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STATEMENT | EUROPEAN POLICY

A Strong and Sovereign EU

Calling for Europe to Take on a New Role in the World

September 2018

- **Strengthening the European Union internally and externally must be the guiding principle for policy-makers.** Stabilising its economic power is crucial as only an economically strong EU has international clout. Key policy areas need to be realigned towards this objective.

- **The rapid completion of the single market and a modern industrial strategy 2030 must be a top priority.** The single services, energy and digital market will greatly increase growth and efficiency. Strengthening industry and the competitiveness of European companies must be a central objective of the EU institutions. The next EU multiannual financial framework must be targeted towards growth. Particularly research and innovation need substantially more funding.

- **EMU deepening must be adopted swiftly.** The EU urgently needs a European Monetary Fund, a fiscal stabilisation mechanism and the completion of the Banking Union. The euro countries must consolidate their budgets, reduce imbalances and boost productivity through reforms.

- **The EU must strengthen the global trade order and work towards open markets for trade and investment.** The EU should liberalise trade with the United States, the ASEAN and Mercosur countries and other large markets. The EU needs a robust strategy towards China.

- **The EU must assume new tasks in foreign policy, deepen cooperation on defence and take on its role as a pillar of international stability.**

- **Brexit must be smooth and orderly.** Our future relationship with the United Kingdom must be designed to keep the damage on economic relations as low as possible.

Content

Summary

The wide-reaching changes in international relations and in the internal stability of the EU require new responses in almost all fields of policy. Europe has not been in a comparable situation throughout the post-war era. Two particularly severe disruptive forces are the new U.S. policy under Donald Trump, and Brexit, scheduled to take place on 29 March 2019. The EU is furthermore approaching the end of a legislative term, with European Parliament elections coming up next May and a new European Commission scheduled to start in autumn.

Europe is also facing enormous challenges despite economic growth in all 28 member states. These challenges include the global race in technology, above all in the digital economy, the implementation of the Paris climate commitments and finding a new approach to dealing with migration movements, particularly from Africa. EU policy must have a stable medium-term approach. The EU is the home market of German industrial enterprises and, as such, needs to be sustainably strengthened and prepared for the future. The focus must be on stabilising the economic foundations of our community of states. Only with a strong economy can the EU assume an assertive position on the international stage.

The European Single Market is the foundation for a successful and prosperous Europe. With more than 21 million companies and 500 million consumers, the EU is the largest common market in the world. The free movement of goods, services, capital and labour is the fundamental prerequisite for sustainable growth, employment and competitiveness in the EU. At present, however, the single market is still fragmented in places such as in services and the capital markets on account of divergent national legal frameworks, inefficient implementation and enforcement of EU law and protectionism. Important single market reform legislation that has already come into effect on EU level – such as the public procurement reform package – must be implemented correctly, concurrently and in full in all member states. The swift completion of the single market for services, energy and the digital sector must be at the very top of the political agenda as it is precisely these areas which have the highest potential for growth and increasing efficiency.

Furthermore, the EU must reengage with the policy area of industrial policy. This includes formulating an industrial strategy as a first step. The EU should set an ambitious industrial target for 2030. The global competitiveness of Europe must be a top priority on the political agenda of EU institutions. Strengthening industry and competitiveness must be regarded as objectives of equal importance to environmental, climate and consumer protection objectives. Special attention should be paid to the framework conditions for small and medium-sized enterprises. The EU Better Regulation Agenda should be further developed, deepened and turned into a permanent programme.

Since 2011, the EU issues specific recommendations for every member state on economic policy within the framework of the European Semester and it implements the regulations of the Stability and Growth Pact on fiscal policy. These measures are designed to foster a convergent economic development in the EU and particularly in the Monetary Union. The European Commission has however established that the recommendations are only partially implemented. It has noted particularly pronounced and repeated deficits in reforms and investment in the areas of education and training, innovation, the tax regime, infrastructure and in creating an entrepreneurial environment. This negligent procrastination in reforms seen in the majority of member states is costing the EU a sum in the high two-digit billion euro range every year in untapped potential value added, thus reducing the opportunities for millions of Europeans to share in prosperity.

The euro area must have better fiscal policy tools to enable it to take a more effective approach to overall macroeconomic stabilisation and responding to asymmetric shocks. This should include a fiscal

stabilisation mechanism. To qualify, a country would have to comply with the EU rulebook on economic and fiscal policy. The governments of the euro countries should also strengthen the European Stability Mechanism and expand it into a European Monetary Fund. Further necessary steps are the completion of the Banking Union, the deepening of the Capital Markets Union and the incorporation of the Fiscal Compact into the EU's legal framework.

The EU currently has a budget of around 160 billion euros a year, which is approximately one percent of EU GDP. This is not enough to master the tasks and challenges in hand at EU level. In addition, the structural shift of the budget towards a greater orientation on growth needs to take place faster than it has so far. The funding of research and development, new technologies and pan-European infrastructure for transport, energy and digital networks needs to be stocked up substantially. Research spending, in particular, should be increased to 160 billion euros over the next seven-year period, which will mean almost doubling current levels. New tasks and challenges have also emerged in foreign policy and security policy, migration policy and European monetary policy. With responsibility in these areas, the EU could assume a much more assertive international position, which is increasingly important in view of the progressively unstable partner in our transatlantic relations and the dynamic rise of China.

A key prerequisite for the success of digitalisation are high-performance networks. Until 2025, Europe could generate an additional 1.25 trillion euros in industrial gross value added through networked production and new business models. The European Commission has identified this potential and has set important incentives for member states to expand digital infrastructure in the past few months with numerous initiatives and legislative proposals in the framework of the connectivity package. Equally important are measures to strengthen cybersecurity. Artificial intelligence (AI) is a key enabling technology in reaching the next stage of digitalisation. EU countries will only remain internationally competitive if their pool their energies and resources in the development and distribution of AI systems.

Europe has set itself the target of providing 32 percent of final energy consumption with renewable energy by 2030. In addition to establishing a functioning European single energy market, the energy system must be made more flexible in order to integrate the volatile electricity generation from wind and solar power. Key action areas to increase flexibility alongside conventional electricity generation is the expansion of the European electricity grid, the further development of energy storage systems, the international trade in electricity and the increased flexibility of electricity consumers. German industry is still calling for an implementation of the Paris Climate Agreement that creates a level playing field with a fair distribution of the costs of climate protection. The EU priorities in energy and climate policy must be reflected in the EU Multiannual Financial Framework and in the European and national support programmes.

In these times of globalisation, open markets for trade and investment, rule-based competition, market economy principles and high international standards are becoming ever more important to secure European and enable global prosperity. The EU must take action against all forms of protectionism. The enforcement of rules and functioning of the World Trade Organization (WTO) needs to be improved and the treaty texts modernised. New rules are needed for subsidies and on state-owned enterprises. New market access must be put back on the WTO agenda either in the form of expanded or new plurilateral agreements. In parallel, the EU should energetically press ahead with its ambitious bilateral negotiations agenda. A rapid implementation of this agenda is the only way to create new markets and reliable framework conditions for business.

Europe has fallen behind other regions as a destination for investment. The percentage of worldwide cross-border direct investment flowing into the EU has dropped from 40 percent in 1990 to 29 percent in 2016. Investment controls and restrictions represent a major intervention in free enterprise and should only be used to prevent threats to national security. At the same time, Europe needs to better protect itself from the market distortions caused by state-owned enterprises.

