

BUSINESSEUROPE



# GO FOR GROWTH



AN AGENDA FOR THE EUROPEAN UNION IN 2010-2014



# BUSINESSEUROPE



## **WHO ARE WE?**

BUSINESSEUROPE's members are 40 central industrial and employers' federations from 34 countries, working together to achieve growth and competitiveness in Europe.

BUSINESSEUROPE, the Confederation of European Business, represents more than 20 million small, medium and large companies.

# GO FOR GROWTH

## AN AGENDA FOR THE EUROPEAN UNION IN 2010-2014

### THE CRISIS HAS GENERATED MANY QUESTIONS

In 2008 and 2009 the world faced the most damaging financial and economic crisis in more than 50 years. The crisis has generated many questions about market functioning, the role of the state and governments in the economy and the contribution of business to society. Although this debate is legitimate, it is important to recognise that the free market economy has brought tremendous growth and welfare to Europe's citizens.

### GOING BACK TO THE FUNDAMENTAL VALUES OF THE MARKET ECONOMY

The best way to strengthen the economy is to go back to the fundamental values of the market economy:

- reward work and productive investments;
- encourage reasonable risk-taking;
- ensure transparency on market value;
- protect and develop intellectual property rights;
- identify and provide sanctions for fraud;
- ban distortions of competition and fight protectionism;
- finance affordable public services and social security.

Implementing these principles is essential for the prosperity of European citizens.



Philippe de Buck  
Director General

Jürgen R. Thumann  
President

### GO FOR GROWTH SHOULD BE MORE THAN A SLOGAN

In this document, BUSINESSEUROPE and all its members propose an agenda for the European Union in 2010-2014. Go for growth should be more than just a slogan. It should inspire every political decision.

## **DEVELOPMENT OF COMPANIES IS CENTRAL**

Growth and employment will be achieved if EU decision-makers put development of companies at the centre of their policies, if the Single Market is completely revitalised and if Europe's position in the world is strengthened.

When they can operate in a business-friendly environment, companies are successful in producing first-class goods and services, in creating jobs, in developing new technologies. When companies are successful, they create the wealth that is needed to finance public services and social security.

## **THE POST-CRISIS WORLD WILL BE VERY DIFFERENT**

It will not be business as usual in 2010-2014. The post-crisis world will be very different!

- Global economic growth will no longer be mainly driven by developed countries. Emerging economies will play an increasingly important role. They will be our partners but also strong competitors, even in high value-added products.
- Supporting innovation is absolutely essential because it is the key to economic recovery, the motor to revitalise the Single Market and the best way to create new jobs.
- The fight against climate change will remain at the highest level of priorities. European business has made great efforts to reduce CO<sub>2</sub> emissions under the Kyoto protocol rules. It is committed to continue doing so. Climate change will not be solved by EU unilateral actions and cannot be driven only by rules. If the European Union wants to lead in the fight against climate change, it should put a much greater emphasis on technology. European companies have a lot to offer! But much more could be done with appropriate policies to address obstacles to innovation, skills shortages, lack of venture capital, and under-development of entrepreneurship.
- More secure access to energy through the diversification of energy sources and consumption efficiency is also indispensable. Nuclear power, renewable energies, carbon capture and storage and other new technologies are essential to meet this challenge.


The Competitiveness Council said it in May 2009: Europe must develop a truly integrated industrial policy. This should be the European Commission's priority.

## THE KEY TO SUCCESS IS TO ENSURE THAT EUROPE:

- meets 5 key challenges facing our economies and societies;
- fulfils 4 conditions for a sustained recovery;
- strengthens 3 drivers for business opportunities;
- develops 2 ingredients for boosting employment,
- implements 1 integrated policy for entrepreneurship and industry.

BUSINESSEUROPE counts on the EU institutions to implement this agenda for sustainable growth. Companies for their part bring their contribution to achieve a dynamic and innovative resource-efficient economy.



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1. GET OUT OF THE CRISIS
  2. TACKLE DEMOGRAPHIC AGEING
  3. FIGHT CLIMATE CHANGE
  4. ENSURE ACCESS TO ENERGY AND RAW MATERIALS
  5. STRENGTHEN EUROPE'S ROLE IN THE GLOBAL ECONOMY



# FIVE KEY CHALLENGES

‘Europe has to meet its challenges today to play at its full strength in the future’

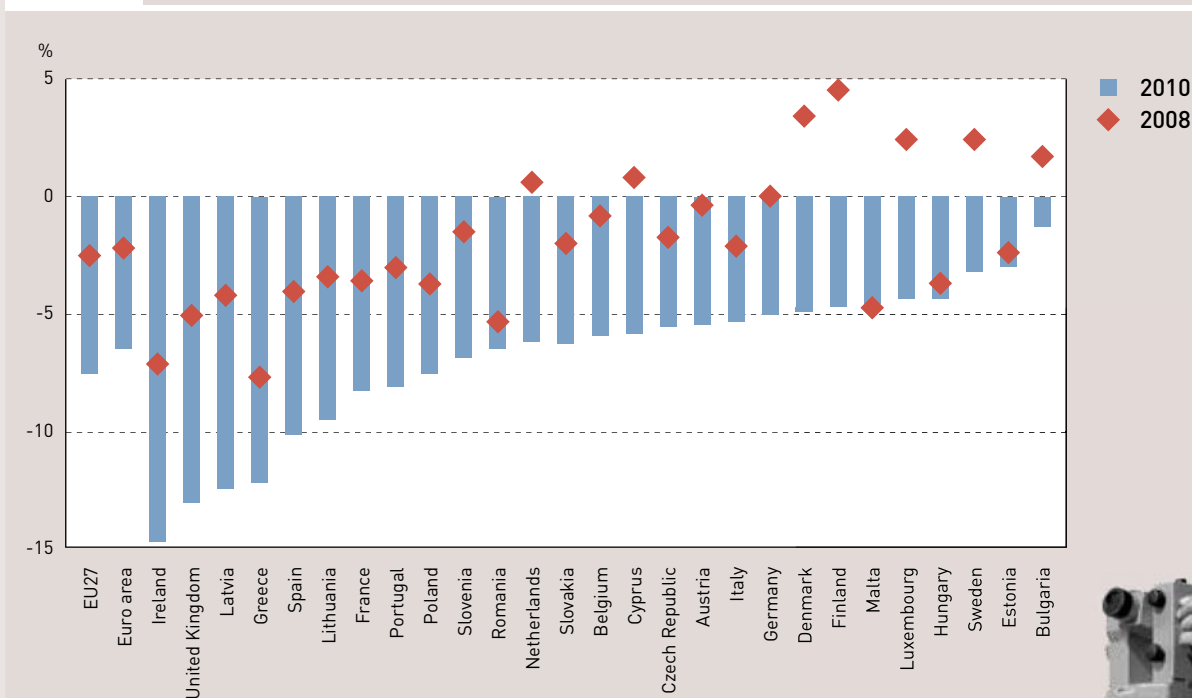
# 1. GET OUT OF THE CRISIS

Although the recession may be drawing to a close, dramatic economic figures highlight the challenges ahead. By the end of 2010, unemployment will increase to 10% and private investment will decline by around 15% from its 2008 level. Public debt will reach 80% of the European Union's GDP and public deficits 7%. Now is the time for policy-makers to commit to reforms.

