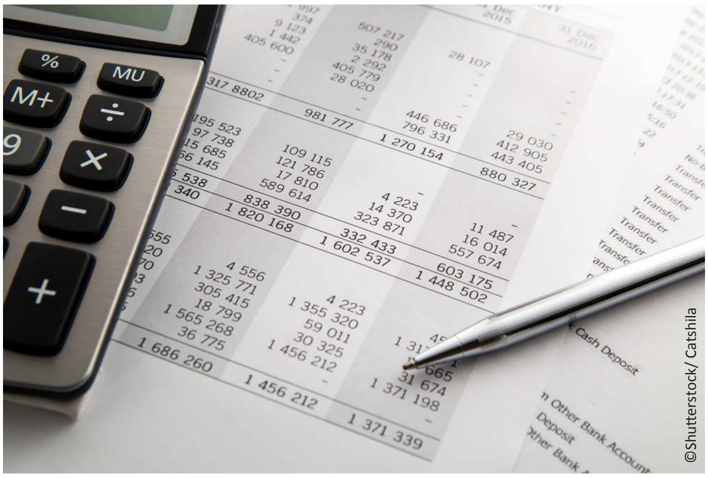
EU – a healthy monetary background and fresh finance

The EESC has recently prepared a set of four opinions as a part of the White Paper discussion on the future of the EU. Two of them relate to the euro-area economic policy challenges (healthy monetary background) and the prospects for EU financing (fresh finance). Let´s comment on both briefly.

Euro-area economic policy and its ambitions …

We welcome the progress made in the development of euro area economic policy. We regard as particularly important the circumstances linking the euro area environment with fiscal aspects and the strengthening of its institutional framework. It is essential to have a balanced mix of euro area economic policies, with their monetary, fiscal and structural components properly interlinked. Given the planned regrouping of these policies in line with economic development, especially due to expected monetary policy restrictions, this is becoming an increasingly important factor.

We therefore disagree with the European Council's rejection of a positive fiscal stance and call on it to reconsider this conclusion. At the same time, we recognise that the scope of a positive fiscal stance must be properly directed so as not to increase the still high level of public debt and be targeted at areas generating a clear long-term benefit.



We note the improving economic situation in the euro area and recommend that, in order to maintain and bolster this, crucial steps be taken to stimulate investment and carry out structural reforms that promote both higher productivity and quality jobs. Structural reforms should be implemented more robustly in line with the processes of the European Semester. Moreover, we recommend that the need for structural reform be seen at the euro area or EU level as a whole, not just in terms of isolated structural measures in the various Member States.

We strongly back enhanced cohesion in the euro area in the form of both closer coordination of economic and fiscal policy and improved financial intermediation, completing financial union and ensuring the euro area's greater influence in the global economy.

We also take the view that the euro is the currency of the whole of the EU and, in the light of the improving economic situation in the EU, favour again considering the possibility of enlarging the euro area, as it is anticipated that this would have positive impact on both the euro area and its new members.

In the context of the upcoming 2018 economic and policy recommendations, we emphasise the need to launch a debate on:

- creating a fiscal union;
- strengthening Member States' responsibility for and ownership of obligations vis-à-vis the euro area;
- the need for structural reforms within the European Semester platform;
- further strengthening of economic coordination and governance;
- improving the system of financial intermediation, leading to the reinforcement of real long-term investment by using the role of the EIB, EIF and EFSI 2.0;
- the euro area exerting a greater influence in the world.

… in keeping with fresh EU financing

We endorse the approach taken in the reflection paper whereby the basic principle of the EU budget must be to deliver European added value, achieving better outcomes than would be possible for uncoordinated national budgets acting individually. The time has therefore come to abandon the logic of a "fair return", of dividing Member States into net contributors or beneficiaries, and of ad hoc rebates for individual Member States.

The EU must first identify political priorities with high European added value and only then determine the resources needed to achieve them and reform the EU budget accordingly. The reform of the EU budget must of necessity aim to improve it, overhauling its structure as regards areas of expenditure and own resources, taking account of suitable rationalisation, efficiency and effectiveness criteria and maintaining direct, transparent channels of communication with the public.

The EU budget must also be able to provide the resources needed to achieve the strategic priorities for the way in which it is evaluated and updated:

- the adoption of a more decidedly performance- and results-oriented approach;
- evaluating the quality of the regulatory framework for allocating the EU budget;
- analysing developments in expenditure as a continuous medium-term process in which individual years represent a specific development trajectory that is required to secure the relevant results;
- the need to take account of the very close links between the EU budget, economic policy governance and current European economy dynamics;
- the need for continuity in EU budget policy and the implementation and evaluation of its goals.

