



## **Capitalising on Europe's strengths.**

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Recommendations for a more  
competitive European Union

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## I. Challenges

The European Union has started 2007 in good economic health. Forecast growth rates for the coming years are well above 2% on average. In many EU countries confidence is growing among companies and households, the strong global economy is stimulating exports, labour markets are picking up, budget consolidation appears to be gaining ground in many countries, price rises are within the European Central Bank's expectations.

These developments demonstrate that structural reforms pay off. The efforts made by many Member States are beginning to bear fruit. Consolidating public budgets, reducing the tax burden on companies and households, making social and health systems sustainable, deregulating labour markets and boosting research, development and innovation – it is clear that these things work.

In other words, many economic indicators for the EU are encouraging. But we must interpret these figures correctly. Because they do not signal that the reform process in Europe has been successfully completed. On the contrary: they are an invitation to redouble reform efforts in the EU, in order to secure our economic success. On this point, BDI and BDA are at one with BUSINESSSEUROPE, the Confederation of European Business.

Europe is lagging behind on an international comparison. And falling short of what it needs to do. Fifty years after the Treaty of Rome, around twenty years after the ambitious "Internal Market 1992" project and fifteen years after the Maastricht Treaty, Europe can only maintain its strength if it ensures profitable value creation in the EU. Higher productivity and more innovations can strengthen Europe's international competitiveness and its attractiveness as a location for business. Higher productivity and more innovations generate the growth rates which are needed to underpin the level of well-being in Europe on a sustainable basis. And they also help adequately to meet the challenges posed by an ageing society – and the associated consequences for market developments and social systems.

According to forecasts, Europe's working-age population will be one fifth smaller than it is today in 2050. The number of over-65s will increase by more than 60%. The average proportion of persons of retirement age as a percentage of the population of working age will double by the same date, increasing to around 50%. Demographic developments could help to shrink potential growth in the EU from today's 2-2.25% to 1.25% by 2040. To that can be added the lower employment rate of older workers. Ever fewer workers, ever more benefit claimants, ever more people of retirement age: these are immense challenges.

A common approach, a clear strategy is still what is determinant for more competitiveness, jobs and welfare across Europe. In 2000 the EU agreed the Lisbon strategy, whereby it set itself the ambitious goal of becoming the most competitive economic region. By 2010. The EU can no longer meet this objective. But Europe can markedly increase its competitiveness by 2010. If it takes on the challenges. If it acts more rapidly and with greater courage.

A close look shows that the weaknesses are unchanged. Europe suffers from slow growth. True, growth in the EU is currently very satisfactory. But it is not even half as strong as growth in the global economy. That growth was almost 5% last year. And

Europe gains less than other regions from the expansion of world trade. According to WTO, world trade grew by 6%. The EU's external trade by just 3.5%.

And the EU is losing relative to the USA. Until the mid-1970s the Community was continuously catching up with the USA in terms of per capita GDP. However, after a period of stabilisation, the EU is now losing ground. Since 1996 EU per capita GDP has been increasing by an annual 0.4% less than the United States. Europe's largest continental economies – Germany, France and Italy – have grown around one third more slowly than the American benchmark since 1960. The EU's growth potential is estimated at around 2% a year – against almost 3.5% in the USA. Whereas labour productivity in Europe grew more rapidly than across the Atlantic for decades, the situation has now reversed. In the period 1996 to 2003, productivity in the EU increased annually by 1.4% – in the USA by 2.2%. And this despite the fact that productivity in the EU is only 80% of the level achieved in the USA.

And Europe has an employment weakness. Despite a growth in employment over the last year, developments on the labour market are not convincing on an international comparison. In 2006 the 7.9% unemployment rate in the EU was markedly higher than the USA's 4.6% rate or Japan's 4.1%. The OECD average was also well below the European rate at 6%. What is dramatic is the difference for the long-term unemployed: in 2005 this was six and a half times higher in the EU than in the USA.

Europe also has an innovation weakness. Global competition between locations today's means first and foremost innovation competition. It is true that the innovation gap between the EU and the USA has narrowed over the last four years. But it is still far from closed. The USA's advantage is based among other things on better availability of risk capital for entrepreneurs, a higher proportion of the population with university education and a larger number of patents. Europe invests too little in research and development: EU-25 scarcely 1.9% of GDP, the USA 2.7%. Added to that, the USA invests more in education. A consequence: in the period from 1980 to 2003, US scientists won twice as many Nobel prizes as their European counterparts. And: in 2004 26.8% of all US exports were high-tech – the comparable figures for Japan and Europe are 22.4% and 18.4% respectively. The opportunities presented by new technologies are not exploited with sufficient determination, even if they are determinant for productivity and growth. By way of example, that is the case for information and communication technology (ICT): almost three quarters of the world's leading ICT businesses are based in the USA.

Weights in the world's economy are shifting at an impressively rapid rate. According to a 2003 study, China will overtake the USA as the world's largest economy in 2035. Similarly, China and India will enjoy annual growth rates of at least 6% in coming decades. Twenty years ago, 10% of global industrial production came from developing or emerging countries. By 2020, the share of China and India alone could reach 50%. In addition, the Chinese economy is consistently and rapidly increasing the share of knowledge-intensive products in its exports. The total value of Chinese exports of ICT products was around 329 billion US dollars in 2004, as compared with only 35 billion in 1996. OECD calculates that China exported more ICT products than the USA in 2004. More than one quarter of a million engineers graduate from India's universities each year. As the leading location for off-shoring operations, the country dominates global trade in IT services and IT-assisted business models.

Does that mean that Europe has been left behind by the USA and outstripped by Asia? A lot of people in the EU think so. But that is wrong. Globalisation is not a zero-sum game. It was not inevitable that Europe's economy should perform relatively worse in past years. It is also the result of political decisions. The EU can become a stronger winner from globalisation.

Many companies in Europe have seen the writing on the wall. They have established global production networks and driven the international division of labour forward. Taking part in the global division of labour today no longer means only or mainly exports or imports of goods and services. Whereas global trade has developed much more dynamically than world production, cross-border direct investments have increased at an even faster rate. Local production facilities, stakes in local businesses or pure portfolio investments extend the spectrum of business options. This means that markets can be opened better, cost advantages crystallised. While in the past it was almost exclusively large groups that developed a global dimension, today international options are open to small and medium-sized enterprises. SMEs are also increasingly global players.

In other words, globalisation is a condition for growth, jobs and well-being in Europe – and in Germany. Year on year, exporters make a strong contribution to growth, without which Germany would have long been in recession. The DAX-30 companies earn 74% of their turnover abroad. Some SMEs have export shares of more than 90%. And the trend towards gaining overseas markets continues. The share of exports in German GDP is increasing steadily and now accounts for more than 40%. Two out of every five euros are earned abroad. That has an effect on the labour market: just under one quarter of German jobs – almost nine million – depend on the export economy. New jobs in Germany are today created in particular by companies which are successful in overseas trade.