Companies need access to affordable financing to start investing again. Weak bank balance sheets and a dramatic re-assessment of credit risks create a major constraint for the recovery. In addition, the poor state of public finances and rising public debt is putting pressure on long-term interest rates, with the effect of crowding out private investment.

Stabilising financial markets, returning to sound public finances, speeding up structural reforms and keeping markets open is indispensable if we want to have a sustained economic recovery.

**Chart 1** Budgetary balance as % of GDP



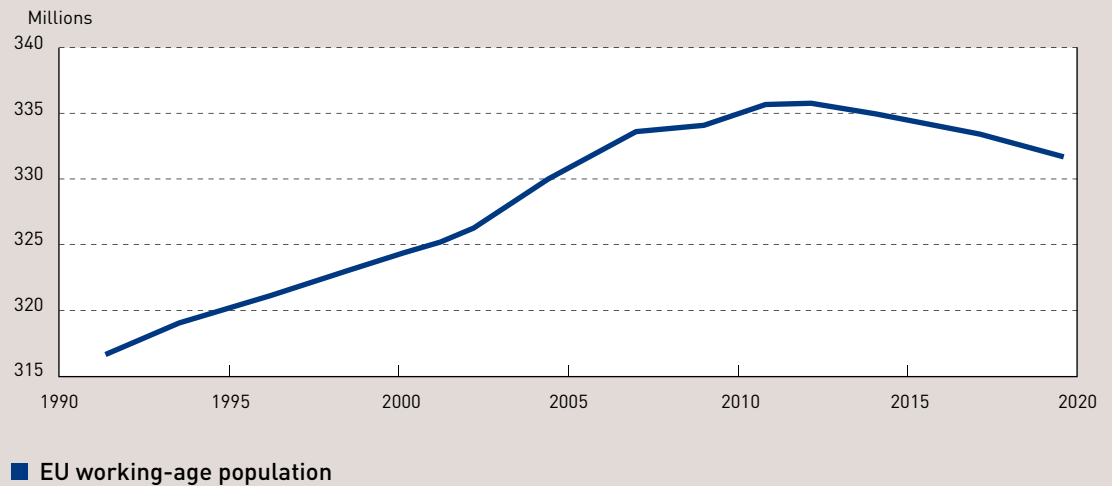
Source: DG ECFIN (AMECO Database)



## 2. TACKLE DEMOGRAPHIC AGEING

The economic upswing will not last if companies lack a sufficiently qualified workforce. As the European population ages, it creates a demand for new products and services in Europe. But from 2010, it will also result in a decline of the working-age population, with a loss of over 3 million potential workers by 2020 and over 50 million by 2060. If the EU continues to ignore this trend, it will not only undermine its social protection systems, but also lose business opportunities and the related jobs and growth.

**Chart 2** The EU's demographic challenge



Source: Eurostat and BUSINESSEUROPE

Europe is already suffering from a deficit in the provision of scientific and technological skills. Ageing will exacerbate the mismatch between people's skills and those that are needed in labour markets. We face massive competition in the global race to grow, attract and retain talents. Highly-qualified third-country workers only make up 1.72% of total of the employed population in the EU, compared with 9.9% in Australia, 7.3% in Canada, 3.2% in the US and 5.3% in Switzerland. At the same time, around 400,000 Europeans with scientific skills live and work in the United States.

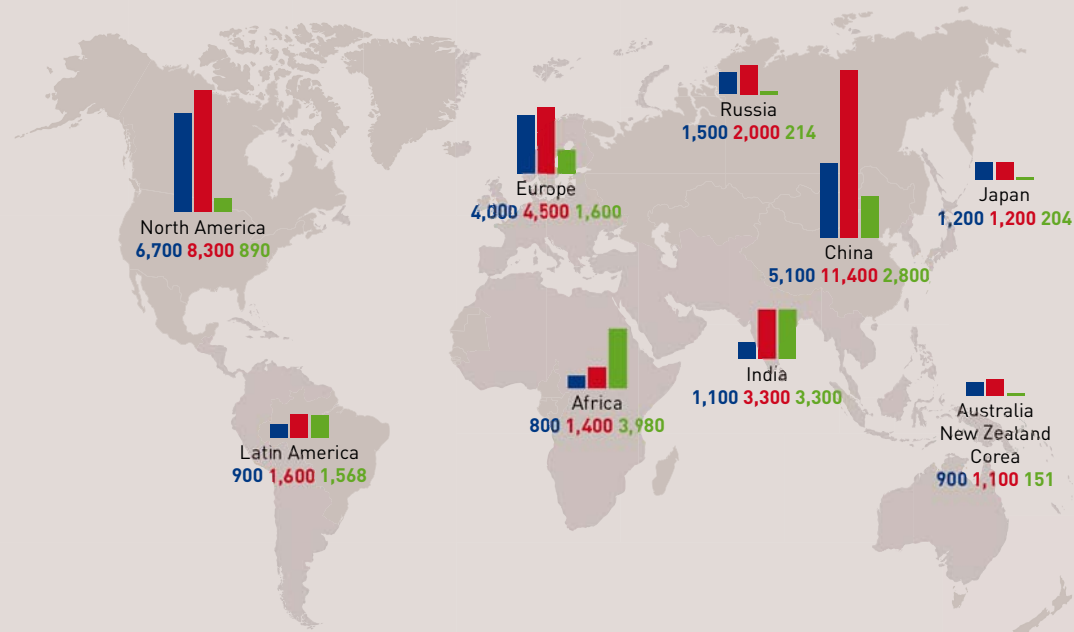
Increasing the supply of skilled workers and adapting labour markets and social protection systems to demographic ageing is essential if we want to boost employment in Europe.

### 3. FIGHT CLIMATE CHANGE

Fighting climate change requires a variety of innovative products and services, as well as significant changes in production and consumption patterns. Between 1990 and 2005, the EU energy-producing sector reduced its green house emissions by 11% and manufacturing industry by 13%. These sectors will further reduce their emissions by at least 21% by 2020 through the EU emissions trading scheme.