The US is still a key political and economic partner to the EU, despite the irritations of the past months and the questionable US tariffs on steel and aluminium imports. The announcement of negotiations over a trade agreement between the transatlantic partners is a welcome development. A trade agreement would need to meet the requirements of a modern and WTO-compliant agreement and liberalise substantially all trade. A simple customs agreement with the United States would fall short of the mark. Non-tariff trade barriers must be included in the talks, and public procurement should be.

In China, European companies are still operating very successfully. It is in the inherent interests of Europe to foster economic cooperation with China. At the same time, the market system of the EU must be resilient against the increasing activities of non-market economy companies and state intervention from China. Furthermore, hopes have faded that the country will move towards a market economy system and political liberalisation.

Regarding Russia, it is important to maintain the approach of seeking dialogue and insisting on compliance with international law. A united European front is urgently required for this strategy to succeed.

Overshadowed by the United States, Russia and China, the EU is currently not really perceived as an independent force in foreign and security policy. Closer collaboration is urgently need if the EU is to guarantee the security of people and trade routes beyond development policy and economic cooperation. To this end, Europe must step up its collaboration in security and defence policy. One important aspect of this is to push ahead with military equipment development and procurement projects.

Concerning neighbourhood policy, it is in the interests of the EU and its economy to proactively encourage the West Balkan countries towards the EU. The increasing engagement of other countries such as China, Russia and Turkey, makes setting out a clear perspective for accession, a visible presence of the EU and closer relations all the more important. The deepening of relations with Turkey would depend on the country's domestic political development.

From an economic point of view, the disruptions following the exit of the United Kingdom from the EU must be kept to a minimum on both sides. The only way of achieving this is through a model of deep integration such as a customs union, remaining in the single market with EEA membership or an equivalent relationship and a number of further cooperation agreements. In line with the negotiating guidelines of the European Council, the EU should leave a door open for deeper relations in so far as the United Kingdom accepts the fundamental balance of rights and duties and the integrity of the Union's legal order with its indivisible freedoms and law enforcement mechanisms.

In this statement we have focussed on the internal and external challenges facing European policy in the coming five to seven years. Based on these challenges, German industry has formulated specific demands which form the cornerstones of a roadmap. A roadmap to prepare our continent for the future guided by the belief that Europe is not a problem but, on the contrary, the solution to a number of problems which we, as Europeans, are facing.
German industry has played and continues to play a central role in the process of European integration. German industrial companies – small and medium-sized family businesses and listed corporations alike – work across borders, connecting member states and individuals, providing solutions and making Europe stronger in many respects. Europe needs to be economically powerful in order to bring its power to bear in the world and defend its values.

Introduction: Europe’s political and economic outlook

The unity of Europe has been severely tested in the last few years, both from within and from without. Major challenges are, in particular, the uncertainties concerning the security and economic policy of the Trump administration, the serious violations of the European security order by Russia, the war in Syria, the political changes in the People’s Republic of China and the crisis of several multilateral organisations including the World Trade Organization. The influx of refugees triggered by the war in Syria and other regions of crisis or conflict in the Middle East and Africa has also caused problems at the external borders of the EU, for the asylum system, in refugee policy and for the single market (reintroduction of border controls within the Schengen Area).

The internal unity of Europe has been shaken not least by the result of the referendum of the United Kingdom on leaving the EU in June 2016. The exit modalities and the structure of the future relationship with the United Kingdom are still unclear. Adding further strain to the unity of the EU is the erosion in some member states of their democratic nature and the principle and institutions of the rule of law connected with the rise of populist parties and governments. There have also been troubling domestic political developments in the immediate vicinity of the Union. The authoritarian trend in Turkey, the regression of the democratic nature of almost all Arab Spring countries, the ongoing smouldering conflict between Israel and the Palestinians, and the catastrophic situation in Syria are all major challenges for the EU in its foreign relations. And it is more than that, all these trends could be of considerable detriment to the peace, stability and prosperity of Europe in the medium term.

In contrast to the worrying political developments, 2017 was a good year for the EU economy. It improved significantly following almost ten years of very sluggish recovery. All countries are now recording economic growth. Employment has risen considerably and unemployment is decreasing steadily. The further expansion of global trade has also finally brought private investment levels up. Public budgets have also improved. Net borrowing has been cut substantially in almost all member states and public debt levels are gradually being brought down. The economic and social convergence of the EU has recently started increasing again in many areas.

Prices, wages and productivity have been on a rather sluggish upward trend in the last few years in most member states. A whole number of factors have contributed to this trend, including weak private and public investment activity, an insufficient diffusion of new technologies and business practices (above all in the form of digital solutions and business models), and inadequate start-up activities and funding. Labour market reforms have tended to promote employment rather than training. Progress in the reform of the markets for goods and services to make them more competitive has also been insufficient. Nor has any real progress been made in substantially improving education and training, the entrepreneurial environment and the tax burden on labour, capital and research.

Despite the economic recovery of the EU, the national economies of Europe are facing intense international competition. This is particularly the case in the digitalisation of the economy and the strong internationally competitive positions of United States and Chinese technology companies. Although Europe’s companies have still been exporting successfully in many other sectors of the economy in the last few years, they have lost market shares. While much higher economic growth in the United States and Asia has been a contributing factor here, another is the fact that Europe has waited too long to create a legal framework for the single digital market and establish the foundations for European champions with investment and a good digital infrastructure.

In energy and climate policy, the course has been changed worldwide since the large EU climate and energy package of 2007. As well as substantial reform requirements in the fields of cutting emissions, renewable energy and energy efficiency, the Paris Climate Agreement has made the national targets more ambitious and long term. These will now have to be arranged in detail. The EU faces major difficulties here in view of the announced withdrawal of the United States from the agreement.

The EU is currently, in 2018, approaching the end of a legislative term. A new European Parliament will be elected in May 2019, a new European Commission is scheduled to start in autumn and a new multiannual financial framework needs to be agreed for the medium term, 2021-2028. The wide-reaching changes in international relations and in the internal constitutionality of the EU must be met with new responses in almost all fields of policy. European policy must have a stable medium-term orientation, especially in view of the many political uncertainties.

The European Commission has presented proposals to reform the European Union; the European Council has set itself a Leader's Agenda. The French President Macron has also, since taking up office, presented a number of proposals to strengthen the foundations of Europe. The tasks in hand are so multifaceted and deep-reaching that it requires the participation not only of the European institutions and the national governments and parliaments of the member states, but also societal forces. Reforms, adjustments to targets, and policy instruments must be broadly and jointly discussed, both thoroughly and swiftly, and then followed by political action. What will make this endeavour even more challenging is the fact that fundamental issues of good governance, the basic principles of a social market economy, and concrete economic, foreign and security policy will need to be addressed by policy-makers in parallel and as a whole.

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In this statement we have focussed on the internal and external challenges facing European policy in the coming five to seven years. Based on these challenges, German industry has formulated specific demands which form the cornerstones of a roadmap. A roadmap to prepare our continent for the future guided by the belief that Europe is not a problem but, on the contrary, the solution to a number of problems which we, as Europeans, are facing.

Making the most of Europe's economic strength

Pursue sustainable inclusive growth and structural reform

The major economic and financial crisis has significantly curtailed growth and employment in the EU for the best part of the last decade.[1] In some crisis countries, investment activity and bank lending only really started to recover in 2017 and, in some countries, wages and incomes have still not gathered momentum. Economic growth has nonetheless increased cyclically in all member states with employment back to pre-crisis levels and clear rises in investment and productivity since 2017.[2]

Macroeconomic surveillance at the EU level, since 2011 in the context of the European Semester, serves to coordinate national economic policies. Within the European Semester, the EU issues recommendations to each member state for their economic policy and ensures compliance with the Stability and Growth Pact in their fiscal policy. These measures are designed to foster a convergent economic development within the EU and particularly within the Monetary Union.