In order to be able to make the most of the opportunities of globalisation, companies have carried through sometimes painful restructuring processes. Almost everything has changed in business: structures are slimmer, processes have been optimised. The challenge is to be a market winner. And that means change.

Change – the same also applies for all societies. Making change possible should be at the heart of responsible policy-making. At both national and European level. It is true that some countries have made remarkable progress. And the European level has in part also successfully readjusted framework conditions. But accepting challenges and seizing opportunities will only be successful if we clearly intensify our reform efforts. We have the choice.

Europe holds the lever for economic success in its own hands. The European Union has major strengths: extremely well educated people, highly innovative companies, closely meshed networks of science and business, of small and medium-sized enterprises, the largest internal market in the world – and a unique quality of life. Capitalising on Europe's strengths – but that requires clear objectives – as well as the will to achieve them. A priority for Europe's policy-makers must be competitiveness. On a firm foundation: market economy and competition. On that foundation, Europe's comparative advantages can be developed, value creation and employment potential can be realised.

Europe must take a more offensive stance vis-à-vis the challenges: value creation before redistribution, supply before demand, structural reforms before treating symptoms. Ultimately, what sounds like the “cold-hearted” market is good for everybody. Because social balance and ecological progress only function from a solid base: economic success. Europe must take the right decisions. Courageously – and consistently.

## II. Where are we now?

In recent years Europe's policy-makers have recognised many of the central areas where action is needed – and sometimes also acted accordingly. A snapshot of the current situation shows that European policy-makers have made some important progress since 2000 in improving the economic framework conditions in Europe in the light of the new challenges.

### **Lisbon cycle**

On 23-24 March 2000 heads of state and government agreed a new strategic goal for the EU at an extraordinary meeting in Lisbon: Europe was to become the most competitive and dynamic knowledge-based economic region of the world by 2010.

Implementation of the new strategy has subsequently been the subject of numerous reports by the European Commission. These reports recognise a strong industrial base, efficient EU regulation and a strengthening of small and medium-sized enterprises as essential elements for the strategy's success and Europe's competitiveness.

In spring 2004 the Commission set up an independent high-level group of experts headed by Wim Kok as part of the mid-term review of the Lisbon strategy. The experts presented their report in November 2004. The latter identified inadequate implementation of the agenda, in particular by Member States, as well as a relative loss of competitiveness vis-à-vis competitors Asia and the USA.

The Commission took up the Kok report's recommendations. In its communication in preparation of the spring summit, it invited the Council to breathe new life into the Lisbon strategy, in particular by focusing more closely on measures for growth, competitiveness and jobs (COM 2005/24).

At its meeting on 22-23 March 2005, the European Council took stock of successes in the framework of the Lisbon strategy. It ascertained clear lags and called for urgent political action. The importance of growth and competitiveness was moved into the foreground. Investments in research, education and innovation, creation of more flexible labour markets, reduction of the administrative burden on companies, open service markets and a more harmonious relationship between growth and environmental protection was intended to give the strategy new impetus. The quantitative objectives of the original strategy were not reincorporated.

A new "governance" cycle was supposed to streamline and simplify the strategy's reporting and monitoring procedure. This includes verifying the strategy at three-year intervals, adoption by the Council of integrated guidelines 2005-2008 (comprising the earlier broad economic policy guidelines and employment guidelines), annual presentation by the Commission of a strategy report as well as national progress reports from the Member States.

As a part of the new Lisbon cycle, the Commission presented the "Community Lisbon Programme" (COM 2005/330) in July. In October 2005 the Member States submitted their national reform programmes, building on the "Integrated Guidelines for Growth and Jobs" (COM 2005/141).

The Commission's January 2006 report evaluating the national programmes (COM 2006/30) urged more ambitious steps for more investments in research and development, a further reduction in the burden on SMEs, promotion of employment and an efficient, secure and sustainable energy policy.

At the spring summit in March 2006, the Lisbon strategy was fine-tuned. Heads of state and government agreed on "specific areas for priority actions", including investments, innovation and realisation of entrepreneurial potential.

## **Industrial policy**

Several communications from the European Commission on industrial policy have the purpose of driving implementation of the Lisbon strategy forward. Because the basis for a competitive Europe is a strong industrial base.

"Industrial policy in an enlarged Europe", a communication from December 2002 (COM 2002/714), analyses the structure of EU industry and what needs to be done against the background of enlargement.

A second communication entitled "Fostering structural change: an industrial policy for an enlarged Union" (COM 2004/274) describes the decline in the share of industry in the economy against the background of a long-term structural change.

Among other things, the communication places development of a European industrial policy for individual economic sectors on the Commission's agenda. Alongside existing activities in the areas of pharmaceuticals, aeronautics, ship-building, business services and textiles, new analyses are announced which are to cover the automotive industry, mechanical engineering, environmental industries, non-ferrous metals and information technologies. In this way, the Commission wants to identify structural changes in individual sectors at an early stage and act accordingly.

In early 2005, on the basis of the communication, a high-level group known as "CARS 21" (= Competitive Automotive Regulatory System for the 21st Century) is set up, whose remit is to prepare proposals for how to increase the automotive industry's global competitiveness. The final report in December 2005 contains concrete recommendations for the sector's future viability: simplification of the legal framework governing the automotive industry, improved access to non-EU markets, greater traffic safety of vehicles and more environment-friendly technology. The recommendations were included in a Commission proposal for a new strategy for the automotive industry presented in February 2007.

The October 2005 communication "Implementing the Community Lisbon programme: a policy framework to strengthen EU manufacturing – towards a more integrated approach for industrial policy" (COM 2005/474) places industrial policy more strongly than in the past in the context of the Lisbon strategy. Following a competition analysis of 27 industrial sectors, the Commission proposes seven cross-sectoral measures – including creation of a high-level group on competitiveness, energy and the environment – as well as seven sector-specific measures.

The high-level group on competitiveness, energy and the environment (HLG) met for the first time on 28 February 2006. The group has a mandate for two years and is

intended to strengthen the coherence of industry, energy and environment policy initiatives. Members include representatives of European industry. The HLG with this remit is a new instrument of European policy. At its meeting on 2 June 2006, the HLG adopted its first report with concrete policy recommendations. The HLG's work will conclude in November 2007 after the group's sixth meeting.

The EU's innovation capacity took centre-stage during the Finnish Presidency. An innovation strategy (COM 2006/502) set out to facilitate innovative activity by businesses through development of so-called "lead markets", with targeted creation of favourable conditions for successful marketing of innovative goods and services.

In December 2006 the seventh framework programme for research, technological development and demonstration (2007 to 2013) was adopted with a budget of more than 50 billion euros.

### **External competitiveness**

In its communication "Global Europe: competing in the world" (COM 2006/567), the Commission explains how trade policy can make an even greater contribution to enhancing the competitiveness of European businesses.

In the Commission's view, a successful conclusion of the WTO negotiations (Doha round) still has the highest priority. However, in addition to that, access to important and rapidly growing markets should be improved on a targeted basis in bilateral talks. According to the Commission, these markets include India, Korea and ASEAN. Negotiations with these partners are due to start in the course of this year.