However, EU energy producers and industry account for only 6.5% of global emissions. Society at large must contribute and all countries must make their fair share of efforts.

**Chart 3** Current and future greenhouse gas emissions in the world



- 2005: CO<sub>2</sub> emissions (million tonnes)
- 2030: projected CO<sub>2</sub> emissions without climate policies (million tonnes)
- 2050: greenhouse gas emissions allowed under 2 tonnes/capita scenario (million tonnes)

Source: IEA World Energy Outlook 2007, United Nations



Climate change is also an opportunity. The global market for low-carbon and environmental goods and services is projected to grow to over €4.8 trillion by 2015. European industry is a world leader in low-carbon and eco-efficient technologies. Through continuous product innovation, it helps others to reduce emissions in Europe and around the world. However, green technology cannot be the only engine of European growth. To develop a broad range of innovative products and services, we need to address the weaknesses in Europe’s innovative capacity.

A global effort in the fight against climate change and enhancing Europe’s overall capacity to innovate is indispensable if we want to reduce global greenhouse gas emissions without jeopardising growth in the European Union.

#### 4. ENSURE ACCESS TO ENERGY AND RAW MATERIALS

The EU is dependent on imports for most raw materials and is the largest importer of gas and oil. As world consumption increases due to growth in emerging markets, pressure on raw materials is mounting. Accessible oil reserves are shrinking, gas supplies can be uncertain and export restrictions on raw materials are on the rise. These factors could undermine the EU’s future growth.

**Chart 4** Rising oil prices



Source: ECB

More secure access to energy through the diversification of energy sources and consumption efficiency is desirable for environmental as well as economic reasons. Renewable energies, nuclear power, carbon capture and storage and other new technologies are essential to meet

the challenges of security of supply and climate change. Establishing a comprehensive and competitive European internal market for gas and electricity is another critical factor for reaching these goals.

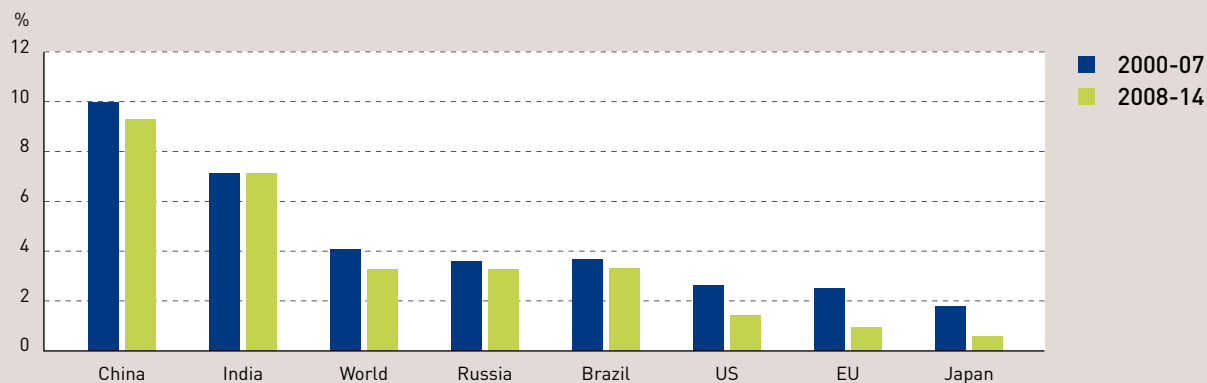
Access to raw materials is crucial for producing technologically sophisticated products. If Europe wants to develop a wide range of innovative products in green technology and clean production, fair and undistorted access to raw materials from global markets must be ensured. Effective implementation of the EU's Raw Materials Initiative, notably through trade negotiations and enforcement of WTO rules, should be at the forefront of Europe's policy.

## 5. STRENGTHEN EUROPE'S ROLE IN THE GLOBAL ECONOMY

Europe is the world's largest exporter of manufactured goods and services and Europe's prosperity depends to a large extent on trade, which accounts for 15% of its GDP. Exports will be even more important in the future since growth is increasingly taking place outside Europe. Average GDP growth in 1980-2008 reached 2.2% in the European Union, 2.3% in Japan, 2.9% in the United States compared with 6.3% in newly industrialised economies and 7.4% in developing Asia.

Europe's economic strength at home depends on its competitiveness in the world. We should therefore not be complacent about our performance in the global economy. As emerging economies increase their share of world trade, Europe's share is declining. It is estimated that by 2025, the EU will no longer be the world's first exporter. Europe is also underperforming in the export of high-tech products, where it is losing market share even faster than in other product categories. It is also worrying that the EU has suffered significant losses on some important markets, such as India and Russia.

**Chart 5** Real GDP growth: Gap with emerging countries widening in post-crisis period



Source: IMF

2. RETURN TO SOUND  
PUBLIC FINANCES

3. SPEED UP  
STRUCTURAL  
REFORMS

1. STABILISE  
FINANCIAL  
MARKETS

4. KEEP  
MARKETS OPEN



# FOUR CONDITIONS FOR RECOVERY

‘The EU now has a unique opportunity to set  
the course for a coherent growth strategy’

## 1. STABILISE FINANCIAL MARKETS

Shortcomings in the world financial system must be fixed to avoid a repetition of pre-crisis excesses. Financial innovation is as important as technical innovation to foster economic growth. It must therefore be preserved. However, to secure responsible growth, the quality of financial products needs to be verified. Deficiencies in quality control were an important factor in the crisis. They need to be addressed through appropriate and proportionate regulation. Financial markets should be regulated in a smart way, so that productive investment and entrepreneurship are not stifled but encouraged.

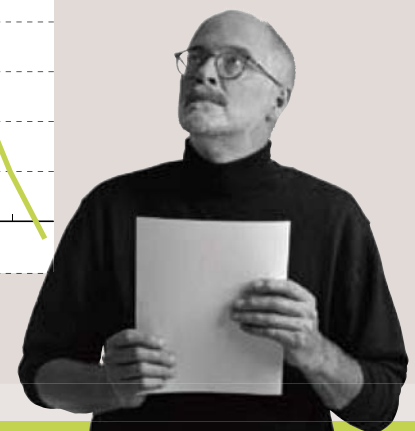
Financial supervision needs to be improved to identify the emergence of systemic risk in good times. But effective cross-border supervision also requires further thinking on burden-sharing and bank resolution systems in the European and global context, as well as on the need to secure affordable access to financing for companies.

There is a real the risk of over-regulation of the financial sector in the aftermath of the crisis. Policy-makers are discussing a multitude of new capital requirements to be imposed on financial institutions. All proposals have their individual merits but their combined effect on the availability of credit, especially for SMEs, has not been properly assessed. Capital ratios, if they are not well conceived, could substantially harm growth prospects on our continent.