However, the European Commission has noted that only around one quarter (26 percent) of the recommendations are actually implemented fully or substantially, not even one half to some extent (44 percent) and just under one third (30 percent) are simply ignored.

Demands

- The biggest reforms since 2011 have been in the financial sector, in budgetary and in labour market policy. The consolidation of public budgets has progressed significantly across the board. The reduction of the very high public debt levels of some member states is only just beginning.[3] Furthermore, many countries should adopt a more growth-friendly approach in their financial policy.
- Little progress, on the other hand, has been made in tax policy (tax system with broad tax base), alleviating lower-skilled workers and in the fiscal feasibility of social security systems. The individual member states need to increase their efforts in these areas.
- Little attention has been paid to improving the framework conditions for private investment, the expansion of public infrastructure, innovation levels, productivity growth, opening up of product markets and the entrepreneurial environment. Some member states have only recently taken some reforms to strengthen innovation activity.
- Reforms to strengthen education and vocational and further training has not progressed in most member states despite the increasing divide between supply and demand for skilled workers, with companies in Europe finding it increasing difficult to obtain the skilled manpower they need in view of the good economic situation.
- The analyses to reduce macroeconomic imbalances and the Semester recommendations are not always closely coordinated. The Semester recommendations should have a stronger focus on macroeconomic and financial market policy issues.[4]

The potential growth of the EU is currently estimated at around only 1.5 percent (OECD: 1.4 percent, Commission; 1.6 percent).[5] Shortcomings that are repeatedly voiced in surveys among our associations are reforms and investment in education, training and innovation, in the tax system, in

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[1] OECD (2018).
[2] Ibd.
[3] OECD (2018).
[4] Efstathiou and Wolff (2018).
[5] OECD (2018).

infrastructure and in the entrepreneurial environment.[6] The EU is missing out on a sum in the high two-digit billion euro range of additional potential output every year on account of the negligent procrastination of most member states in implementing reforms. Reforms tailored to the respective needs of the individual member states could increase potential growth by between one quarter and one half of a percentage point in the space of a few years. This corresponds to an amount in the mid double-digit billion euro range.

Advance the deepening of the Economic and Monetary Union

The major economic and financial crisis of 2008 to 2012 brought to light not only a series of adverse developments in national economic policies, foreign trade imbalances and a loss of fiscal control, but also a large number of structural weaknesses in the Maastricht Treaty and in the institutional architecture of the Monetary Union. During the years of the crisis, rescue measures were taken to bail out banks, market segments and governments, and new political instruments and institutions such as the European Stability Mechanism were introduced to get the situation back under control and overcome the multiple crises of banks, financial markets and states.[7] Essentially, measured were taken then and are now being taken that should have been taken from the very beginning – establishing single supervision over the banking system with a single set of regulations, a crisis management mechanism and basic fiscal instruments. The keywords of the reform debate are therefore banking union, capital markets union and fiscal union.

This process has not yet been completed. It encompasses strengthening the market discipline of member states before a crisis, and possibly also in a crisis situation, as well as national economic policies overall, adapting the tasks of the European institutions (ECB, ESM, European Commission, Council and Parliament) and creating new legal foundations, institutions and policy instruments at EU and euro level to enable the management of interdependencies in the common currency area. The discussion attracted a lot of attention due to the various proposals put forward by President Macron after he took up office, through the European Commission in December 2017 and May 2018, and through the decisions of the governments of Germany and France at Schloss Meseberg in June 2018.[8]

In future, the euro area must be better equipped to address macroeconomic stabilisation in the euro area as a whole, also using financial policy instruments to tackle asymmetric shocks. Crisis management should also be strengthened by creating a European Monetary Fund. The Banking Union needs to be completed, the Capital Markets Union deepened substantially beyond the work achieved so far and the Fiscal Compact incorporated into the EU's legislative framework. Lastly, stronger governance is needed. We believe that the following reforms are necessary in addition to substantial national efforts in economic and financial policy:

- A fiscal stabilisation function should be created for the euro area, as suggested in various Four/Five Presidents' Reports of the EU institutions since 2012.[9] This function should primarily serve to cushion the Union and member states from severe asymmetrical shocks by making rapid counter measures available. Subsidies or subsidised loans could be used for this purpose, funded by the EU budget or a special fund (the ESM) for a limited period of time of between one and three years. These funds could be used not only to stabilise public and private investment activity but also to smooth private consumption. To qualify, a country would have to comply with the EU regulations on economic and fiscal policy (Stability Pact,

[6] BusinessEurope (2018), also BIAC (2018).
[7] See e.g. Eichengreen (2015), Brunnermeier, James and Landau (2017), Cline (2016), Constâncio (2018a, b), Draghi (2018).
[8] Macron (2017), European Commission (2017a, b, c, 2015), German Federal Government (2018a, b).
[9] Juncker et al. (2015), Van Rompuy (2012), see also OECD (2018b).

Excessive Imbalance Procedures), so-called ex-ante conditionality. It would be particularly effective to finance these measures with a special fund into which members pay a fixed target volume (1-2 percent of EU GDP) and that is built up over several years (similarly to the Single Resolution Fund), or, in future, with an EU budget in the form of subsidies. This could be combined with credit lines depending on the situation of the respective country.[10] The Commission recently proposed establishing a lending facility of up to 30 billion euros from the EU budget together with an interest rate subsidy, in order to maintain a country's public investment level at its average level of the previous five years.[11] This would be in addition to national stabilisation measures using automatic stabilisers and targeted counter measures within the fiscal regulatory framework.

- The EU should support reforms by setting incentives. A further instrument for this is the reform delivery tool proposed by the European Commission. Federal Chancellor Merkel and others have also put forward similar ideas. These reforms should of course be aligned to the country-specific recommendations issued by the European Semester for economic policy cooperation. The Commission's proposal for the new Multiannual Financial Framework includes a programme framework of 22 billion euros over a period of seven years for these purposes with two programme periods of 11 billion euros each. This instrument would be a first step to more firmly anchor the reform agenda.
- The governments of the euro countries should also strengthen the European Stabilisation Mechanism by expanding it into a European Monetary Fund. The ESM already today can analyse the macroeconomic situation of countries and the sustainability of their public debt. In future it will be important to manage a crisis autonomously and enable funding member states in difficulties.[12] In future, the ECB should no longer be officially involved in the programme negotiations and agreements but only provide consultation (for banking and financial system issues), as this is outside the normal mandate of a central bank.
- The EU must complete the Banking Union. A fiscal backstop for rescue measures has not yet been decided upon. It would come at the end of a liability chain of owners, creditors and the Single Resolution Fund, which will have a volume of 55 billion euros by 2024 to temporarily fund eventual gaps in financing during a crisis with public subsidies. Plans are to set up an ESM credit facility for this purpose. The backstop funding would have to be paid back by the banks afterwards. A fully financed system of this kind would also make it easier for supervisory authorities to take action without fear of uncontrollable consequences.
- The EU should create a uniform deposit insurance scheme. There is still no single deposit insurance scheme for the Monetary Union and the European single financial market. Ultimately, it is a matter of being able to legally, politically and institutionally restructure and resolve banks and to make decisions on insuring deposits from a single source. This is the only way to make deposit insurance fully credible and, in case of crisis, avoid runs on banks. The insurance advantages of a euro-wide solution are obvious.[13] This objective cannot be achieved from one day to the next, but through a step-by-step implementation with clearly defined milestones. A roadmap is needed to define the way ahead, to reduce risks, to meet milestones in the implementation within existing law, agreement on the level of insurance and risk premiums according to institution or country and agreement on the final institutional arrangement. It is, however, clear that only healthy banks and sufficiently restructured banking systems can be included in this kind of system.