Furthermore, the Commission has announced that it is reviewing its market access strategy. In future, trade barriers that European companies encounter on non-EU markets should be eliminated more effectively. In addition, Trade Commissioner Mandelson is planning a review of trade protection instruments. The Commission has launched a broad discussion process based on a green paper. Alongside this, the Trade Commissioner has announced measures in other EU policy areas, for instance monitoring environment policy more closely for its consequences for international competitiveness and its compatibility with international rules.

### **Small and medium-sized enterprises**

Another priority in the framework of the Lisbon process is promotion of small and medium-sized enterprises. Because growth and jobs – the two main objectives of the Lisbon strategy – are underpinned to a large extent by Europe's small and medium-sized enterprises.

With the communication "Implementing the Community Lisbon programme – modern SME policy for growth and employment" (COM 2005/551), the Commission seeks to put in place a uniform and coherent framework for EU initiatives in favour of SMEs. The Commission wants to provide greater stimulus for entrepreneurial initiative, improve growth potential and market access, and dismantle bureaucratic barriers. An intensive dialogue in the framework of consultations is expected to ensure that legislative initiatives are more closely aligned on the needs of SMEs.

In the March 2006 spring summit heads of state and government agreed to adopt the “think small first” approach as the guiding principle for all relevant legislation at both European and national level.

Easier access to external capital for the creation and expansion of SMEs is the aim of the June 2006 initiative: the communication “Implementing the Community Lisbon programme: financing SME growth – adding European value” (COM 2006/349) describes how risk capital can be attracted, innovation financing by banks can be extended, and existing financing systems can be structured in a more SME-friendly way.

The basis for the financing instruments set out in the communication is the “Competitiveness and innovation programme” (CIP). The CIP was adopted on 24 October 2006 and covers the period from 2007 to 2013 with a budget of 3.6 billion euros. With regard to successful realisation of the Lisbon objectives, the CIP brings together the three central EU programmes for entrepreneurial initiative and innovation, ICT policy and energy policy.

### **Better regulation**

Bureaucratic burdens, opaque rules and over-regulation constitute a massive obstacle to the competitiveness of European companies.

An initiative christened “better regulation” first saw the light of day as long ago as 1992 at the EU summit in Edinburgh. But it was only in the framework of the Lisbon strategy that the Commission initiated a continuous process for simplifying EU rules and improving their quality, with publication of the white paper “European governance” (COM 2001/428).

Building on the white paper, several communications on the theme of better regulation have followed. “Updating and simplifying the Community *acquis*” (COM 2003/71) sets out a detailed programme for elimination of outdated and obsolete legislative texts and for a reworking of legislative texts in order to ensure that texts are coherent and comprehensible, and to reduce their volume.

The communication “Better regulation for growth and jobs in the European Union” (COM 2005/97) ties in directly with the mid-term review of the Lisbon strategy: starting in 2005, all legislative proposals must be subjected to an assessment of their possible economic, social and environmental impact, with a more intensive examination of the economic implications. Legislative proposals in the process of adoption should be verified more thoroughly, and consideration given to their amendment, replacement or withdrawal.

After Member States had submitted concrete proposals for legislative simplifications to the Commission, in October 2005 Enterprise Commissioner presented a three-year plan for simplification of the *acquis communautaire* (COM 2005/535). It is foreseen that 222 fundamental legislative provisions will have been repealed, codified or reformulated by 2008. In addition, 68 pending legislative proposals will be scrapped.

A first analysis of the progress made with the initiative in autumn 2006 identified delays in scrapping the proposals on the list. In order to inject more dynamism into

the process, the Commission proposes that the quality of impact assessments should in future be verified by an “impact assessment board” (IAB).

The Commission's January 2007 action plan “Action programme for reducing administrative burdens in the European Union” (COM 2007/23) makes provision for a reduction of administrative burdens to the benefit of higher investments for growth and jobs: jointly with Member States, the Commission wants to remove 25% of the administrative burden on European companies by 2012.

### **Successes to date**

The 2005 refocusing of the Lisbon process on growth, competitiveness and jobs was in line with the business community's recommendations. It is right to streamline the Lisbon cycle and also to involve the Member States more closely.

Many of the current initiatives under the heading of industrial policy, including measures for better regulation and creation of the high-level group on competitiveness, energy and the environment, point in the right direction. The deployment of the impact assessment board currently under consideration can make a large contribution if it can work with complete independence.

Hence, economic framework conditions in the EU have improved overall since 2000. But: too slowly and too little. There are enough action plans and reports. What is lacking, however, is a policy geared to employment, growth and competition on the ground. There is a lack of consistent and constant priority for competitiveness. No strategy has ever solved a problem. Only its concrete implementation.

The goal is clear: Europe needs more innovation, growth and jobs. How do we bring this about? Bundesverband der Deutschen Industrie and Bundesvereinigung der Deutschen Arbeitgeberverbände offer their expertise and their guidance:  
Recommendations for a more competitive European Union.

### **III. Recommendations**

#### **Strengthening competitiveness**

##### **EU climate policy**

Absolute global CO<sub>2</sub> reductions are necessary to limit climate change. Industrialised countries must acknowledge the shared but different responsibilities of states. In line with the underlying principle of the UN Framework Convention on Climate Change, they must play a leading role. However, on the longer view, each state has the same responsibility to contribute to climate protection to the best of its ability.

- In order to make fair competition possible, all main emitters must participate in a binding international climate protection regime. The EU must play its pioneering role in a proportionate manner.
- Worldwide investments in modern and highly efficient installations and products are essential. In order for technology transfer to be set in motion, the EU absolutely must make efforts to improve protection of intellectual property.
- Dissemination of CO<sub>2</sub>-saving products, systems and services must be driven forward through appropriate and consistent incentive systems.
- International cooperation on development of key technologies must be widened. It is also necessary to focus European research policy more strongly on climate and energy policy objectives.

##### **EU energy policy**

Electricity and gas are the most important energies for industry; they account for around 90% of industrial energy costs. In recent years, electricity and gas prices in Europe have increased drastically for a number of reasons, and are now significantly higher than the price level in other industrialised regions which are significant for international competition. This dangerous development is determined in particular by competition deficits on European electricity and gas markets, the effects of the EU emissions trading scheme and other state impositions.

- Accordingly, politically imposed burdens on energy prices should be reduced, especially for energy-intensive industrial consumers: energy taxes, levies to promote renewable energies and co-generation, costs of emissions trading, etc.
- The considerable competition deficits on European electricity and gas markets must be eliminated, in particular through effective measures as rapidly as possible. These include discrimination-free network access, expansion of interconnections and transmission/generation capacities as well as establishment of an effective regulatory regime.
- Policy-makers should create a framework in which energy-intensive industrial consumers can secure their electricity and gas requirements in the medium and long term at reliable and internationally competitive prices.
- It is necessary to extend the offer of favourably priced CO<sub>2</sub>-free energy sources through further development of all technical options from renewable energies through clean-coal technologies to nuclear energy. No option should be ruled out.

