



British
Chambers of
Commerce
The Ultimate Business Network

THE EUROPEAN UNION IN 2020: A BUSINESS VIEW

January 2010

“Over the last ten years, the EU has grown and created jobs but at a slower rate than its major competitors. If we are to maintain, let alone increase, current living standards the EU must focus above all on unfinished business: completing the single market, improving the business environment, and refocusing the EU budget on growth”

Introduction

If the original ambition of the Lisbon agenda for the EU to become the world's most competitive knowledge economy by 2010 proved hubristic, it nevertheless provided an important framework and an impetus for reform. Some of the targets the EU institutions and member states set themselves have been met, most have not. So while the EU has grown and has created jobs, it has done so at a slower rate than its major competitors, and EU governments as a whole still invest less in education, skills, research and development. We believe that over the next ten years the EU needs to focus above all on unfinished business, albeit against a backdrop of global contraction, a smaller public purse and commitments to reverse climate change.

We hope therefore that by 2020 significant progress will have been made on liberalising protected markets, on completing the single market, on routing out latent and blatant protectionism; on helping European businesses be more innovative; and on improving the business environment in general. Since labour market rigidities allied to under investment in education and skills have been key reasons for the EU's persistent under-performance, the BCC regards it as absolutely critical to achieve by 2020 significant structural reforms to Europe's labour markets and education policies. This means in particular improving flexibility and mobility across Europe, and securing major improvements in skills and productivity.

We recognise that the Commission, European Parliament and member state governments cannot face these challenges alone. EU action to deliver business priorities will be met by redoubled efforts by businesses across Europe to deliver

opportunity, jobs and growth. In return for restoring confidence and providing the right business environment, it is up to business to respond by increasing competitiveness and delivering growth; whether through identifying efficiency savings, driving up productivity or training a future ready workforce. The BCC, along with its sister organisations across Europe, is committed to being at the forefront of economic change.

Over the next ten years, the BCC believes the EU should strive to achieve the following:

- **A true single market in goods and services**, key to the economic success of Europe, adding 4-5% to current European GDP;
- **A better business environment for SMEs**, particularly thanks to a shrinking burden of regulation, more flexible labour markets, an efficient infrastructure and refocused business support policies;
- **A refocused budget (2013 to 2020)**, representing as an upper limit not more than 1% of GDP, and based on three major funds aimed at achieving the twin objectives of sustainable growth and jobs.

In the following pages, we set out in detail the changes and reforms we believe are necessary in order to achieve the right business environment and therefore the jobs and growth that will flow for the EU. We make a distinction between the actions required from the EU institutions and those required from member states.



A TRUE SINGLE MARKET IN GOODS AND SERVICES

We call on the Member States to implement full liberalisation of energy, telecoms, postal and transport markets, according to the timetables set in 2007.

Over the past decade, the European Commission has pushed for more competition and integration of gas and power markets in particular, and its efforts have brought more choice for industries and consumers. Nevertheless, big vertical companies continue to dominate many national markets and there are not enough links between these markets to allow for cross-border competition. Member states must act urgently to open up protected markets.

Moreover, an integrated EU energy market is also key for Europe's energy security, as it will allow for an 'energy' foreign policy that reduces the EU's dependence on Russian gas.

A significant rise in trade in services

With services representing 70% of EU GDP but only 24% of total EU trade, there is much scope for boosting cross border trade. We believe that the Services directive provides the right framework for a single market in services. However it will only succeed in boosting trade if the following are achieved: greater awareness of the directive and its benefits thanks to coordinated action by the Commission, member states and relevant stakeholders; fully functioning Points of Single Contact (PSC) in all member states by 2011; and the provision of PSC services in other working languages. Failure to do so will ensure that businesses are deterred from setting up or providing services across borders and will place those 'laggard' member states at a competitive disadvantage.

We would also like to see the European Parliament responsible for monitoring the success of the directive, with help from the European Commission and member states.

A rise in trade in general thanks to full implementation of single market rules.

Failure by national governments to implement European rules correctly and on time is a breach of legal obligations and has a destabilizing effect on trade between member states. Uneven enforcement of EU rules as well as 'gold plating' by national governments also undermine the day to day working of the single market. BCC would like to see a greater role for the European Parliament as well as National Parliaments in undertaking ex-post assessments of key legislation each year to determine whether it is achieving its objectives; and for the Commission to assess the effectiveness of national implementation and enforcement through the systematic use of correlation tables.





A BETTER BUSINESS ENVIRONMENT FOR SMEs

SMEs are the lifeblood of the European economy, creating more than half of the EU's GDP and employment. Developing sustainable new businesses as well as supporting existing SMEs is essential to achieving the aims of more jobs and growth. In agreeing the 2008 Small Business Act, the European Commission and EU member states have shown an appreciation of the significance and particular challenges of smaller businesses. None of the measures listed below are radical but, taken together, they will make a real difference to businesses on the ground.