[10] Lagarde (2018), Berger, Dell'Arricia and Obstfeld (2018).
[11] European Commission (2017b).
[12] Lang (2018), Sapir and Schoenmaker (2017).
[13] See Schoenmaker (2018) and Carmassi et al. (2018).

- The EU should tackle ambitious projects to create a Capital Markets Union and complete these in the next five years. That includes achieving progress in the fields of corporate tax and insolvency legislation, strengthening European securities supervision and creating a secure security in the form of Sovereign-Bond Backed Securities. The equal regulatory treatment of individual sovereign bonds with asset-backed securities and provision through the market is the right way to go in the medium term. This would maintain the unity of liability and control.
- In the medium term, the EU should improve euro area governance by pooling tasks and instituting further institutional reform.[14] The tasks of this office should include the macroeconomic supervision and coordination of fiscal and economic policy and the corresponding regulations, the application of euro area fiscal stabilisation instruments, the direction of the crisis management institutions (Single Resolution Fund, possibly deposit protection, ESM/EMF[15]); accountability to the European Parliament, and the international representation of the euro area.
- The EU should also incorporate the Fiscal Compact into the EU's legal framework to increase its transparency and democratic legitimacy.

Deepen the single market and strengthen industry

The European Single Market is the foundation for a successful and prosperous Europe. With more than 21 million companies and 500 million consumers, the EU is the largest common market in the world. The free movement of goods, services, capital and labour is the fundamental prerequisite for sustainable growth, employment and competitiveness in the EU. Yet the single market is still incomplete and on account of divergent national legal frameworks, inefficient implementation and enforcement of EU law, and protectionism. The potential lost through this fragmentation is estimated at between 651 billion and 1.1 trillion euros, or between five and 8.6 percent of EU GDP[16]. The EU must also reengage with the policy area of industrial policy, which has always been a policy area included in the EU's legal framework. The EU needs to develop an industrial strategy and review all political measures to assess their impact on trade and industry.

Demands

- Important single market reform legislation on EU level that has already entered into force – such as the economically significant public procurement reform package – needs to be implemented coherently and fully in all member states.
- The member states must refrain from national gold plating and protectionism, and instead strengthen administrative collaboration and mutual recognition. In parallel, the European Commission must take stronger action against insufficient implementation of EU legislation in member states. Political considerations should not enter into the equation here. The Commission needs to make consistent use of infringement proceedings to sanction violations of EU legislation. We expressly reject the Commission's proposal for a "Single Market Information Tool" as it is much too generalised. The Commission should instead make better use of the extensive information that is already available and demand any information that has been wrongly withheld.

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[14] European Commission (2017a, c), see also the reports of the European Parliament on reforming the EU within the treaties by Bresso and Brok and Verhofstadt (European Parliament 2017a, b) and Wolff (2017) on the debate.
[15]This would only be consistently possible if it took over the leadership of the Eurogroup as a substitute to a limited or permanent Eurogroup president. The inclusion of the Eurogroup in the treaties would require contractual amendment.
[16] European Parliamentary Research Service (2014).

- The swift completion of the single market for goods, services, capital, energy and digital goods and services must be at the very top of the political agenda. These sectors have especially high potential for increasing growth and efficiency. Internal borders within the Schengen Area must remain open.
- The European Commission needs to have a clear vision for the completion of the single market and a new industrial policy which connects the individual policy area strategies into a coherent whole.

Develop an Industrial Strategy 2030

Industrial companies – small and medium-sized family businesses and listed corporations alike – still form the backbone of the European economy. The significance of industry stretches far beyond the direct value added. In 2014, industry bought in goods and services to the value of 1.8 trillion euros from other European sectors. Industry directly accounts for some 32 million jobs and indirectly secures another 29.6 million jobs through required inputs.

Globally competitive European value chains are becoming ever more important for industrial growth and employment in Europe. Companies are increasingly seeking out partners beyond their national borders. In 2014, around 14.6 percent of all inputs in the EU were bought in from other EU countries. That is around three percentage points more than in 2000 and over ten percentage points more than in the United States or Asia.

In the past, EU institutions and member states have often focussed on other priorities and neglected industry. The EU global market shares in manufacturing exports have fallen by 5.2 percent between 2000 and 2016 – Western Europe particularly, losing a hefty 8.2 percent. In the same period, the global market shares of the United States have only fallen half as much, by 4.1 percent, and China has increased its shares markedly, with an increase of 12.3 percentage points.[17]

Demands

- The global competitiveness of Europe must be at the very top of the political agenda of EU institutions.
- The EU should set itself an ambitious target for industry to reach by 2030 and define indicators to allow the monitoring of industrial development in Europe.
- Strengthening industry and competitiveness must be regarded as objectives of equal importance to others such as environmental, climate and consumer protection objectives.
- At the spring European Council, the EU heads of state and government should discuss industrial development every year and decide on industrial policy guidelines for the Commission, the Council and the European Parliament.
- The Competitiveness Council of the European Council should be expanded to act as a competitiveness watchdog for all policy areas. A regular participation of Germany at ministerial level would set an important signal in this context.

Further integrate services

Services is the largest and fastest growing sector in Europe. It generates over 70 percent of EU GDP, provides over 150 million jobs and is the most important source of foreign direct investment. Manufacturing companies generate between 25 and 50 percent of their total sales with services, which are often closely connected to their goods. Yet only 20 percent of services in Europe are provided

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[17] IW Consult (2018).

across borders.[18] Fragmented labour markets, divergent national administrative requirements and an inefficient implementation of EU legislation in the member states impede cross-border operations within the EU. Furthermore, the obstacles for cross-border services are actually increasing rather than decreasing. The insufficient deepening of the EU single market for services is costing Europe around 330 billion euros of additional economic output, or 2.6 percent of EU GDP, every year.

Demands

- EU member states are under obligation to resolutely implement structural reforms to open up their markets as swiftly as possible.
- Companies from other member states must be given easier access to the information they need in order to provide commercial services.
- The European debate on services must go beyond the framework of the EU Services Directive and look at the whole value chain. It should be based on a current, evidence-based identification of the biggest obstacles for cross-border services.

Support small and medium-sized enterprises

More than 99 percent of all companies in the European economy are micro, small or medium-sized (SMEs). Numbering 23 million, these companies employ two thirds of the workforce (90 million jobs) and the majority of trainee posts. They generate around 3.9 trillion euros a year, which is 58 percent of total value added (Eurostat statistics). Despite their huge significance, only a minority of SMEs have direct cross-border operations. Insufficient resources within the companies themselves, bureaucratic obstacles and the still fragmented EU Single Market confines the business operations of many SMEs to their domestic market. Many are nonetheless integrated in internationally intertwined value added networks and are therefore strongly affected by international developments.

SMEs are also facing major challenges – often existential – associated with digital transformation. This situation is compounded by the fact that European and international standards and norms are already crucially important for the interoperability and integration of technologies along the whole value chain. SMEs, many of which collaborate closely with globally operating customers and suppliers, depend on smooth functionality across different technologies and standards.