##### **European social policy**

European social policy must be structured in an employment-friendly manner. In this regard, more social policy regulation is the wrong way to combat high unemployment in Europe. In particular, excessive labour market regulation hampers the creation of new jobs and slows down the reduction of existing unemployment. Member States need the necessary

space to modernise their labour markets and to balance labour law and social systems in such a way that necessary social protection is accompanied by more mobility and flexibility on the labour market.

- *Labour law green paper*: on 22 November 2006 the European Commission published the green paper “Modernising labour law to meet the challenges of the 21st century”. The purpose of the green paper is to stimulate an open debate in the European Union on the issue of how labour law can develop in order to support the objectives of the Lisbon strategy. The green paper contains a series of good analyses of the current situation of labour law. However, the considerations following on from the analyses lead to misguided conclusions such as the idea of extending subcontractor liability and harmonising the definition of worker. The discussion on the future of labour law should focus on dismantling over-regulation and greater flexibility, in order to increase the chance of employed people remaining in employment or finding a new job rapidly if they lose their old one.
- *Portability directive*: the draft directive on portability of supplementary pensions presented by the European Commission in October 2005 seeks to increase worker mobility. However, the European Commission pursues this objective using means that would weaken rather than strengthen the voluntary system for occupational pension provision. For that reason, German business rejects the draft directive. Furthermore, the compromise proposal presented by the Finnish Presidency at the end of 2006 fails to tackle the German business community’s fundamental objections, although this proposal would be less burdensome for occupational pension provision in Germany than the European Commission’s draft directive. Particularly worrying is the fact that the current negotiating stance still makes no provision for a limitation to new pension promises and therefore places a retrospective burden on companies. As discussions progress, it must be particularly borne in mind that occupational pension provision is the most important voluntary benefit provided by an employer, further extension of which must not be jeopardised by burdensome and bureaucratic rules.
- *Working time directive*: it became necessary to revise the working time directive after ECJ decided that on-call duty must be regarded in its entirety as working time – judgements with considerable implications, not only in Germany. As the legislative procedure has moved forward, the Council of ministers has worked out sensible solutions for the future shape of the working time directive. However, the argument about retaining the so-called “opt-out clause” for derogating from maximum weekly working hours has so far hindered the necessary rapid adoption of the draft directive. Against the background of discretion for flexible arrangements, it is important to retain the opt-out clause, which helps small and medium-sized enterprises in particular to smooth out fluctuations in orders and create jobs. For business, it is essential that a fresh attempt is made to find a workable solution to break the impasse on the opt-out, so that the legislative procedure can be closed as rapidly as possible.

### **EU patent strategy**

European patent law needs thorough modernisation. In particular, extensive translation obligations and the absence of a common jurisdiction for patent matters make patents in Europe both expensive and at the same time legally uncertain. In international competition, this means that European companies operate at a considerable disadvantage. By way of comparison, on average an EU patent costs them three times as much as in Japan and five times as much as in the USA. Hence, the patent system places a brake on innovation capacity in Europe. In addition, the patent system is becoming stronger in

Asian countries, in particular in China. This will increasingly have an impact on Europe's competitiveness.

- Europe needs a Community patent which is uniform, legally certain and enforceable. Europe's linguistic diversity must not place a brake on its competitiveness. Agreement on the Community patent is an important signal for progress in the Lisbon process.
- In the period prior to implementation of such a Community patent, it is urgently necessary to reduce extensive translation requirements which push up the cost of patents, and to reduce legal uncertainty. The "London protocol" to the European Patent Treaty (EPT) must therefore be implemented rapidly.
- The costs and risks for dispute settlement procedures involving patents must be brought down. By concentrating on a common jurisdiction, companies could achieve legal certainty for their patents across Europe. To that end, Member States must rapidly implement the European Patent Litigation Agreement (EPLA).

### **Innovation**

By comparison with the USA, Europe exhibits a specific weakness in the conversion of research results into market successes (innovation). Among other things, it lacks a leading institute comparable with the American MIT. German business therefore welcomes the Commission's objective of extending the European research area and meshing education, research and innovation at the highest level with a European Institute of Technology (EIT). Success depends on networking with business.

- EIT should essentially be a virtual and not a bricks-and-mortar establishment.
- The knowledge and information communities (KIC) that constitute EIT must be chosen for their excellence on the basis of competition.
- Business must play a leading role upstream when EIT determines strategic areas and in the selection of the best KIC.
- Partner states should move forward construction of an internal market for education and research with the introduction of research prizes and education vouchers.
- The Joint Technology Initiatives in the 7th Research Framework Programme must now be started as rapidly as possible with adequate resources.
- EIT must not distract from the need to improve the framework conditions for innovation, research and development at national level.

### **European education policy**

The general education and vocational training policy is the key to the European Union's competitiveness. Notwithstanding national competences, the EU can and must make an important contribution to implementation of the Lisbon strategy in this area. In this regard, a focus should be placed on the issue of transferability in the education system, in order to generate more possibilities for lifelong learning.

- Development of the European Qualification Framework (EQF) to promote transparency, mobility and transferability in European education systems is welcome. The task now is for Council and Parliament to adopt the recommendations promptly and to initiate and move forward the debate on development of national qualification frameworks in the Member States.

- The Bologna process for creation of a European university area and the Copenhagen process for creation of a European area for vocational training are advancing in parallel with almost no links between them. This is counterproductive with a view to transparency, transferability and lifelong learning. Representatives of universities and of occupational training must come together to discuss the cross-disciplinary EQF and plan its implementation, instead of propagating two different European qualification frameworks and different credit systems in their subsystems.
- An education system that enables transfers requires efficient quality assurance. A central quality criterion is the success of graduates on the labour market, i.e. the level of employability they have acquired through their studies. This is the binding element so to speak, i.e. the common quality criterion for quality assurance in occupational and university education. A European discussion should be initiated on the issue of how education systems and courses can be aligned more consistently on employability, inter alia through a study into education policy or a multi-stakeholder dialogue.

### **Open method of coordination**

Social security systems need to be modernised with a view to demographic developments. In this connection, the open method of coordination (OMC) at EU level is a useful instrument for the areas of social inclusion, pension systems, health and care, in order to take advantage of the experience of other Member States.

- Since there were in the past overlaps as well as some inconsistencies regarding objectives between the four areas due to their thematic closeness, German business supports the Commission's intention of streamlining and combining the open method of coordination for these areas.
- Given the close correlation between the area of social protection and economic and employment policy, complete integration of the open method of coordination for social protection (social inclusion, provision for old age and health/care) in the new Lisbon process would be desirable.
- The focus of reform objectives should be placed more strongly on the sustainable financing of social protection systems as well as on promotion of growth and jobs. At the same time, the number of targets and indicators should be limited to a manageable level.