A shrinking burden of regulation

No one disputes that regulation disproportionately affects SMEs, both in terms of cost and administration. Nevertheless efforts by the EU institutions and member states to find more equitable and efficient ways of regulating small business have been mixed. At a time when SMEs will be struggling to lead Europe out of recession, they cannot afford to be clobbered by unnecessary bureaucracy.

The BCC believes that simple and proportionate regulation is a major component of a positive business environment. That is why we are launching a Europe wide campaign to promote the cause of better regulation and ensure that it stays at the top of the political agenda.

We ask the Commission, undoubtedly the leader of the pack when it comes to regulatory reform, to ensure that the new SME test has real teeth. Costs for SMEs must be consistently quantified in all the relevant impact assessments; where they are not, the proposal must be halted until clear costings can be delivered.

We ask the European Parliament, a relative newcomer to the cause, to adopt the best practice established by the Internal Market committee in its use of Commission impact assessments when drafting its amendments. This could be further improved by earlier contact between the Committee and the Commission prior to publication of any new

proposal. We also ask the Committees to vet the quality of the Commission's impact assessment, referring it to the IAB and/or commissioning their own if it is found wanting.

We ask that the Council uses the collective resources of its members to conduct impact assessments on amendments to Commission proposals. Between them member states have the resources and expertise to ensure that the Council plays a full part in better regulation; they should utilise this.

In addition, we ask those member states who are yet to implement a fully functioning impact assessment system in their own countries to do so by the end of 2011. Furthermore member states should be producing impact assessments at the earliest available opportunity (i.e. before publication of a Commission proposal) to ensure that the Commission impact assessment is as accurate and comprehensive as possible.

Finally, both the Council and the Parliament need to support better the administrative burden reduction programme. While both institutions support the principle of administrative burden reduction, the passage of Commission proposals for simplification or withdrawal has been excessively slow. As Europe sits on the edge of recovery every effort must be made to reduce regulatory burden, particularly for smaller businesses.


More flexible labour markets

It is fair to say that overall progress in reforming Europe's labour markets has been poor¹ (with a few notable exceptions such as Germany's Hartz IV and France's review of the 35 hour week). And yet we know that structural reform is vital if we are to sustain our current standards of living, let alone improve them². The Commission, with its useful work on flexicurity, has identified who needs to do what. We ask that member states as a matter of urgency get on with reforming social security and pension systems or increasing working hours and making it easier to employ people.

1 - The Lisbon Scorecard IX: How to emerge from the wreckage - Simon Tilford and Philip Whyte, Centre for European Reform

2 - Jobs, Jobs, Jobs: Creating more employment in Europe - Wim Kok, 2004





The BCC believes it is also critically important to ensure that the EU's social agenda does not hamper SMEs' ability to thrive and create jobs. We call on the Commission to introduce a moratorium on additional labour market regulation at European level unless it can be proved to help retain or create jobs. The Agency Workers directive, for example, will make the UK's labour market less not more flexible and will cost jobs at a time when the country is struggling to emerge from recession.

By contrast, measures to foster labour mobility, action to suppress any discrimination against migrant workers, or action on barriers to mutual recognition of qualifications would have a positive impact on job creation and growth. We call on the EU institutions and member states to fully implement and enforce these.

Easier access to a skilled workforce

No one disputes the link between a country or a continent's wealth and the quality of its human capital. The higher skilled are more productive and more employable. Indeed in 2007, 83.8% of people with a tertiary education were employed compared with 70.2% of people with a secondary education and 48.6% of people without either³.

The Lisbon agenda rightly identified investment in all levels of education as a priority alongside life-long learning, whether in or out of work. The statistics show, however, that the EU still has a way to go. We call on the European Commission and the member states to focus on creating a first class universal education by increasing funding and establishing an overall Europe-wide target of 40% tertiary educational attainment by 2020⁴ (with member states contributing according to their readiness and ability); to providing incentives for work-based training; and to attracting foreign talent.

In particular we call on the Commission to forge ahead with the recognition of skills qualifications before extending the Erasmus or Leonardo programmes, for example; we would also like to see easier access to the European Social Fund by business for work-

based training.