Demands

- At EU level, the concept of “think small first” plus better legislation should be made a guiding principle for all EU legislation. Member states need to implement the European provisions consistently and point by point and refrain from national gold plating.
- SMEs must be extensively and visibly taken into consideration in the Multiannual Financial Framework of the EU with clearly defined, integrated and easily accessible SME programmes and funding.
- The EU needs a consistent SME policy with a clear profile. The definition of SME needs to be modernised, financing options facilitated and innovation fostered.
- Constructive trade policy needs to be applied to open up international markets for SMEs as well. The EU needs to negotiate modern free-trade agreements, dismantle non-tariff trade barriers, and further develop investment protection under international law.
- At national and European level, SMEs need to be given the right environment if they are to make full use of the opportunities provided by digitalisation. One factor here is creating an

[18] BusinessEurope (2015).

appropriate regulatory framework for IT security. Government and public administration should kick-start momentum by providing high-capacity infrastructure, appropriate regulations and inspiring flagship projects in its position as public contracting authority and customer of digital solutions.

Foster the single market with balanced economic legislation

European economic legislation is veering towards an increasing imbalance to the disadvantage of companies of which sales law with ever higher consumer protection, the geo-blocking regulation with the obligation to contract, a Single Market Information Tool (SMIT) with extensive reporting duties, collective legal protection (class-action suits) without adequate protection against misuse, are just some examples. These factors curb the cross-border operations of companies and undermine the competitiveness of the single market. In contrast, progress is only very hesitant on measures to promote business activity across the single market such as, e.g., creating a uniform European legal form for SMEs (European Private Company – SPE) or regulations on the mobility of companies. The general suspicion behind this reluctance that companies use cross-border operations to circumvent tax or codetermination rules is incorrect.

Demands

- In the formulation of new EU-level measures, consumer protection and the needs of business must be treated with equal importance.
- The freedom of establishment in the single market for companies must be completed. This requires increased cross-border mobility for companies, a modernised exchange of information between member states and more effective procedures. A European legal from for SMEs should also be reconsidered.
- In competition law and merger control, the European Commission should not define the relevant markets too narrowly but also consider the global market environment in order to strengthen the international competitiveness of European companies.

Better results with better legislation

Efficient regulation forms the very core of a smooth-functioning single market. Well-conceived and properly implemented legislation is absolutely essential to avoid unnecessary costs and burdens in reaching the intended policy objective and to ensure a competitive legal framework for companies.

Demands

- Guided by the principle of “less, but more efficient”, the EU should only take action if it holds real value added, and avoid excessive regulation.
- The EU Better Regulation Agenda should be developed further, deepened and turned into a permanent programme.
- Member states need to be made more aware of their responsibility for better regulation, above all in the implementation and application of European legislation.
- The quality of legislation is increasingly suffering under hasty political manoeuvres and populist simplification. Reducing complex matters to one or two examples can have unintended effects, particularly for SMEs. The legislative process must therefore be made more transparent and fact-based, and actively involve all relevant stakeholders. New regulations must be systematically reviewed as to their potential consequences and existing regulations need to be reviewed regularly to ensure their continued viability and suitability.

- The principle of innovation should be introduced and legally anchored both in Germany and at European level.

Structure EU budget to foster growth, cohesion and external strength

The European Union needs a budget that will allow it to tackle its assigned tasks and challenges. The EU must also factor in that the United Kingdom, one of its main contributors, will shortly cease to pay contributions or will, in future, only be making low contributions as a third country. In early May 2018, the European Commission presented its proposals for the EU's next Multiannual Financial Framework for the 2021-2027 period, based on funds of 1,135 billion euros or 1.115 percent of the gross national income of the 27 remaining member states.[19] In absolute figures, that corresponds to a value of around 160 billion euros for the EU budget per year. The proposed financial framework is slightly under the level that the EU would have under the currently valid framework without the United Kingdom.[20]

Demands

- The structural shift towards increased spending on growth, innovation, migration and foreign policy must take place more swiftly than past MFF adjustments.
- European growth and innovation policy must be accorded greater weight compared to traditional policy areas such as common agricultural and regional policy. Expenditure on agricultural policy should be reduced and tied more closely to political objectives.
- Funding for research and development, new technologies and pan-European infrastructure for transport, energy and digital networks must be increased substantially.
- The EU must pursue its new tasks and challenges in foreign and security policy, migration policy and in European monetary policy with more vigour in order to increase its sovereignty and international clout.
- New own resources – e.g. a uniform corporate tax and a plastics tax, or a diversion of revenues from the emissions trading scheme – must not additionally disadvantage German (and European) industry in international competition.

Prioritise research and development, new technologies and trans-European networks

The current acceleration in the development of key enabling technologies is increasing the competitive pressure on the European Union. The EU must lay the foundation for markets of a viable size and functional European value chains by expanding cross-border infrastructure and pooling powers to form adequately funded innovation support programmes.

Demands

- The EU should double its framework programme for research and development from its current level of 80 billion euros to 160 billion euros.[21] So far, plans envisage increasing the budget of the follow-on programme of Horizon 2020 (Horizon Europe) to only 86 billion euros, or a total of 91 billion euros for Horizon Europe, EURATOM and other innovation measures overall. The planned increase is a welcome step but is insufficient in view of the massive public funding programmes of China, the United States and Japan for new technologies in areas such as artificial intelligence, e-mobility and other emerging key technologies.

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[19] European Commission (2018).
[20] Haas, Rubio and Schneemelcher (2018).
[21] BDI (2018c) and High-Level Group (2017).

- In addition, the EU must invest significantly more in cross-border infrastructure. Trans-European energy, transport and broadband networks are the very foundation of functional European value chains. A cost-efficient transition towards renewable energy in Germany and Europe will need a hand-in-hand expansion of renewables and investment in power highways. An expert group appointed by the European Commission has put the required investment in power grids of trans-European relevance until 2030 at between 125 and 148 billion euros – irrespective of the form of expansion.[22]

Realign regional policy and make it more efficient

The EU supports growth in less developed regions with a number of instruments and funds out of the EU budget and with additional funds such as the European Fund for Strategic Investments (EFSI). [23] This is necessary in view of the persistently high differences in per-capita income between the regions and the different problems and pressures.

The European Commission has proposed 391 billion euros in the next MFF for cohesion policy and a better coordination with the European Semester. The focus will be on the poorest regions, for which 75 percent of the funds are earmarked.

Demands

- Cohesion policy should, also in future, continue to be allocated sufficient funds to support the regional convergence of economic strength. Marginal cuts in expenditure in real terms are justified in view of the considerable progress already achieved in economic development, particularly in the poorest regions. In general, all countries and regions should be eligible to apply for funding.
- In its regional and cohesion policy, the EU should increase its focus on channelling funds to foster growth, infrastructure, investment and employee training.
- Cohesion policies should also be more closely connected to the respective country’s main points of reform identified by the European Semester, both at the beginning of the programme and in the interim review 2023/24.
- The different funding instruments of regional policy, the European Fund for Strategic Investments (EFSI) and other spending programmes (research, climate protection, agriculture) need to work together better.
- EU cohesion policies must be implemented in an innovation-friendly and economically-friendly way and greatly simplified in terms of administration throughout the whole cycle from applying, granting and auditing. This should, for the first time, be facilitated and ensured by a uniform regulatory framework and a one-off audit. We support the use of the “EU rule of law mechanism” to audit the use of funds.