Chart 6 Euro-area bank loans



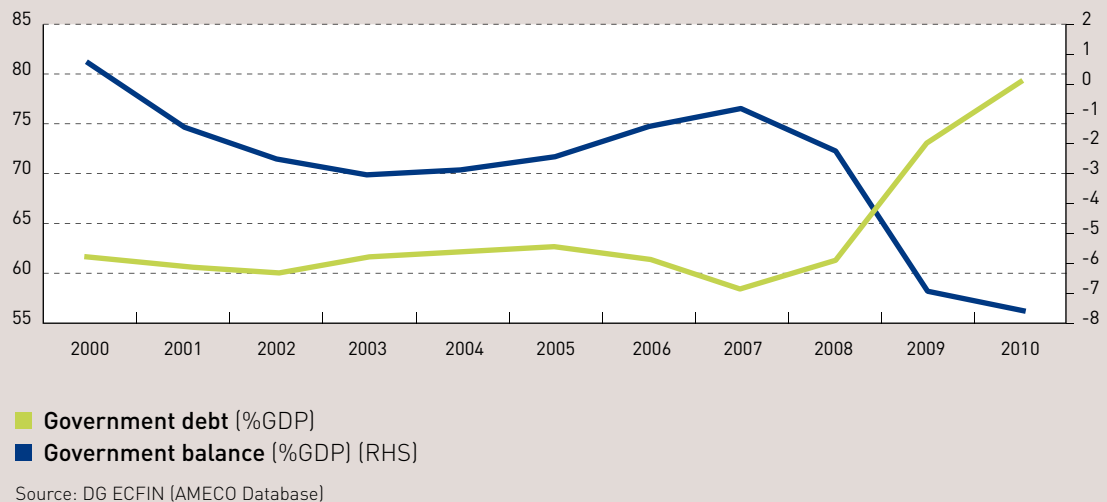
Source: ECB



## 2. RETURN TO SOUND PUBLIC FINANCES

After the economic crisis of the 1970s, many European countries experienced the dampening effects of excessive public deficits on growth and employment. The current fragile recovery cannot be transformed into sustained growth if excessive debt is simply shifted from the private to the public sector.

**Chart 7** Government debt and budgetary balance



Restoring confidence in public finances requires clear commitments on when and how to consolidate public finances. If the recovery lasts, the consolidation should start no later than 2011. But the nature of consolidation measures is equally important. Higher taxation, particularly on labour and capital, will damage growth and job prospects. The priority must be to reduce public spending and rebuild the tax base through growth-enhancing reforms.

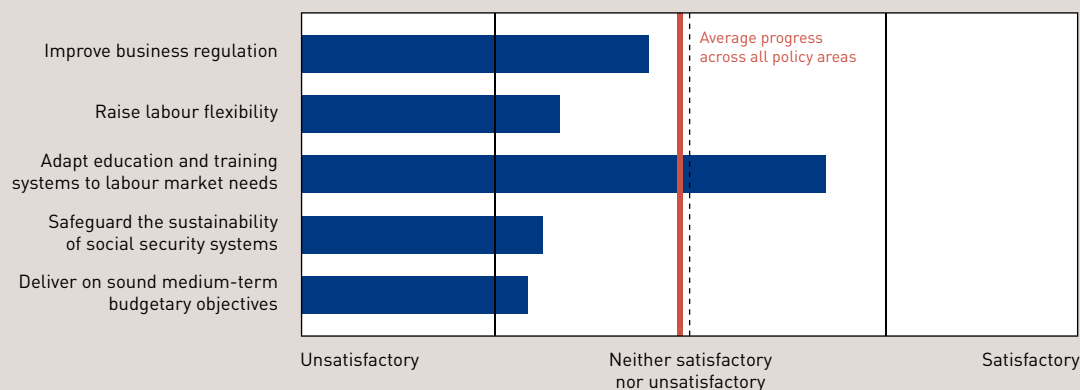
The Stability and Growth Pact remains the appropriate framework to coordinate a return to sound public finances. Greater focus on debt sustainability and structural reforms will be key to combine growth and fiscal consolidation in the years ahead.

In order to become a vehicle for economic growth, the EU budget should be reshaped. Today, 40% is spent on the common agricultural policy and rural development compared with 8% only on competitiveness-related projects. The strategic choices of the EU to improve competitiveness must be better reflected in its budget.

### 3. SPEED UP STRUCTURAL REFORMS

Structural reforms are a precondition for a lasting return to growth, enhanced job creation and healthier public finances. The economic downturn slowed down the progress of reform. Only reforms to adapt education and training systems moved forward. Governments are not sufficiently tackling those areas that entail more difficult reforms such as improving business regulation, increasing labour market flexibility, safeguarding the financial sustainability of social security systems and delivering sound medium-term budgetary objectives.

**Chart 8** Recent reform progress in key priority areas for 2009



For the complete Reform Barometer, go to [www.business europe.eu](http://www.business europe.eu).

Source: BUSINESSEUROPE Reform Barometer Survey

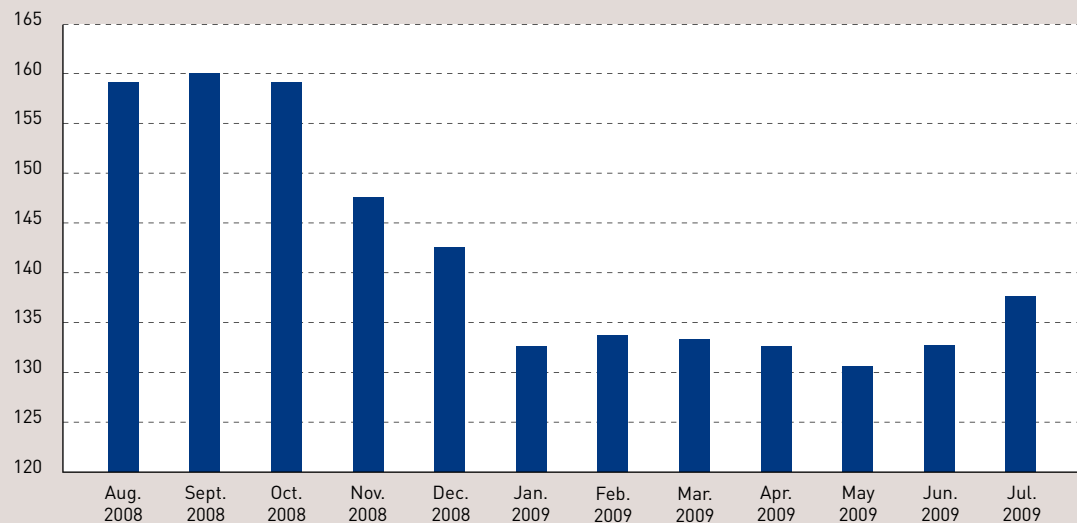
We expect structural reforms to be speeded up. The Commission should be vigilant in its monitoring and evaluation of these reforms and help reinstate a true benchmarking and peer-review culture among Member States. The experience of some member states, such as Poland, shows that structural reforms can play as important a role as financial stimulus packages to soften the effects of the crisis.