### **EU transport policy**

As the lifelines of an economy, transport routes are one of the most important production factors and hence a basis for growth and jobs. Around 7% of European gross domestic product is accounted for by the transport sector. German business expects the EU to embrace a transport policy which actively addresses the issue of growing freight traffic – without resorting to non-market policy solutions. Proposals to discourage road transport through even higher levies are just as dangerous as the plan to include air transport in a purely European emissions trading scheme. The aim must be to increase the efficiency of each individual mode of transport. To that end, it is important first and foremost to bring forward the process of liberalisation and harmonisation.

- Member States have a duty to invest in transport infrastructure. For Germany, that means at least 12 billion euros a year with an annual increase of around 3 billion euros.

- Transeuropean transport networks should be realised rapidly. Priority must be given to projects with the greatest transport benefit.
- The EU should explore authorisation of new vehicle combinations (dimensions and weights) for road transport, in order to compensate for growing freight flows with greater reserves of efficiency.
- Rail networks across Europe need to be opened up, in order to stimulate competition in freight and passenger transport. Public contractors must be obliged to engage in discrimination-free and competition-oriented award procedures.
- Division of labour and global growth require sea ports and hinterland connections which correspond to demand.
- Capacity problems in air transport should be tackled more rapidly. The “single European sky” must finally become a reality. Climate protection issues (e.g. emissions trading in air transport) require a global approach.

### **Telecommunications regulatory framework**

The EU regulatory framework for electronic communication offers the basis for Europe-wide harmonised regulation of telecommunications markets. The aim is to have functional competitive structures, in particular through ex-ante regulation. In the regulatory review, the Commission has set priorities in the areas of frequency management and streamlined regulation. Concrete proposals have been announced for the summer.

- The new rules, which are only set to be implemented in national law in 2010, must take account of the upcoming challenges of this dynamic sector.
- A competition-oriented regulatory policy must refer to sector-specific regulation on markets where autonomous competition has developed.
- In line with the principle of subsidiarity, the European Community should not be active in areas which are better dealt with by the Member States (e.g. European regulator).
- The German EU Council Presidency should focus the debate on important issues including how to address new markets, function of the European Commission and ERG.

### **Revision of EU television without frontiers directive**

According to the new proposal, so-called audiovisual media services should in future also be regulated by the television without frontiers directive, alongside “classical” television. Hitherto there innovative (commercial) services have been covered by the e-commerce directive. Delimitation of the scope is necessary for the further growth of the sector – also from the angle of users of modern media services.

- Double and over-regulation of the audiovisual sector must be avoided.
- The central country of origin principle must not be watered down by a multitude of derogations.
- The European internal market cannot be realised if companies have to take account of 27 legal orders.
- Quantitative and qualitative advertising rules should be liberalised in order to make it possible to refinance attractive offers.

### **European postal markets**

Functional, efficient postal and logistics markets are a backbone of the European internal market. The turnover generated on EU postal markets is estimated at around 90 billion euros (2004); the lion's share – around 60% – is accounted for by letters markets. Around 1.6 million people are employed in postal services. This means that postal markets are an important market for the overall economy. The Commission gave an important impetus for progressive liberalisation during the 1990s. However, complete opening of letters markets, still largely protected from competition, now looks as if it could come to a halt. In October 2006 the Commission presented a draft directive which seeks to establish how complete market opening in the EU can be realised from 2009.

- With a view to strengthening competition to the benefit of all users of postal services, the binding date of 2009 for the complete elimination of the letters monopoly specified in the draft directive must be maintained.
- Contracts for necessary individual services in particular regions should be awarded in the framework of the universal service guarantee. It should not be possible to give general preference to individual service providers when contracts are awarded, as allowed by the draft.
- Different (discriminatory) VAT treatment of traditional postal businesses and new entrants should be abandoned in favour of comparable and fair competitive conditions.

### **European waste policy**

Council and European Parliament are currently discussing the Commission's proposed revision of the waste framework directive. Environmentally responsible waste treatment and use of the resulting secondary raw materials are a contribution both to more environmental protection and to a secure supply of raw materials. Waste policy is environment and raw materials policy at the same time.

- The waste framework directive must foster and not impede environmentally responsible treatment of waste flows as a contribution to sustainable use of resources.
- The directive should make provision for the establishment of uniform requirements for secondary raw materials. It is precisely a high level of environmental and health protection in secondary raw materials that increases their acceptance and marketability.
- The directive must set out clear, uniform legal concepts in order to increase legal certainty for companies.
- Recovery of wastes must continue to be possible in future in the framework of the internal market. An extension of national autarky for waste management to include wastes for recovery would ultimately hamper markets for secondary raw materials.

### **Tax policy**

Strengthening industrial competitiveness also means that cross-border business activities within the EU must not involve a tax disadvantage. To that end, it is necessary to harmonise important points of national tax systems. There is a need to place domestic and foreign companies on the same tax footing. In addition, stronger commitment on the part of Member States is needed, in particular better communication and coordination, in order to prevent double taxation and additional administrative burdens on companies.

- Member States should agree an optional, simple and uniform tax regime. This is known as the consolidated corporate tax base (CCTB).
- Member States must allow cross-border offset of losses, in order to ensure equal treatment with domestic companies.
- It is important to tackle problems in setting and recognising transfer prices to avoid double taxation.
- Taxation of unrealised gains on transfer of a company's seat and transfer of business assets should be avoided, in order to facilitate cross-border restructuring/transformation operations.
- A further splintering of European VAT legislation through unilateral national measures to combat VAT fraud must be avoided.

### **Company law**

The aim must be to improve the framework conditions for fair competition across the entire internal market. It is no longer acceptable that a company can move its official and administrative headquarters from Stuttgart to Kiel with no problems but cannot transfer from Aachen to Liège. In addition, there is a gap in the choice of legal forms in which businesses can do business Europe-wide: whereas the European company statute is available for large public limited companies, there is no comparable European private limited company for small and medium-sized enterprises. Lastly, cross-border business should not be made more difficult by tighter information, performance and disclosure obligations applied on a unilateral basis. Complaint risks should not be transferred one-sidedly to companies through class actions and similar instruments.

- The EU should follow the route opened by ECJ jurisprudence regarding full corporate mobility to its logical conclusion. This applies above all to preparation of a directive on transfer of seat (so-called 14th Company Law Directive).
- A European private limited company statute should be created as a legal form for small and medium-sized enterprises. This can also be interesting for combined management of groups.
- A one-sided tightening of contract law to the detriment of companies is counterproductive and harmful for competition. Consumer law should be thoroughly liberalised in order to remove brakes on competition.
- Class actions shift complaint risks unilaterally on to supposedly wealthy companies. As a result, business bears a heavy burden without any real benefit for the consumer.

### **EU competition law**

The European Commission intends to align European market abuse supervision (article 82 EC) more strongly in practice on a "more economic approach". In future, the focus in assessments of abuse will be placed more on the consequences of a given behaviour by a company for the market and competition. In addition, thought is being given to strengthening civil antitrust liability law to match the damage caused by cartels.

- A more economic approach to market abuse supervision is a good idea if it leads to greater consideration of individual cases and – ideally – greater justice in individual cases.