Financing new tasks in foreign relations

With new tasks in international relations, the EU needs higher funds for foreign, security and neighbourhood policy. The proposed budget for this area is 163 billion euros with an extra 31 billion euros for migration and borders. Furthermore, the plans outlined in the European Defence Fund (EDF) to spend between one and 1.5 billion euros a year on research and development are a step in the right direction. The financial dimension amounts to ten billion euros (over seven years).

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[22] European Commission (2017).
[23] Busch (2018).

Jointly achieve progress in tax policy

In tax policy, the EU is faced with a double challenge. Firstly, complex administrative regulations on value-added tax and an uncoordinated taxation of earnings between the member states impedes cross-border operations in many cases and distorts competition within the single market. The second challenge facing Europe in this field is the global tax competition of other countries, above all the United States.

Harmonise value-added tax

The current European value-added tax system is still the transitional system established in 1993. It stands in contradiction to the further development of the single market. The current system is complex and compliance costs are high. It also has shortcomings with missing and unclear European regulations. Differences in how individual member states exercise their rights presents a risk for intra-Community trade and can lead to assessment risks and double taxation. As the EU's main exporter and importer, the present system encumbers German industry in particular.

Demands

- The European Commission quite rightly intends to establish a definitive value-added tax system. Agreement on the country of destination principle without an obligation for companies to register in the country of destination is an important decision. Agreement on the details and establishment of the corresponding technical prerequisites are now the top priorities.
- The elements proposed by the European Commission to extend the One Stop Shop and introduce the "certified taxable person" to combat fraud and facilitate data collection need to be scrutinised critically. All intra-Community trade in goods must be subject to uniform and clear regulations. Legal consequences arising from the status of "certified taxable person" would be contrary to this end.
- Additional harmonisation is needed in the national value-added tax regulations and legally watertight information systems. Only then can a definitive system be implemented with legal certainty both for companies and for the tax authorities.
- Gaps in the current legislation need to be closed now until the complex consultations on a definitive system have been concluded. German industrial companies need to have legal certainty and alleviation now. This applies in particular to regulations on chain transactions and consignment stocks.

Finally structure common tax base

Measures that contribute to a level playing field and ensure full taxation of all earnings are going in the right direction. It is, however, important that companies are only taxed once. Various European and international (OECD) measures[24] have severely limited the possibilities of tax planning and significantly increased transparency in corporate taxation. Europe now has a uniform and extensive regulatory framework to safeguard the tax revenues of EU member states.

Demands

- The German federal government and the other EU member states need to ensure that the tax system in the EU is growth-friendly. The Common Consolidated Corporate Tax Base (CCCTB)

[24] Examples here are the reform of the Mutual Assistance Directive, specifically the obligation to share cross-border tax rulings, the uniform implementation of the OECD BEPS Action Point 13 Country-by-Country Reporting in the EU, the obligation to disclose cross-border tax structures, the Council Directive laying down rules against tax avoidance practices and the revision of the definition of permanent establishment and the transfer pricing guidelines at OECD level.

can make a contribution to this if both levels, harmonisation of the tax base and consolidation, are implemented in rapid succession. The reform project must not get stuck after the first stage, the harmonisation of the tax base. Without consolidation, it would not provide the improvements in the taxation on earnings in the single market that business needs.

- To ensure that the second step of reform, consolidation, is possible in practice, the tax base must be fully harmonised in the first step. This means that there can no longer be any optional regulations which member states can then chose whether or not to apply in calculating the tax base. The European Commission's proposal needs further development and further progress must be made in negotiations to eliminate current optional regulations.
- The CCCTB should not be regarded as an instrument to combat fraud. Rather it should closely follow the established regulations for financial accounting (the principle of taxation of net income, the realisation principle, consistent determination of income) and reduce the income tax obstacles for cross-border operations in the single market.
- The Commission's proposals on tax incentives for research, for an equity capital interest deduction and for a limited cross-border offsetting of losses also without consolidation, are all welcome steps. There are some parts that still need improvement, e.g. in the equity capital interest deduction.

Avoid digital tax

The intentions of the EU to increase tax on digital business models is generally unjustified. The approach of subjecting the "digital economy" to a separate tax is going in the wrong direction. German companies across the board are increasingly turning to digital business models and would therefore be extensively affected by developments in this area.

Demands

- We are opposed to a swift and one-sided introduction of a "digital services tax" (DST) in Europe. The proposed digital tax would cause extensive collateral damage to German industry and result in a double taxation of companies.
- Should this debate be pursued at EU level despite all the warnings and reservations, the scope of companies affected needs to be further limited, income on earnings taken into proper consideration and a double taxation on companies avoided. These incremental improvements could only serve to reduce but never to eliminate the negative impact of this type of tax.
- In the event that the results of digitalisation should be taken into greater account in the future taxation of earnings, further negotiations should be sought at OECD/G20 level to work towards a global consensus on a system-conform solution in the framework of the existing system rather than a European gold plating solution.
- Potential distortions in tax competition are caused in particular by gaps between the different tax regimes of individual countries. Instead of introducing new taxes that impede innovation and the shift towards digitalisation, improving collaboration between the individual countries would be a much better approach.

Facilitate innovation, digital economy and new business models

Even post Brexit, the size of the EU market with 450 million citizens will be substantial. A market this size is a key prerequisite for the successful placement of innovations on the single market and the upscaling of new business models. However, the potential of innovations can only be exploited by collaboration, cooperation and research across borders, industries and technologies. Last but not least, digital solutions and innovations need a common European legal framework.

Strengthen European research policy

Europe is still not making the most of its innovation potential. Besides a substantial increase in funds, the next EU Framework Programme for Research and Innovation, Horizon Europe (FP9), for the years 2021-2027 needs to be more industry-friendly and promote innovation with the application of market-oriented innovation support mechanisms such as public-private partnerships.

Demands

- Key enabling technologies (KETs) should be visibly anchored as a separate programme pillar of Horizon Europe and allocated an adequate proportion of the budget. The planned extension of the existing analogue KETs with the digital key enabling technologies cybersecurity and connectivity and artificial Intelligence (AI) is a good move.
- Horizon Europe must be structured in an industry-friendly way to ensure a high level of participation from industry. Specifically, that means providing non-bureaucratic and swift access to funding programmes (time-to-grant within 12 months or less), ensuring the recognition of standard national accounting methods and providing for opt-out clauses for industry partners in IPR regulations.

Support key disruptive technologies on a European level

Eighty percent of growth that a country could additionally achieve depends on innovations. Increasing the number of innovations and lifting their trajectory is of paramount importance in securing economic growth and prosperity. Europe needs more innovations and more economically significant new products, business models and procedures.

Demands

- Uncoordinated parallel activities of the different innovation agencies and initiatives are counterproductive. The EU and the member states should closely coordinate their research and innovation strategies to avoid inefficiencies.
- The establishment of the new European Innovation Council (EIC) is intended to promote disruptive and incremental innovations and key enabling technologies in Europe. European innovators should be given a lot of leeway. The EIC should have as much scope of action as possible. Furthermore, industry must be incorporated into the governance structure of the EIC.