Speeding up reforms is also necessary to increase the benefits of the Euro. Current and prospective members of the Euro zone will need to strengthen their collective responsibility and individual commitments to structural reforms, fiscal discipline, sustainable competitiveness and strong representation at the international level. Reinforced governance of the Euro area will help to foster deeper market integration in the wider EU and an enhanced role of the Euro as an anchor of global economic and financial stability.

## 4. KEEP MARKETS OPEN

The economic crisis has triggered a 9% decline in global trade in 2009 and created pressure for protectionist measures. Although the worst-case scenario of full blown protectionism has been avoided, more than 220 potentially trade-restrictive measures have been taken, affecting up to 5.2% of EU exports. Subsidies and restrictions in government procurement are areas of particular concern.

**Chart 9** Decline in global trade



■ Volume world trade (2000 = 100)

Source: BUSINESSEUROPE and CPB Netherlands Bureau for Economic Policy Analysis

As the world's largest exporter, Europe has a lot to lose from protectionism. To keep markets open, the EU should continue to monitor protectionist measures, especially since high unemployment and budget deficits can increase pressure for trade restrictive measures. Europe should also convince its trading partners to abandon protectionist measures such as export taxes and “buy China” or “buy America” provisions. The EU should also take appropriate enforcement measures when there are violations of WTO or other international trade agreements.

Regulatory divergences can also undermine trade and investment. The EU should use its bilateral dialogues, in particular with the USA, to prevent damaging divergences in, for example, financial sector regulation. Last but not least, a successful conclusion of the Doha Round would restore confidence in open markets and accelerate world recovery.



## KEY POLICY RECOMMENDATIONS

- **PUT IN PLACE** SMART FINANCIAL REGULATION ON FINANCIAL SUPERVISION AND BANKS' CAPITAL REQUIREMENTS RULES TO AVOID UNNECESSARY NEGATIVE EFFECTS FOR GROWTH AND EMPLOYMENT.
- **AGREE** ON AN EXIT STRATEGY FROM EXCESS PUBLIC DEBT AND DEFICITS IN THE CONTEXT OF THE GROWTH AND STABILITY PACT.
- **MONITOR AND EVALUATE** STRUCTURAL REFORMS IN THE CONTEXT OF THE EUROPEAN GROWTH AND JOBS STRATEGY.
- **RESHAPE** THE EU BUDGET TO INCREASE THE SHARE OF COMPETITIVENESS-RELATED EXPENDITURE SUCH AS RESEARCH AND INNOVATION, INFRASTRUCTURE OR EDUCATION.
- **KEEP MARKETS OPEN** THROUGH BILATERAL DIALOGUES, TRADE NEGOTIATIONS AND ENFORCEMENT OF TRADE RULES.





1. REVITALISE THE  
SINGLE MARKET

2. PUT IN PLACE  
AN AMBITIOUS  
INTERNATIONAL  
TRADE POLICY

3. SUPPORT INNOVATION,  
RESEARCH AND EDUCATION



# THREE DRIVERS OF BUSINESS OPPORTUNITIES

‘Strengthening Europe’s competitiveness  
is vital for sustained economic revival’

## 1. REVITALISE THE SINGLE MARKET

The creation of the EU Single Market has translated into numerous benefits. Like all markets, the Single Market requires constant adjustment. It is still affected by obstacles to free movement of people, goods, capital and services and regularly tested by protectionist reflexes, especially in times of economic downturn. Raising companies and citizens awareness of the advantages created by the Single Market should be a priority of the new European Commission. BUSINESSEUROPE and its member federations are ready to use their own network to help reach out to SMEs across Europe.

Chart 10

Benefits of the Single Market

### FOR CONSUMERS / Lower prices, higher quality and wider choice

- For instance, price of national phone calls dropped 71 % between 1997 and 2005. EU health and safety consumer legislation is among the most stringent in the world.

### FOR ALL / Economic well-being

- Between 1992-2006, the EU has had an extra estimated gain of 2,2% in its GDP and 2,75 million extra new jobs.

**Benefits for more than 500 million citizens and 20 million companies**

### FOR CITIZENS / Mobility

- European citizens have the right to live, work, study or retire in any EU country.
- More than 5 million people now work in an EU country other than their own, and 1,5 million Erasmus students have moved across Europe.

### FOR COMPANIES / New business opportunities

- Easier access to other markets within the EU is available for companies of all sizes.
- Trade integration has increased: intra-EU trade relative to GDP has risen by 30% since 1992.
- Cross-border investments have also increased: the share of total Foreign Direct Investment inflows in EU15 originating from other EU15 countries rose from 53% in 1995 to 78% in 2005.

Monitoring the transposition of the services directive and the mutual evaluation process envisaged in 2010 is another key task. Avoiding the creation of new constraints to the cross-border provision of services is also essential. For example, revising the posting of workers directive is unnecessary. The existing rules imposing the application by cross-border service providers of core national labour rules of the host country prevent unfair competition. Weaknesses in practical implementation must be addressed in the Member States where they occur.



Prices of goods are still affected by redundant product conformity assessment in different EU countries. Their total cost ranges from 2% to 15% of enterprises' entire annual turnover. Correct application of the mutual recognition principle and a common framework for accreditation and market surveillance must be effective in 2010. Efforts to remove remaining barriers should focus on six strategic sectors: energy, transport, telecommunications, financial services, public procurement and restrictions on entry of citizens from new Member States. The EU should set itself the target of completing the digital Single Market by 2015.

Implementing the better regulation programme is also essential to improve the efficiency of the Single Market. A fast-track procedure is needed if we want to deliver the target of reducing administrative burdens by 25% in 2012 and benefit from the related growth increase estimated at 1.5% of EU GDP. This 25% reduction should be a net target. To ensure that new legislation does not subsequently cancel out achieved reductions, new rules must go through systematic impact assessment.

## **2. PUT IN PLACE AN AMBITIOUS INTERNATIONAL TRADE POLICY**

Multilateral and bilateral trade negotiations must focus on broad-based market access for trade and investment in key markets and improved global rules. A strong link between trade policy and overall EU competitiveness policy is needed. In an increasingly globalised world it is vital that the EU policies contribute to strengthening the EU's international competitiveness.