- Guidelines from the European Commission could be very helpful in enabling dominant companies to assess the legality of their own actions; however, they should provide legal certainty.
- It must be possible to restore damage caused by cartels. However, it is the task of national legal orders to put in place the conditions for such compensation.
- The right to claim damages should not be used as an instrument for pursuing disproportionate compensation or the general purposes of state regulatory policy.
- Bearing in mind functional prosecution of cartels by the European Commission and national antitrust authorities, there is no need for criminal damages or class actions following the US model.

### **Services of general economic interest**

The concept of services of general economic interest describes a wide range of different areas relating to the provision of essential goods and services. There have for years been controversial discussions in Brussels and between Member States about how and by whom services of general economic interest should be provided. With increasing European integration, the tense relationship between free competition in the European internal market on the one side and restrictions on competition to the benefit of municipal undertakings providing services of general economic interest on the other has become ever more perceptible.

- A clear delimitation and definition of services of general interest and services of general economic interest is not possible in practice, since structures vary greatly in individual Member States and many tasks traditionally performed by the state comprise an economic component and are dynamic in nature.
- It is important to avoid distortions of competition under the cloak of services of general economic interest and to ensure that citizen demand for services of general interest can be satisfied at a high level under favourable conditions. Private sector companies exposed to competition are likely to be in the best position to do this.
- A framework directive on services of general economic interest is neither useful nor necessary. It would run the risk that services – even those which have already been liberalised – would be exempted from competition and internal market rules.

### **Intra-Community transfer of defence goods**

In 2006 the Commission carried out a consultation on Member States' intra-Community trade in defence goods. The context for the initiative is provided by the Commission's efforts to increase the competitiveness of European companies in this sector and more cost-effective public procurement for Member States. The Commission would like to eliminate obstacles linked to the grant of export licences which make transfers within the EU more difficult. The consultation is intended to shed light on how obstacles to free intra-Community goods trade in this sector can best be dismantled.

- Following on from the consultation, the Commission expects to prepare a first draft for harmonisation of export licence procedures.
- In the interest of creating a discrimination-free internal market for defence goods, all companies in the defence sector in the individual Member States must be placed on the same footing.
- One solution for harmonisation of export licence procedures that deserves serious consideration is certification of reliable companies.
- Criteria for company certification and product traceability/transparency should not place disproportionate burdens on companies – and in particular SMEs.

### **EU procurement market for defence goods**

The European Union wants to open the still largely closed defence market and issued the green paper on defence procurement in 2004. On that basis, work officially started in mid-2005 on the European Defence Agency (EDA). Its objectives are development of common defence capacities, defence cooperation, opening of markets and promotion of research and development. EDA Member States have agreed a code of conduct which makes provision for public disclosure of planned national defence contracts. It has been in force since 1 July 2006. The German security and defence industry essentially welcomes the creation of this agency in the expectation of stronger European cooperation. Also worth mentioning is an interpretative communication from the Commission which is intended to lead to uniform and consistent application of article 296 TEC by the Member States. Following this, the Commission wants to start work on a directive which would regulate defence procurement which is not covered by article 296 TEC and which should also be exempted from general EC directives on the award of public contracts.

- The EU must champion the elimination of distortions of competition (private sector vs. state-dominated undertakings).
- The EU must work for harmonisation of how article 296 TEC is applied in practice.
- The German EU Council Presidency should initiate moves to eliminate or at least limit offset obligations vis-à-vis foreign contractors.
- The German government should incorporate restrictive German rules for defence export licences in a harmonised European solution applicable to all EU Member States.

### **Small and medium-sized enterprises**

The European Union and the Member States agree that industrial competitiveness and innovation capacity coupled with promotion of entrepreneurial initiative, in particular among small and medium-sized enterprises, is a pre-condition for successful implementation of the Lisbon strategy. However, the horizontal “think small first” approach has so far been paid only lip service in reality. The role of the SME Envoy and the European Commission’s Enterprise Policy Group (EPG) to advise on SMEs is completely inadequate, inefficient and without any visible influence. Furthermore, the strict and purely quantitative European SME definition disadvantages research-intensive and growing industrial SMEs.

- SME interests are to be taken into account thoroughly and at an early stage in the European legislative process; this requires consistent application of the “think small first” approach across the entire field of European Union action. Also important is a strengthening of the SME Envoy and EPG.
- The Community *acquis* needs to be tidied up and effective impact assessment for new EU legislation put in place.
- Cross-border activities of SMEs must be facilitated, e.g. through introduction of a European private company statute.
- The European SME definition must be made more flexible, e.g. through inclusion of a research criterion in the definition of sector-specific exceptions.

## Shaping external relations

### Doha round

The WTO negotiations offer the opportunity to dismantle trade barriers around the world and to boost world trade on a sustainable basis. European companies stand to gain substantially from a successful WTO round, in particular on open trade and procurement markets. Conclusion of the round is within reach. What this requires first and foremost is compromises on international agricultural trade and lower customs duties on industrial goods. The EU has already made substantial concessions in the negotiations for dismantling of trade-distorting farm subsidies and lower customs duties on agricultural goods. However, a willingness to go further in the negotiations is urgently needed. All critical players must now move towards each other. The chance of a successful conclusion of the round should not be thrown away. The round must be judged by whether it facilitates access to the rapidly growing emerging countries for European companies. German business firmly rejects an agreement for agreement's sake.

- The round must lead to a substantial reduction of customs duties in industrial and developing countries. German business rejects unilateral concessions by the EU. Emerging countries must also assume their responsibility for the round by making substantive liberalisation offers.
- Non-tariff barriers to trade and abuse of anti-dumping procedures should be curbed by better WTO rules.
- Obstacles to international trade in services should be dismantled.
- The main players must move closer together in order to achieve urgently needed compromises in agriculture.

### Raw materials security

Access to raw materials such as metals is a key issue for the international competitiveness of the European economy. Raw materials markets are characterised by soaring prices, sharp price fluctuations and shortages. Raw materials are becoming a factor causing bottlenecks. The reasons for this are first markedly higher demand for raw materials from emerging countries such as China and India, and second competition-distorting state intervention. For instance, some countries impede exports of raw materials and scrap with taxes, quotas or export bans. It is also important to take account of the close links between the development policy being deployed by China in Africa and raw materials security. The EU must react to this challenge with a comprehensive raw materials strategy.

- Trade policy should actively target export restrictions on raw materials through bilateral procedures and improvement of WTO rules.
- European development cooperation should support developing countries for exploitation of their raw materials and discrimination-free exports.
- Issues linked to raw materials access should play an important role in the shaping of the EU's external relations.
- European support for research should help to improve material efficiency, extraction procedures and recycling technology.
- The European raw materials strategy should mesh very closely with national strategies.

### **Transatlantic economic integration**

German Chancellor Merkel attaches great value to transatlantic economic integration, in the framework of the German EU Council Presidency. The USA is the EU's most important economic partner. A dismantling of existing non-tariff barriers and closer cooperation could stimulate growth of more than 3% on both sides of the Atlantic. In addition, the competitiveness of transatlantic business will be strengthened against a background of increasing international competitive pressure.