Invest in digital infrastructure

High-performance networks are key, not just for the preservation of traditional and selection of new business locations, but also because they trigger the development of new digital applications and business models. Until 2025, Europe could generate an additional 1.25 trillion euros in industrial gross value added through networked production and new business models. At the same time, the EU stands to lose value added to the amount of 605 billion euros if it fails to tap into the potential of digitalisation.[25]

The European Commission has identified this opportunity and has set important incentives for member states to expand digital infrastructure in the past few months with numerous initiatives and legislative proposals in the framework of the connectivity package. The ambitious connectivity targets (gigabit

[25] Roland Berger Strategy Consultants/BDI (2015).

connections for all main socio-economic drivers and 5G in all urban areas as well as all major roads and railways) and issues of regulation and spectrum policy will be of crucial importance to Germany as a business location.

Demands

- The EU's regulatory framework for electronic communications must be agreed and implemented rapidly to provide investors with planning and legal certainty.
- Extensive spectrum harmonisation and coordination is needed in Europe. The aim should be to strengthen investment, to achieve an appropriate and timely spectrum allocation, to prevent inefficient or discriminatory auction structures, and to create a common market with innovation potential of a global scale. The availability of frequencies for 5G must be ensured.
- A European digital infrastructure needs to be established: with increasing digitalisation, cross-border applications such as automated driving and Industry 4.0 will be dependent on cross-border solutions.

Strengthen cybersecurity across Europe

More than every second German company has been the victim of a cyberattack in the last two years.[26] The damage caused to the German economy by sabotage, data theft, hacking attacks and internet fraud, estimated at 55 billion euros, is huge. [27] On top of the monetary cost, the reputation of companies hit by cyberattacks also suffers.

The threat of cyberattacks must be taken seriously. Cyber and IT security are crucial for Industry 4.0 to succeed, for digital business models such as platforms, and for the societal shift towards digitalisation. An adequate level of cybersecurity is the only way that confidence in the digital economy can be established for the long term.

Demands

- Cybersecurity must be tackled jointly and in close cooperation between the state and industry. National gold plating are the wrong response in view of the increasingly networked digital economy. Regulatory initiatives in the field of cybersecurity should occur in close collaboration with industry. The role of the European Union Agency for Network and Information Security (ENISA) should be enhanced.
- Across Europe, research projects in the field of cybersecurity should be more closely coordinated and funds pooled. The focus should be on the application and implementation of security projects.
- Europe should increase its efforts to establish an international level playing field in the area of cybersecurity. Common international standards must be developed to regulate government access to information and communication technologies.
- Cybersecurity should be given more emphasis in the trade agreement negotiations of the European Commission to ensure the access of the cybersecurity industry to global markets.
- The European procurement market for the cybersecurity industry needs further harmonisation and standardisation.

[26] Bitkom (2017a).
[27] Bitkom (2017b).

Build ecosystem for artificial intelligence

Artificial intelligence (AI) is a key enabling technology in reaching the next stage of digitalisation. The increasing digital networking of the economy and society generates volumes of data that can no longer be analysed by people alone. The EU should create an ecosystem of industry, science and society to support the development and application of AI. EU countries will only remain internationally competitive if their pool their energies and resources in the development and distribution of AI systems.

Demands

- The package of measures presented by the European Commission in April 2018 is a step in the right direction and should be implemented swiftly. The European Commission should take into account the particular economic landscape of Europe when defining the concrete details of the measures.
- Terms such as artificial intelligence, machine learning and deep learning should be clearly defined at EU level in the interests of a targeted and differentiated strategy. Differentiation between strong and weak AI is particularly important.
- As well as strengthening basic and applied research, the AI measures should be designed to support companies in the implementation and application of AI.
- The efforts to set down ethical guidelines at EU level for AI are a good idea. At the same time, the EU must work towards establishing minimum ethical standards at an international level.
- Systems of increasing autonomy present a challenge for liability legislation. Systems which operate autonomously or without human action raise the question of who is responsible in case of damage. Current liability regimes accordingly need to be reviewed in terms of digital progress. Places where the legislation is no longer up-to-date must be revised and solutions found through a broad debate on legal policy.
- Start-ups are a driver of innovation in AI and key to creating a high-performance AI ecosystem. The EU should improve the framework conditions for venture and growth capital, strengthen start-up initiatives and make public funds from research programmes available to young high-technology companies.

Expand digital single market

A European digital single market is a necessary prerequisite for making the optimal use of the potential of digital innovations. Digital business models and platforms are particularly dependent on having a large market in order to hold their own in global competition. Digitalisation and networking are challenges that call for action on a European level. Even post Brexit, the EU market will have a substantial size of 450 million citizens. This potential needs to be exploited to a much greater degree. Companies much prefer EU legislation on all legal issues of digitalisation rather than national solutions.[28] A uniform implementation of European legislation must therefore be the top priority for member states. It is also apparent that policy-makers are not always fully aware of the complexity of the matter in hand and the scope of impact of legislative measures. The General Data Protection Regulation, for example, was reduced in too many cases to the regulation of social media, search engines and online sales platforms (even though it is explicitly a general regulation). The possible consequences of the regulation on data processing in industry and SMEs in the digital economy were hardly taken into account.

[28] BDI/Noerr (2016).

Demands

- The various national Industry 4.0 initiatives need to be better coordinated. Models of centres of competence such as the SME 4.0 Initiative should link up with centres of competence for the application of artificial intelligence throughout Europe.
- Data protection and the protection of privacy must not become an impediment for innovation in Europe. The EU General Data Protection Regulation must be uniformly implemented in the EU. In the case of new legislation, the impact of the legislation on all economic sectors, business models and company sizes should be analysed extensively and carefully.

Regulate the use of platforms and the use of digital data intelligently

Platforms have become a dominant business model in the digital economy. Five out of ten of the most valuable companies worldwide and seven out of ten of the most highly valued start-ups in the world operate this model.[29] Platforms so far mainly operate in the B2C field. Industry is now also on the way to becoming a B2B platform economy. Numerous German industrial companies have their own digital (industrial) platform in their product and service range, generally focussed on B2B services or products. The majority of companies use digital platforms (68 percent), network their processes and products, and analyse their data (56 percent).[30] Almost every second industrial company already has applications especially for Industry 4.0.[31]

Demands

- Platforms are increasingly providing services that compete against conventional services (e.g. in the transport, hotel or travel industry) and, in individual cases, are subject to different and lower regulation. Market distortions need to be evened out.
- The reform of the regulatory framework should be based on the objective of tightening and simplifying the existing regulatory framework. Additional regulations, procedures and institutions should not be created without grounds, which should be proven in each case.
- Conventional and new digital service providers must be subject to the same regulations if they provide comparable services. Special attention should be paid to review whether the existing regulation can be reduced for all stakeholders.
- In cases in which an asymmetry of information is identified, the operators of digital platforms should be required to increase transparency.
- The regulations should, in all cases, take account of the differences between B2C and B2B platforms as B2B conditions are different. A separate regulation of industrial platforms is not necessary at this point.
- All legislative initiatives related to the platform economy must be coordinated across the EU. National gold plating are not a viable option.

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[29] Netzoekonom (2016).
[30] DIHK (2016).
[31] Bitkom Research (2016).

Implement the transition to renewably energy cost-efficiently and innovatively, and create reliable framework for investment in climate protection

Overcome fragmentation of energy single market

Europe has set itself the target of providing 32 percent of final energy consumption with renewable energy by 2030. That means well over half of Europe's electricity supply will need to come from renewable sources of energy. To make efficient use of renewable energy, most of which is volatile, power grids need to be expanded and storage technologies developed faster in a functioning European single energy market. In the last few years, EU countries have pursued purely national strategies excessively, e.g. in the support of renewable energy and the introduction of capacity mechanisms. This has caused an increasing fragmentation of the electricity markets in the end user sector despite the increasing consolidation of the wholesale energy markets.