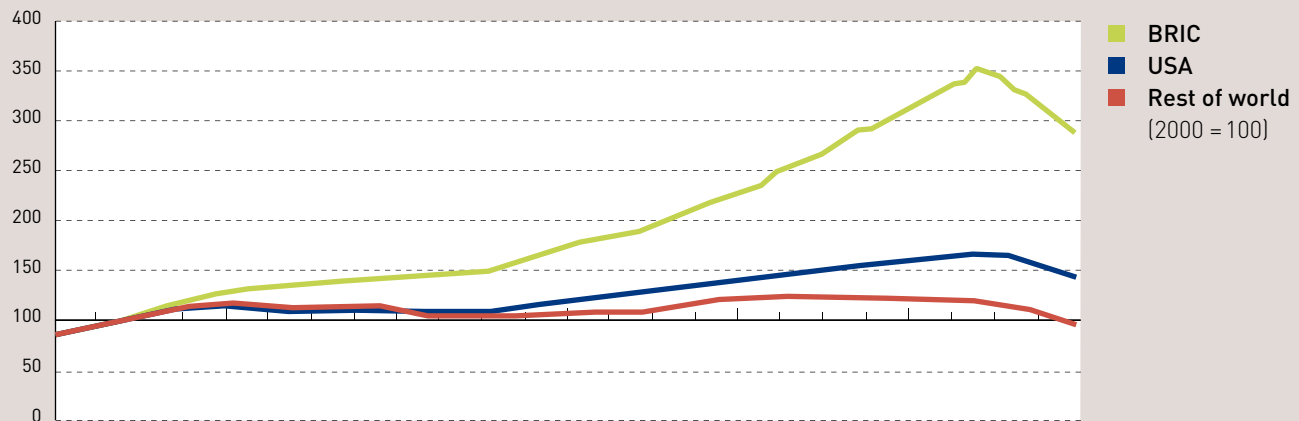
While firmly committed to concluding the WTO Doha Round, bilateral free-trade agreements are essential to increase market access for European companies in fast-growing markets like South Korea, India and South East Asian countries. The EU must strongly promote its export and investment interests in these negotiations in close cooperation with European business.

EU-US economic relations should be further strengthened. The Transatlantic Economic Council (TEC) should take a leading role in facilitating coordination between the US and the EU on combating the global recession and financial crisis as well as decisive steps towards creating a barrier-free transatlantic market.

Trade negotiations will prove meaningless without a strong EU enforcement policy to ensure that trade partners live up to their commitments. Europe's market access strategy should focus more specifically on barriers in leading emerging markets, including Russia, China, India and Brazil. It should also take a firmer line against countries which do not respect their international trade commitments.

Trade can only be a driver for business opportunities when strong and effective protection of intellectual property rights and fair and undistorted access to raw materials are ensured. Regulatory dialogues with key trading partners, in particular the US, should therefore be a key component of the EU's trade policy.

**Chart 11** Emerging economies drive EU export growth

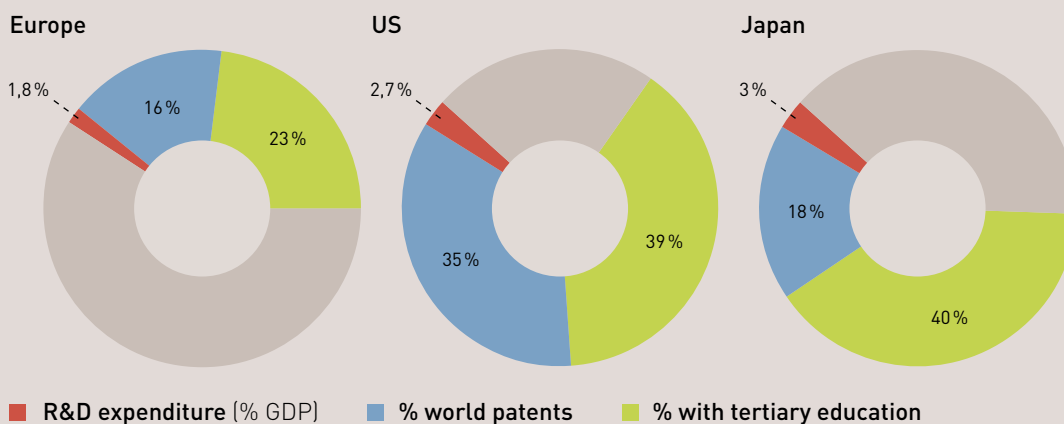


Source: Eurostat

### 3. SUPPORT INNOVATION, RESEARCH AND EDUCATION

Betting on education, research and innovation is undoubtedly the right strategy for Europe. Innovation is key if we want to meet the challenges linked to climate change, the ageing population or energy security. It has also been at the heart of our competitiveness strategy since 2000. However, with an average of 1.8% of R&D expenditure as a percentage of GDP in 2007 compared with 2.7% in the US and more than 3% in Japan or South Korea, aggregate R&D spending in Europe lags significantly behind competitors. Moreover, the average share of people with tertiary education for 25-64 years old is only 23% compared with 40% for Japan and 39% in the US. Europe has many universities but only two (Cambridge and Oxford) in the top ten of the Shanghai ranking. Moreover, with only 16% of world patents registered by the EU compared with 35% by the US or 18% by Japan, it could also do much better in turning knowledge into business.



**Chart 12 Europe's innovation challenge**


Source: Eurostat

Many actions to improve education, research and innovation are a national competence. However, the European Union offers many possibilities to create mutually beneficial cross-border cooperation between Member States. The Erasmus programme and Bologna process have stimulated the mobility of students and knowledge. They have also acted as a catalyst for modernisation of European universities.

The European Institute of Innovation and Technology is a promising tool for strengthening links between education, research and innovation. Another good example of policy integration is the new industrial policy developed by the EU since 2004, with a combination of cross-cutting policies and sectoral initiatives. However, cross-border cooperation on research and education is still lagging behind. The European Research Area strategy was launched in 2000. In 2009, the effective governance system needed to implement it is still missing.

Investment in R&D and innovation can be supported through national tax incentives as long as they respect EU state aid rules. Improving access to specialised finance like venture capital (currently at one third of the level in the USA) is also essential. Developing private-public innovation partnerships and increasing public investment, notably by stepping up the share of R&D and innovation expenditure in the EU budget for 2010-2014, would also be helpful.

Market demand for new products and services is a key factor influencing innovation investment. The EU “Lead Markets Initiative” is a step in the right direction. However, progress in implementation should be speeded up.

Ensuring cost-effective protection of intellectual property rights is also essential. The EU should adopt a comprehensive intellectual property strategy for 2010-2014 covering both industrial property and copyright issues.