- In order to increase the long-term political commitment to transatlantic economic integration and book concrete results, a binding framework agreement should be agreed at the forthcoming EU-USA summit in Washington on 30 April 2007.
- This agreement should contain a clear commitment to the multilateral liberalisation process in the framework of WTO. Transatlantic economic integration is not in contradiction with but complementary to the WTO process.
- First successes in the areas of IPR, standards, financial markets, energy and environment as well as other themes identified should be presented at the summit.
- In order for the process to move forward more efficiently in the future, the existing structures for cooperation and discussion should be structured more efficiently.

### **Bilateral free-trade agreements**

Free access to foreign markets is one of the most important conditions for growth, jobs and well-being, especially in Germany. Despite major progress on liberalisation in recent decades, German companies still face trade and investment barriers on the international stage. At the same time, the number of bilateral and regional free-trade agreements between EU competitors is growing at a rapid pace. In order to react to this trend, European trade policy has an interest in deflecting competitive disadvantages. The EU must build on a successful conclusion of the WTO round and at the same time strengthen bilateral economic relations on a targeted basis.

- The EU should agree bilaterally with strategically important trade partners, above all in Asia, a dismantling of customs duties and non-tariff barriers to trade accompanied by mutual facilitation of product authorisation.
- Bilateral free-trade agreements must be WTO-compatible. The following objectives should be paramount:
  - Complete dismantling of customs duties on trade in all industrial goods;
  - Permanent elimination of non-tariff barriers to trade;
  - Liberalisation of trade in services;
  - Comprehensive protection of intellectual property;
  - Transparent origin rules and customs procedures;
  - Liberalisation of investment rules;
  - Opening of public procurement markets;
  - Binding dispute settlement rules.
- Negotiations should be based on a continuous exchange between EU negotiators, the German government and business representatives.

### **EU neighbourhood policy**

The European neighbourhood policy (ENP) is built on the premise that stronger economic development and cooperation with the EU's "new neighbours" to the East and South, more stability and further structural reforms are in the interest of both sides. The beneficiary countries have the possibility to take part in selected EU activities through close political, security, economic and cultural cooperation. Country reports and jointly drafted "action plans" structure the process, which is expressly not linked to the prospect of EU accession.

- It is important to make the exploit the economic potential with all neighbour countries covered by ENP even more intensively.
- The EU should give clear incentives for economic structural reforms including deregulation and privatisation in the beneficiary countries, also with a view to increasing companies' planning certainty.
- The German EU Council Presidency should actively support the Commission in its efforts to develop differentiated categories for rapprochement with the EU not entailing an accession prospect.

### **EU-China**

The EU is China's largest trading partner, China is the EU's second largest trade partner after the USA. Ever more European companies are producing in China with the goal of winning markets in China and Asia. China is not only an economic partner. As a political bellwether in Asia and member of the UN Security Council, China is as involved in solving all important global problems such as in energy and environment policy as it is in solving regional conflicts or in global monetary and exchange rate policy.

- The EU-China partnership should be understood as an "eye to eye" partnership and take balanced account of the interests of both sides.
- German companies support closer cooperation on innovation and in high technology. At the same time, the European Commission must make it absolutely clear to the Chinese government that technology transfer must only take place on a voluntary basis.
- Protection of intellectual property in China needs to be further improved. There is a deficiency not of laws but of their enforcement. The EU should offer assistance with education and training of judges. Close coordination with the USA and Japan would be desirable.
- No further new non-tariff barriers to trade should be put in place. China should adopt as many international standards as possible.
- Relations are a two-way street: the EU should foster establishment in Europe of all Chinese investors which create jobs here.
- More sustainable business in China is good for everybody. Energy and resource efficiency in all areas of production is what is needed at the present time. The EU and Germany in particular have the necessary management know-how, technologies and products.

### **EU-India**

In 2004 the EU and India agreed a strategic partnership and in 2005 adopted an action programme in New Delhi which targets more intensive cooperation in areas such as trade policy, energy, technology and science. With the annual EU-India summits that have been held since 2000, the EU recognises India's growing significance. A comparable rapprochement process has been taking place for a number of years with between the USA and India. On 6 December 2006 EU Trade Commissioner Mandelson submitted a formal request to Member States for a mandate that empowers the EU to open free-trade negotiations with India.

- It is important to establish an equal partnership between the EU and India while at the same time taking account of the requirements of transatlantic relations.
- Tariffs and non-tariff barriers to trade must be further dismantled, in order to facilitate access to the Indian market for small and medium-sized enterprises in particular. Given the market potential of the Indian economy, a comprehensive free-trade agreement should therefore be negotiated with India.
- The German EU Council Presidency should be used to stimulate resumption of the debate on the Doha round with India, the USA and Brazil.
- The involvement of European industry in economic policy measures with India must be improved and their transparency enhanced.
- Scientific and technological cooperation between the EU and India must be further intensified.
- Sustainable business in India is in the interest of the EU, and cooperation should therefore be further strengthened in areas such as climate and energy.

### **EU-Russia**

Russia is the most important partner of Germany and of the EU in Central and Eastern Europe, thanks to its energy resources and its market potential. The partnership and cooperation agreement (PCA) concluded between Russia and the EU in 1997 expires in 2007. Renegotiation of the agreement is necessary, since political cooperation already goes beyond the bounds set out in the 1997 agreement. Russia's accession to WTO, which could become a reality at the end of 2007, also involves obligations which go beyond the current agreement. The aim of a new PCA is creation of an open and integrated market between Russia and the EU with the prospect of a free-trade area.

- Efforts must be made during the German EU Council Presidency to overcome Polish resistance to an EU mandate to open negotiations with Russia on a new PCA.
- The task now is to build up energy relations between the EU and Russia in the framework of the EU-Russia energy dialogue on the basis of fair and equal market access.
- For German business, dismantling of barriers to trade and investment and deeper cooperation – especially in the areas of aeronautics, transport/logistics, financial services and agriculture – are of particular importance for creation of a common economic area between the EU and Russia.

**EU-Central Asia**

Central Asia is among the most dynamic developing regions in the world. Bilateral economic relations with the countries of Central Asia have developed in leaps and bounds in recent years. At the same time, new political structures are being created in the region (Eurasian Economic Community, Shanghai Cooperation Organization). In June of this year the European Council will adopt a Central Asia strategy which will be prepared substantially during the German EU Council Presidency.

- In parallel with the envisaged EU Central Asia strategy, German business expects an improvement in political and economic relations between the EU and the countries of Central Asia.
- New cooperation instruments should be developed, e.g. a permanent economic policy dialogue.
- Extension of cooperation between the EU and the Shanghai Cooperation Organization and the Eurasian Economic Community should be explored.