We call on the UK to:

- Invest further in basic skills: without basic skills (literacy, numeracy, language and presentation) a person's ability to acquire the skills necessary for work are seriously limited.
- Address the perception that vocational courses are seen as less worthy than academic courses and encourage a greater proportion of young people to participate in vocational work-based learning.
- Inject greater flexibility into the adult training system. Businesses need flexible courses and qualifications for their employees, not standardised qualifications to meet national targets. Moreover member states must recognise the importance of 'bite-sized' training that does not necessarily lead to formal qualifications.
- Match supply & demand. In the UK the demand for skills from business is inversely proportionate to the supply of courses in Further Education (FE). Those seeking advice should be directed according to career prospects based on business requirements.
- Provide more flexible solutions to business's skills needs and for the funding and delivery structure to be made more business friendly. We would also like to see Government funding made available for adults who already have degrees or other vocational qualifications to retrain in vocational professions to meet the changing needs of the economy.
- Opt-in to the EU Blue Card system; we believe that it is in the UK's interests to adopt this proposal if we are to address skills shortages and foster greater labour mobility within the EU.

3 - OECD. Employment rates for 15-64 year olds by skill level, 2007

4 - Education Council Conclusions, 2009





Infrastructure

Energy: we fully support the EU and national targets for a steady increase in Europe's use of renewable energy sources. This will be achieved through a complex web of policy making where the even implementation of current rules governing the internal energy market is a precondition for the development of Renewable Energy Sources.

Practical measures to encourage behavioural change and quick cost effective deployment of climate friendly technology will also be crucial. In particular we will need to see radical reform of the way that programmes such as FP7 and CIP are accessed and developed if SMEs are to make proper use of the measures set out in the Commission's Recovery Programme and Small Business Act, let alone the current consultation. We call also call on the Commission to ensure that its revision of the Energy Efficiency Action Plan enhances support and incentives for business without creating further red tape.

Moreover EU spending on R&D falls well short of the Lisbon target of 3% of GDP and needs to be increased if we are to develop the green technologies we need. And finally planning rules and grid connection issues need to be resolved.

Diversification of the sources of supply is another ingredient of the energy security agenda. This means not only shifting to alternative sources of power but also reducing the EU's dependence on Russian gas. We call on the EU to further develop its energy foreign policy, by supporting alternative supply routes and strengthening political and commercial links with resource-rich countries.

Broadband: we fully agree with the Commission's emphasis on digital inclusion. We currently have a potentially dangerous digital divide⁵ within the EU that could compromise an 'online single market'. We therefore call on the Commission to establish an EU-wide minimum broadband speed of 10 mbs by 2020, increasing to 20 mbs by 2030, in an effort to encourage those member states that are seriously lagging behind to invest more. We also call on the Commission to undertake a

fundamental review of the e-commerce directive that is now woefully out of date. And finally we call on member states to provide incentives to business for work based training in ICT in particular.

Transport: we welcome the use of TENs money to upgrade some cross border corridors in the UK; we call on the UK to lobby for increased investment in UK port infrastructure, especially enhancements to rail gauge and road connections that improve the flow of cross-border trade. We call on the EU institutions and member states to agree a revised EU budget that boosts the funds available to improve TENs.

5 - "The 2008 e-readiness rankings" - The Economist Intelligence Unit, 2008





A NEW EU BUSINESS SUPPORT PROGRAMME

We warmly welcome all the initiatives that the Commission has taken to improve the business environment for SMEs in particular and the emphasis that the EU institutions and member states alike have placed on enterprise, as evidenced in the EU Small Business Act. We believe that the SBA needs to be built on if it is to deliver practical benefits to businesses on the ground sooner rather than later. We call on the Commission and member states to deliver an EU Business Support Programme that has the following key ingredients:

A reformed FP7 and CIP: focusing on flexibility and equitable access.

An inexpensive IPR strategy for business to transform their ideas into financial assets: a single European patent should be translated into two languages: the language of the filer's country of origin and English, the international business language.

Access to finance: Europe's financial systems have an in-built bias against SMEs. We wish to see the Commission continue in its efforts to make mezzanine finance more available to SMEs and to encourage the use of the European Investment Bank and the European Investment Fund to provide financial support, particularly for small loans and equity investment. We call on the member states to enforce more effective competition between banks, and address the permanent market gap that exists for SMEs attempting to access growth capital (as the recent Rowlands review in the UK has identified).

Increased spending on R&D: member states have fallen short of the Lisbon target of spending 3% of GDP on research and development (indeed only 2 out of 27 member states have met the target). We call on the UK to increase its spending as a matter of priority, alongside other member states.

Streamlined business support at EU level: The EU has a plethora of agencies and programmes that support business but they are not well advertised or their services are under-utilised in many member

states. We believe that the European Commission needs to do a much better job of promoting the Enterprise Europe Networks alongside invaluable agencies such as Solvit or indeed the EU business centres in non-EU countries such as China and India. Moreover the Commission should also make clearer what funding is available to business whether it be through structural funds or programmes or institutions such as the EIB. For perfectly understandable reasons, there is real confusion as to what is out there to help small business. The Commission needs to think urgently about simplifying and promoting the different types of support available. The Chambers of Commerce stand ready to help the Commission publicise this.