## KEY POLICY RECOMMENDATIONS

- **MONITOR** THE TRANSPOSITION OF THE SERVICES DIRECTIVE AND THE MUTUAL EVALUATION PROCESS IN 2010.
- **ENSURE** THAT THE NEW LEGISLATIVE FRAMEWORK FOR GOODS IS FULLY IMPLEMENTED AND RESPECTED WHEN REVISING EXISTING DIRECTIVES AND IN FUTURE PRODUCT LEGISLATION.
- **IMPLEMENT** THE BETTER REGULATION PROGRAMME AND CARRY OUT SYSTEMATIC IMPACTS ASSESSMENTS.
- **OBTAIN** NEW MARKET ACCESS THROUGH MULTILATERAL AND BILATERAL TRADE NEGOTIATIONS AND MAKE SURE THAT TRADING PARTNERS LIVE UP TO THEIR COMMITMENTS.
- **STRENGTHEN** REGULATORY DIALOGUES WITH KEY TRADING PARTNERS, IN PARTICULAR THE US, TO PREVENT AND REMOVE BARRIERS TO TRADE.
- **DEVELOP** MORE PRIVATE-PUBLIC PARTNERSHIPS FOR INNOVATION, PUBLIC SERVICES AND INFRASTRUCTURE.
- **INCREASE** PUBLIC INVESTMENT IN INNOVATION AND SUPPORT INVESTMENT IN R&D AND INNOVATION THROUGH NATIONAL TAX INCENTIVES AND ACCESS TO SPECIALISED FINANCE.
- **INCREASE** CROSS-BORDER COOPERATION ON RESEARCH AND EDUCATION, NOTABLY THROUGH THE EUROPEAN INSTITUTE OF INNOVATION AND TECHNOLOGY.





1. PROMOTE  
JOB CREATION

2. INCREASE THE  
SUPPLY OF SKILLED  
WORKERS



# TWO INGREDIENTS FOR BOOSTING EMPLOYMENT

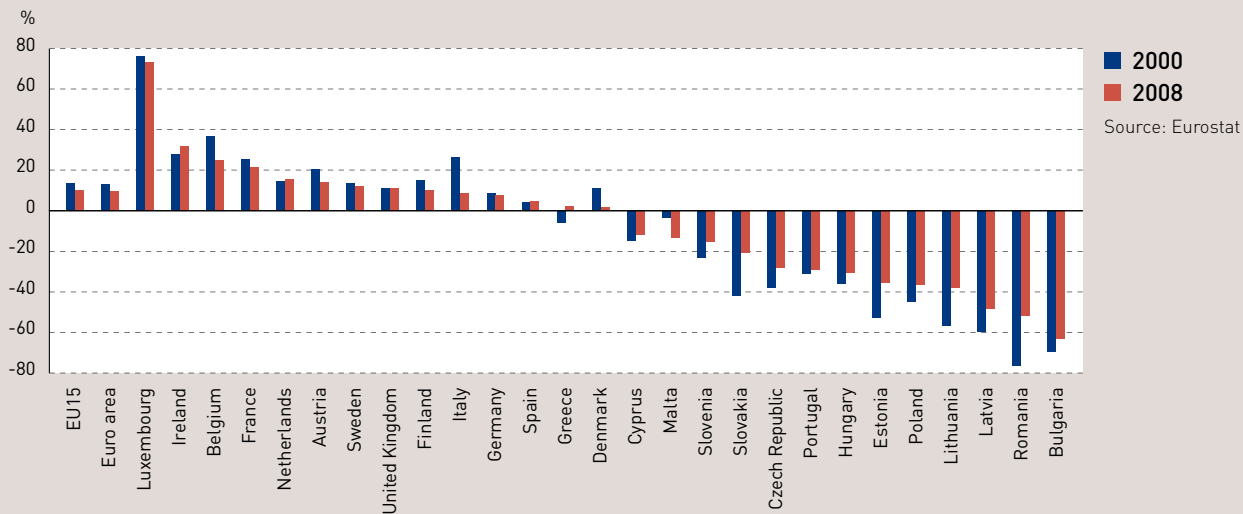
‘Flexicurity is widely accepted solution to labour market problems – why are we waiting to follow that route?’

## 1. PROMOTE JOB CREATION

After a period of marked improvement, the outlook for employment has become bleak. More than 15 million new jobs were created in the EU between 2004 and 2008 but more than 7 million jobs could be lost in 2009-2010. Solid reforms are needed to ensure that employment growth goes hand in hand with higher productivity.

Chart 12

Labour productivity in Europe compared with EU27 average



Stabilising financial markets, returning to sound public finances, speeding up structural reforms, revitalising the Single Market, pursuing an ambitious international trade policy and supporting innovation and entrepreneurship is the best way to enhance job creation. But modernising national social systems is also part of the answer. Although this falls largely under national competence, the EU has a role to play in monitoring the progress made.

Implementing the agreed EU principles on flexicurity is more important than ever. Having flexible and reliable contractual arrangements, effective active labour market policies, comprehensive lifelong learning strategies, and modern social security systems is essential to find the way back to employment growth. At the same time, Member States must be encouraged to contain labour costs in order to increase labour demand.

In a joint analysis of the challenges facing European labour markets published in 2007, the European social partners called upon Member States to strengthen efforts to implement flexicurity measures. It also important to ensure that these national efforts are not subsequently undermined by unnecessary constraints in new EU social legislation.



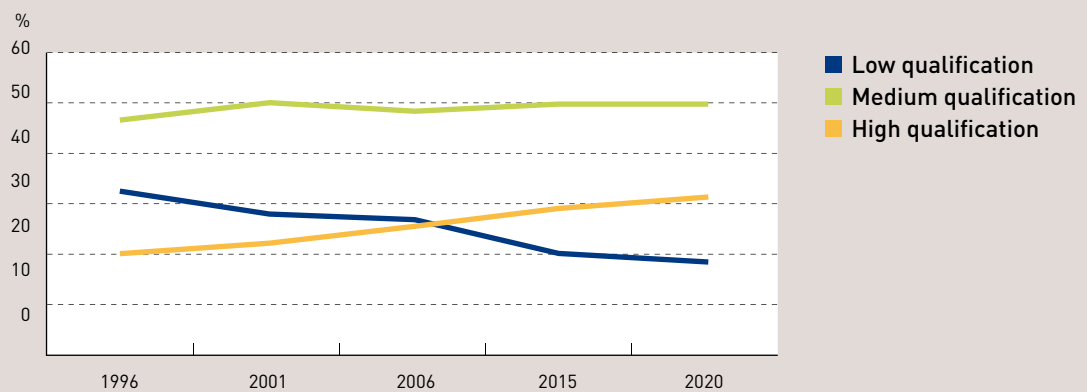
## 2. INCREASE THE SUPPLY OF SKILLED WORKERS

The paradox of Europe's labour markets is that rising unemployment co-exists with unfilled vacancies due to labour shortages. Demographic ageing will reinforce this problem. Addressing the skills mismatch and preparing to deal with the consequences of an ageing and shrinking workforce is indispensable for a sustained recovery. Europe must upgrade and update the skills of the European population, increase labour market participation, encourage mobility and put in place sound immigration policies if it does not want to be faced with structural labour and skills shortages.