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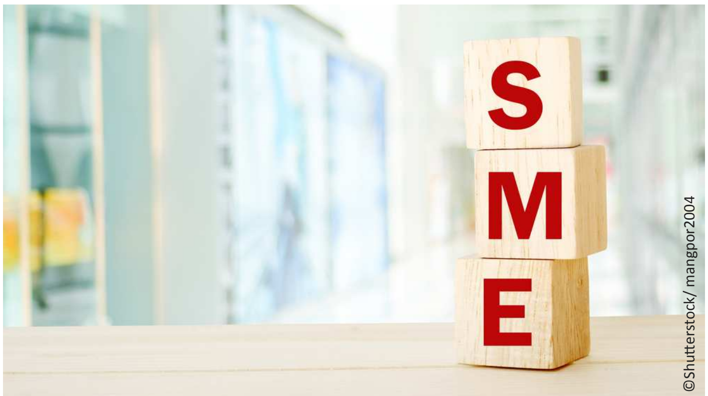
The Employers' Group took over administration of SMEs, Crafts, and Family Businesses Category

The Employers' Group has recently taken over the administration of the SMEs, Crafts, and Family Businesses Category and is striving to give it a new impetus. The category will serve as a forum for the discussion of EU legislation and general developments that concern the socio-economic sectors. The outcome of these discussions will feed the EESC with proposals enabling it to organise its future work.

The category will now also give due attention to the specific needs of family businesses and is now committed to promoting an effective cross-cutting EU policy for SMEs. The needs of SMEs, and especially those of micro-sized and small companies and family businesses, must be taken into account in all EU policies by applying the "think small first" and "only once" principles. SMEs are recognised as the backbone of Europe's economy, being key generators of growth and jobs and driving forces for innovation. At the same time, their small size makes them more vulnerable than larger businesses to excessive, unnecessary or over-complex legislation. The category therefore works to ensure that policy-makers are aware of the need to take account of the specific situation of SMEs.



The SMEs, Crafts and Family Businesses Category is currently composed of 37 EESC members and will have its first meeting under the new administration on 6 November 2017. The theme of the meeting will be *How to better support SMEs during the financial period 2020-2027*, with the presence of high-level speakers from the six main partner organisations of Group I (BusinessEurope, CEEP, UEAPME, Eurochambres, EuroCommerce, Copa-Cogeca), the European Small Business Alliance, the European Commission, and European Family Businesses.

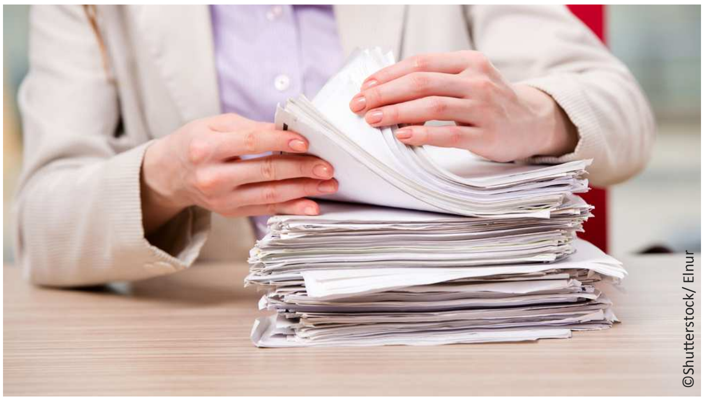
SMIT: New internal market information tool – new burden for companies?

In the joint declaration on the EU´s legislative priorities for 2017 issued on 13 December 2016, the European Parliament, the Council and the European Commission reiterated their commitment to promoting the proper implementation and enforcement of existing legislation. On the same day, the Commission published its communication on EU law: Better results through better application, which sets out how the Commission will step up its efforts to ensure that EU law is applied, implemented and enforced for the benefit for all. On 2 May, the Commission published its Compliance package, introducing three separate initiatives which should contribute to the main objective of increasing the trust of citizens and companies in the single market rules.

In this connection, the European Commission asked the EESC, in its capacity as an advisory body representing European civil society, to discuss the matter and draw up an opinion. Although the EESC usually works on the basis of dynamic consensus across all three groups, this is not always possible to achieve, particularly where unjustified EC proposals are concerned that deeply and negatively influence the day-to-day operations of companies and increase the administrative and financial burden on them.

European business generally welcomes the continued focus on making the single market work better. The modernisation of SOLVIT, a problem-solving service, could help increase the efficiency of this tool and its attractiveness and credibility, particularly for companies. SOLVIT should enable companies to resolve single market barriers in a rapid and pragmatic way. The proposed Single Digital Gateway, as a single on-line portal, could, if well designed, facilitate companies´ cross-border operations and make the single market more transparent.

Nevertheless the newly introduced Internal Market Information Tool (SMIT) is generating serious concern among European companies. SMIT should provide the European Commission with timely access to reliable data, enforce its ability to act, ensure full compliance more quickly and effectively and ensure that the single market rights of citizens and companies are respected. The Commission also states that the benefits of quick and precise enforcement outweigh the burden and costs imposed on the undertakings involved.



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European business is very sceptical about the proposed regulation and rejects the Commission´s arguments. Through extensive public consultations on specific issues, REFIT exercises, consultation of stakeholders from the relevant parties, the studies and reports commissioned, Eurostat and direct contact with market players, the Commission already has access to a wide range of detailed information for developing new initiatives. These channels could be explored better and more systematically to identify obstacles and segmentations in the single market, including non-compliance with EU legislation. Businesses are worried and concerned about increasing administrative burdens arising from the new obligation on companies to provide confidential commercial information and sensitive data (pricing policy, business strategy) at the risk of fines and penalties. This additional SMIT procedure would create an extra layer of specific and direct reporting obligations at European rather than national level. This adds to the complexity of overall reporting, also between different levels of government, i.e. at European, national, regional and local level. The proposal should be reconsidered and, if maintained, made voluntary for companies, and it should be ensured that confidential information will be provided only with the company's consent.

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