A REFOCUSED BUDGET (2013 to 2020)

The budget deal agreed by member states in December 2005 was a bad deal for jobs and growth. No less than 46% of the budget was allocated to agriculture and rural spending with cuts on more deserving areas such as research and infrastructure spending in new and old member states. Moreover the funds that have been allocated to boost competitiveness are difficult to access.

We believe that this budget has done little to help achieve the Lisbon objectives of increased growth, employment and competitiveness. Any future budget needs to address these challenges, against a backdrop of tight public finances, an ageing population, globalisation and technological change.

- The BCC believes that a new refocused budget should represent, as an upper limit, not more than 1% of GDP, and should be based on three major funds aimed at achieving EU 2020 targets.
- The growth and competitiveness fund would account for 50% of the total and would include assistance for R&D (alongside a radical reform of way funds are accessed); education and training; infrastructure (TENs); and the promotion of climate friendly, resource and energy efficient technologies. The competitive advantage that Europe has in environmental technology needs to be built on and sustained through easier access by enterprising SMEs to EU monies earmarked for UK and EU monies earmarked for R&D and innovation (such as FP7, for example); and restructuring as a result of structural reforms in labour markets.
- The convergence fund would represent 30%, be designed to close regional disparities and compensate those European regions no longer requiring large-scale assistance.
- The third fund, representing 20% of the budget would be devoted to restructuring as a result of the phasing out of agricultural spending and

devolution of spending on rural policy to member states.

- The refocused budget on three major funds needs to be accompanied by simpler financial and administrative procedures - reducing the cost of bureaucracy and enabling more of the funds to be used in delivery programmes - with control and monitoring focused on the areas of greatest risk and/or largest expenditure.
 - Finally, the EU will have to build on reforms to its accounting systems, so that the history of qualified transactions in its accounts, in each of the last 14 years, becomes a thing of the past.
- 

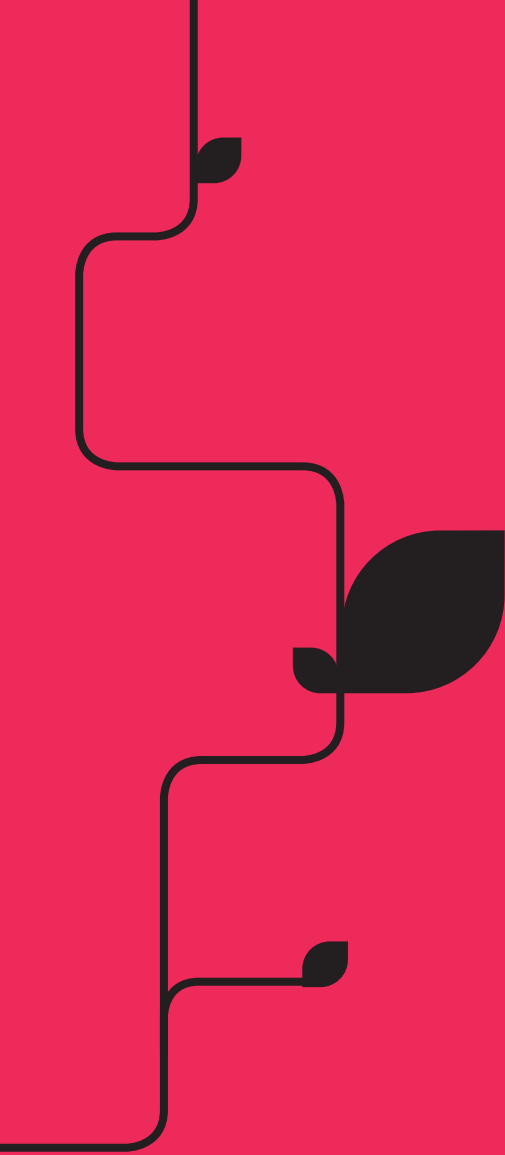


CONCLUSION

The EU truly will add value if it commits to focusing on unfinished business as its priority for EU 2020. Structural reform of Europe's labour markets and increased and more targeted investment in education are vital to Europe's long term economic recovery. We understand that some of the reforms such as pension reform will be difficult to push through in the face of social unrest. And there will be serious temptations to row back on earlier commitments. But any country that fails to reform will condemn itself to lower productivity, employment, lower living standards; unsustainable public finances and rising inequalities.

Business can help get Europe growing and working again, but it must be backed up by governments and politicians who understand the problems highlighted above - and who are determined to solve them over the long term.





Contacts

For further information, please contact Karen Clements on 020 7654 5801 or k.clements@britishchambers.org.uk.