Upgrading education and training systems, investing more and better in people and implementing effective lifelong learning measures to adapt skills to changing needs is a central element of the European strategy for building competitiveness through innovation. Associating entrepreneurs more closely in the definition of university curricula and involving social partners when drawing up and implementing EU tools to facilitate mobility such as National Qualifications Frameworks is also part of the answer.

The shortage in science and technology requires particular attention if Europe wants to compete on innovation and technology. Current estimates indicate that the EU lacks 20 million skilled workers. The situation is particularly acute for some sectors, such as the ICT sector which expects a shortage of 300,000 highly qualified employees by 2010. Most of the actions to increase the supply of science and technology graduates are a national competence. However, launching a European industrial doctorate supported through grants from the EU Marie Curie fellowship is part of the solution.

**Chart 13** Employment shares by qualification EU-25 (1996-2020)



Source: Cedefop 2009

Low participation of older workers is another major component of the inefficient use of available labour. The European Union must encourage Member States to reform pension systems and remove incentives for early exit from the labour market in order to increase the employment rate of older workers, which stood at 45.6% in 2008, if it wants to preserve the main features of its social systems.

Legal economic migration can help to alleviate immediate labour shortages facing Europe. The EU framework on conditions for admission of third-country nationals must be sufficiently flexible and respect national competences in order to ensure that the decisions taken correspond to real labour market needs. Europe needs to improve its general record in attracting qualified migrants. The EU Blue Card proposal is a step in the right direction to ensure this.



## KEY POLICY RECOMMENDATIONS

- **IMPLEMENT** THE PRINCIPLES OF FLEXICURITY.
- **ENCOURAGE** MEMBER STATES TO CONTAIN LABOUR COSTS.
- **UPGRADE** EDUCATION AND TRAINING SYSTEMS AND IMPLEMENT EFFECTIVE LIFELONG LEARNING MEASURES.
- **ENCOURAGE** MEMBER STATES TO MODERNISE SOCIAL SECURITY SYSTEMS AND REMOVE INCENTIVES TO EARLY EXIT FROM THE LABOUR MARKET.
- **IMPROVE** EUROPE'S RECORD IN ATTRACTING QUALIFIED MIGRANTS.



GO FOR GROWTH



# ONE INTEGRATED POLICY FOR ENTREPRENEURSHIP AND INDUSTRY

‘Entrepreneurship and industry are the engine of growth’

## ENTREPRENEURSHIP AND INDUSTRY ARE THE ENGINE OF GROWTH

Companies are a key engine of growth, wealth and job creation. Achieving social and environmental goals largely depends on their success. However, Europe must improve its record in this field. The average percentage share of the EU population aged 18-64 involved in a start-up in 2007-2008 was 5.1% compared with 10.2% in the US or 10% in South Korea.

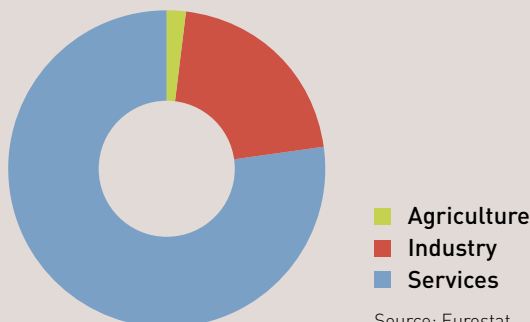
Encouraging entrepreneurship requires simplifying Europe's regulatory framework and ensuring that new legislation avoids imposing unnecessary administrative, financial and legal constraints that hamper Europe's entrepreneurial potential. The Small Business Act must be rapidly and effectively implemented across Europe and the "think small first" principle fully anchored at all stages of the policy-making process and all levels of government.

The European Private Company statute should be adopted swiftly by the Council as it would considerably facilitate cross-border operations of small and medium-sized enterprises. Systematic integration of entrepreneurship education into school and university curricula would contribute to stimulating a more entrepreneurial mindset in Europe.

## THE EU NEEDS AN INTEGRATED INDUSTRIAL POLICY

Even if 70% of EU jobs are in service activities, industry plays a strategic role in fostering economic growth. Manufacturing provides a fifth of EU GDP and provides three quarters of EU exports. Over 80% of EU private sector research and development expenditures are provided by industry. Manufacturing firms are also key clients of many services activities. Many of the services jobs in the EU would be lost without a strong industrial base. Developing an integrated EU industrial policy is a key priority of EU entrepreneurship policy.

Chart 14 Contribution to EU27 GDP in 2008



Implementing an integrated EU industrial policy does not mean picking winners or subsidising uncompetitive firms or sectors. The conclusions of the EU Council meeting in May 2009 on the need for an integrated EU industrial policy acknowledges that allowing European companies to make their full contribution requires:

- favourable, stable and predictable framework conditions promoting excellence, innovation and sustainability, conditions in which businesses can operate and invest;
- that all policy measures at national and European level must respect better-regulation and internal-market principles and reflect an integrated approach for dealing with the competitiveness, energy and environmental issues;
- that compliance with new requirements should not cause excessive costs to businesses in all policy areas. Otherwise, such costs could lead to “production leakage”;
- that the volume, effectiveness and the efficiency of public investment in research and development (R&D) and in innovation should be increased;
- the launch of sectoral initiatives for implementing the above horizontal principles.

The EU institutions must fully implement the policy guidelines defined by the Competitiveness Council.



## KEY POLICY RECOMMENDATIONS

→ **SIMPLIFY** EUROPE'S REGULATORY FRAMEWORK TO ENCOURAGE ENTREPRENEURSHIP.

→ **IMPLEMENT** THE SMALL BUSINESS ACT RAPIDLY AND EFFECTIVELY.

→ **INTEGRATE** ENTREPRENEURSHIP EDUCATION INTO SCHOOL AND UNIVERSITY CURRICULA.

→ **ENSURE** THAT POLICY MEASURES RESPECT BETTER-REGULATION AND INTERNAL-MARKET PRINCIPLES.

→ **IMPLEMENT** AN INTEGRATED EU INDUSTRIAL POLICY BASED ON STABLE FRAMEWORK CONDITIONS, AND BETTER REGULATION.



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