## **Making Europe fit for the future**

### **European constitutional treaty**

After the failure of the referendums in France and the Netherlands in 2005, heads of state and government decreed a period of reflection. The German Council Presidency wants to mark the 50th anniversary of the Treaties of Rome in March 2007 with a "Berlin declaration" setting out the EU's values and goals. Then, in June, the Council Presidency aims to present concrete proposals for the future of the constitutional process in liaison with the Commission and the European Parliament, following the twin-track approach agreed by the European Council in June 2006. Only an EU which is capable of reaching decisions and taking action can keep up with the rapid rate of global change. Hence, more competitiveness is indissolubly linked to institutional reform in the EU.

- German business has a strong interest in an EU which is capable of action. The constitutional treaty has clear advantages over the Treaty of Nice currently in force. These include the extension of majority voting, introduction of a clearer concept of the double majority and a strengthening of the principles of subsidiarity and proportionality.
- Overhasty "cherry-picking" would not move Europe forward. The German government should stick to its plan of carefully identifying possible solutions in June 2007 with a view to final adoption by the end of 2008.
- The institutional overhaul needed to render the EU capable of action should be implemented. Competences must be assigned more clearly, the number of legal instruments reduced, and the objective of a "highly competitive social market economy" enshrined.
- In all deliberations on the social dimension of Europe, the importance of economic performance as a condition for a high level of social protection should be clearly recognised. Economic policy and social policy are closely interlinked. Only through more growth and jobs can we realise our social aspirations. For that reason, economic considerations must have priority in cases of doubt.

### **EU enlargement**

Germany often occupies a leading economic position in new EU Member States and EU candidate countries. Export-oriented German industry has a major interest in further deepening economic relations with these countries. A fully functional internal market with 27 and more members coupled with an effective and efficient institutional framework for an EU that is capable of action contribute decisively to the EU's absorption capacity.

- The EU should digest the accession of Bulgaria and Romania with the fewest possible complications and perform realistic and targeted tests on use of the safeguard mechanisms.
- Implementation of the adopted enlargement strategy with the core elements "consolidation", "conditionality" and "communication" should be moved forward cautiously, taking account of the EU's absorption capacity.
- The German Council Presidency should give full effect to the principles and processes of the EU negotiating mandate vis-à-vis Turkey.

### **EU finances**

The agreement reached by Council, Commission and European Parliament on the Financial Perspectives 2007 - 2013 makes provision for a budget volume of a total of 864.3 billion euros. That corresponds to 1.048% of European GNI. The largest expenditure items continue to be agriculture (43%) and structural policy (35.6%). With this financial structure, the EU is inadequately equipped to come to grips with global competition in innovation. The EU needs to spend carefully and give clear priority to forward-looking investments which foster value creation in Europe.

- Policy-makers must use the review planned for 2009 to deploy the EU's financial resources more efficiently in future: less redistribution, more investments in research, development and education.
- The EU must move ahead with reform of agricultural and structural policy. Cohesion policy must be concentrated more on the most disadvantaged regions and on fewer objectives.
- The German EU Council Presidency should push structural reforms to EU finances with a view to the review.
- The Community level should not concern itself with expenditures that the Member States can manage better themselves (example: European globalisation fund).
- German business rejects calls for the EU to have more resources, which it regards as a further turn of the tax screw.

### **Stability and growth pact**

The stability and growth pact was decided by the Amsterdam European Council in June 1997. The pact sets out the framework for Member States' budget policies – and budget discipline. Accordingly, meeting the Maastricht criteria is an absolutely essential foundation for growth in the EU. In March 2005 EU Finance Ministers reached agreement on a reform which was endorsed by the European Council. While the limit values are broadly unaffected, the way they are taken into account is subject to more conditions. In 2006 Germany met the deficit criterion for the first time in five years with a public deficit of 1.7% of GDP.

- Binding rules are important in a common currency area in order to ensure financial and budget discipline. German business is therefore in favour of strict application of the Maastricht criteria. The pact must not be interpreted on an "à la carte" basis. New members should only be allowed to join the eurozone once they meet the convergence criteria, with no exceptions.
- Budgets must be rationalised through cuts in current spending and not through higher taxes, which depress growth. Policy-makers win trust with sound budgets and clear reform prospects.
- It is important to communicate that the stability pact is not an end in itself but a basis for more growth in Europe – and for more jobs.
- ECB's independence must not be eroded. Widening ECB's remit with additional objectives such as economic growth and social progress would open the door to political influence and undermine the high level of credibility enjoyed by ECB.

### **European internal market**

Europe has now become the domestic market for many German companies and their springboard for global activities. German direct investments in EU-25 have reached a level of around 350 billion euros. In trade terms, 59% of Germany's total imports and 63% of its total exports take place within the EU. In 2005 Germany's intra-Community exports were valued at an impressive 498 billion euros. But the internal market has still not been completed 20 years after the Single European Act and 50 years after signature of the Treaties of Rome.

- Around 70% of business legislation comes from Brussels. EU and Member States are once more invited to create a straightforward, coherent and stable regulatory environment which minimises the burden on companies and restricts business activity as little as possible.
- The internal market review recently presented by the Commission points in the right direction. However, a Community strategy for completion of the internal market is not sufficient on its own. Member States continue to have the obligation to implement EU legislation on time and without gold-plating.
- Bearing in mind the unsatisfactory content of the services directive, the EU must continue to push for greater liberalisation in the booming services sector.
- The German Council Presidency should work for better functioning of the internal market as well as for a strengthening of the internal and external dimensions of European competitiveness, also in the framework of the "Troika".

### **Better regulation**

The Commission but also many EU Member States have placed the dismantling of bureaucracy at the very top of their agendas for 2007. Only through early and independent impact assessment can the discussion on a legislative procedure be effectively steered. The Commission has committed to implementation of impact assessments for all important legislative proposals. A further cornerstone of the better regulation strategy is the dismantling of bureaucratic burdens, which is intended to save companies an annual 1.3 billion euros. Realisation of this planned outcome together with an intensively pursued simplification of existing legislation would markedly increase European competitiveness.

- The EU wants to set itself the goal of a 25% reduction in the costs of bureaucracy arising from 38 particularly burdensome directives and regulations by 2012. German business welcomes the setting of a concrete reduction objective. But more lip service is not called for; policy-makers must be judged on concrete measures and successes.
- Following the example of the Netherlands, other Member States have also announced reduction objectives. The rest are expected to follow. The German EU Council Presidency should give a good example and also set a concrete reduction objective.
- An independent watchdog should flank the process of bureaucracy reduction in the EU. Only supervision by a neutral body can ensure that every legislative initiative is examined objectively for superfluous bureaucratic costs. With the appointment of a benchmarking council, Germany has set a good example in this regard.
- The EU should rapidly submit concrete proposals for alleviations. The measuring process must be driven forward energetically. The success of this project stands or falls with reliable figures on the extent of bureaucratic costs caused by Brussels and the Member States.

- It is urgent that existing legislation is simplified more intensively. All European institutions must pull in the same direction and rapidly achieve results which genuinely relieve the burden on those who must apply the legislation, and not create new hurdles. In this regard, all areas of legislation without exception must be scrutinised to see whether there is scope for simplification.