Demands

- National energy and climate policy measures must take more account of what impact they have on the single energy market. The EU member states should better coordinate their expansion of renewable energy and take account of both operators from neighbouring countries and the electricity demand on regional markets in structuring support schemes and adapt grid capacities accordingly both nationally and on a cross-border basis.
- It should only be possible to introduce national capacity mechanisms as a last resort and on a temporary basis. An EU-wide analysis of ENTSO-E [32] on the short and medium-term availability of appropriate generation capacities should form the basis for the national review of the necessity for capacity mechanisms. Supply security must be the top priority here and the cross-border availability of these quantities of electricity in the event of regional bottlenecks must be ensured.

Increase flexibility and cut system costs

Increasing system flexibility is essential for the integration of higher levels of the more volatile electricity from wind and solar power into the system. Key action areas to increase flexibility alongside conventional electricity generation is the expansion of the European electricity grid, the further development of energy storage systems, the international trade in electricity and the increased flexibility of electricity consumers.

Demands

- Europe's 2020 target to provide interconnections for at least ten percent of national peak load at bidding zone borders has already been reached by a very few member states (including Germany).[33] Of equal importance is a more determined and speedier elimination of grid bottlenecks within countries to physically enable a true single energy market.
- The expansion of transmission grids must go hand in hand with the growing proportion of renewable energy to minimise capacity bottlenecks and the consequent disconnection of wind and solar farms and provision of the secured capacity at high cost. The European Commission is increasingly calling for a rise in the electricity transmission capacities

[32] ENTSO-E is the European Network of Transmission System Operators.
[33] According to conservative NTC values (ENTSO-E) Germany currently has around 15 GW export capacity and around 17 GW import capacity. As the NTC values are not additive, ENTSO-E assumes that around 8.5 GW export capacity can be used at the same time; that is around 10 percent of peak load.

available for the trade in electricity at bidding zone borders.[34] This makes it all the more pressing that the expansion of national grids also takes into account the potential flows of renewable electricity from neighbouring countries.

- The increasing electrification of the transport and heating sector presents new challenges for the distribution networks. These networks must be further developed in such a way that they can deal with an increasingly diversified and decentralised supply of energy with flexible consumers. The regulatory framework – in Germany's case the regulation of incentives – should target the modernisation of the network infrastructure. Furthermore, uniform information and communication standards for consumers need to be set down.
- Making consumers more flexible depends on the incentives provided by electricity prices. In the medium term, levies that override market incentives need to be cut back.
- Contrary effects between making consumers more flexible and increasing energy efficiency must be taken into account within a coherent regulatory framework. In view of the rapidly growing interconnection between a large number of decentralised IT interfaces and critical energy supply infrastructure, these interfaces need to be comprehensively secured. This protection should be systematic and integrated into all planning processes as a high priority.

Climate protection needs global solutions

The EU's share of global greenhouse gas emissions will continue to fall from its current level of around ten percent. In order to have a notable impact on protecting the climate, economically and socially successful transitions to renewables need to generate positive knock-on effects and be replicated. The European Commission must increase its efforts to create a level playing field worldwide in the implementation of the Paris Climate Agreement to achieve a fair distribution of the costs of climate protection.

A global carbon market is a precondition for ensuring that investments flow into those innovative technologies, facilities and products that bring the greatest possible benefit to the climate. German industry is therefore working to encourage the EU to undertake further political efforts to establish such a global carbon market. The greater the level of international consensus and the more similar the climate protection mechanisms of the different countries are, the lower the risks of negative structural consequences.

Demands

- The medium-term target should be to achieve convergence in carbon pricing in the G20 states, at least. A European climate strategy cannot be limited to reducing emissions and protecting the climate within the EU. An overall concept for energy and climate policy must include the international dimension (protection against carbon leakage and cushioning the competitive disadvantages, economically optimised implementation of climate protection combined with an ongoing monitoring process, preference to market-based instruments, strengthening investor confidence) in order to be successful on a global scale.

Create secure environment for investments in climate-friendly technologies

The EU and Germany are striving to cut their greenhouse gas emissions by between 80 and 95 percent until 2050; the target of net zero emissions has even entered the debate. This requires a radical

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[34] Ensuring higher electricity transmission capacities at bidding zone borders is the subject of the cartel investigation initiated in March 2018 by the European Commission against TennT and an EU legislative procedure for a new EU single market electricity regulation.

transformation of energy systems to low-carbon fuels, a 90-percent penetration of industrial processes with the most efficient technologies, breakthrough innovations to avoid process emissions and a considerably faster energy-efficient renovation of buildings.

In Germany, the additional total investment required to reach the national climate targets, based on an optimised cross-sector implementation of the most cost-effective measures in each case, is estimated at between 1.5 to 2.3 trillion euros. Continuing the climate protection measures currently in place and meeting existing regulations alone will require investment in Germany until 2050 of around 530 billion euros (reducing carbon emissions by 61 percent, 1990–2050).[35] The biggest challenge for the next long-term energy and climate policy of the EU will therefore be to identify strategically required investments (taking into account the respective learning curves) and establishing the necessary framework conditions for them.

Demands

- The energy and climate policy priorities of the EU must be reflected in the Multiannual Financial Framework of the EU and in the European and national support programmes. Investment in energy research, network expansion, storage technologies and the creation of new infrastructures – e.g. for PtX – are essential for the transition to renewables to succeed and must be spurred on at an early stage.
- Access to existing funds must be improved. In addition, the conventional energy and climate policy instruments need to be (re)structured in such a way that they are socially acceptable and enable investment in new technologies and management methods (from demonstration projects up to market introduction). The negotiations on the 9th research programme, Horizon Europe, must be conducted with the objective of turning the EU into a game changer with a broad roll out.
- In view of the fact that investment cycles in the energy industry and in industrial facilities can be up to several decades,[36] policy-makers and legislators must provide for long-term investment security while also creating the basis for an ongoing monitoring process to be able to take learning curves into account and correct misfired incentives. Overall, the system costs of the transition to a sustainable energy system and the burden on energy consumers must be reduced through an overall optimisation of the policy measures. As long as no international level playing field has been established regarding energy and climate policy stipulations and the associated transformation costs, targeted measures will need to be taken to protect the global competitiveness of European companies.

Align energy research to international technology competition

The development of energy innovations must not be regarded as a purely national task. Alongside national and European support schemes, there should also be an increase in international technology alliances (such as the ITER project on fusion research) which both pool scientific and industrial expertise on an international level and allow the EU to develop system expertise in a wide range of research issues.

[35] More information on all points are available in the study commissioned by the BDI and compiled by Boston Consulting Group and Prognos “Klimapfade für Deutschland” (BDI 2018.)
[36] Aluminium mills for example have a lifespan of 40 years.

In view of the research strategies of other G20 countries, the EU must, at the same time, also strategically expand its own technological expertise. The willingness of individual member states to cooperate in this area will be of crucial importance.

Demands

- Anchor ongoing monitoring of international R&D activities in the energy sector (and beyond) in Horizon Europe: a constant monitoring process should become an integrated component of Europe's research strategy. This is the only way to avoid falling behind in the rapid development of energy innovations. The monitoring process will also help identify key areas for strategic technology alliances with foreign partners. International monitoring will also enable the identification of potential research gaps in other countries at an early stage and thus open up new export potential for European industry.
- Research priorities need to be based on the results of the international monitoring process with the objective of developing the EU's unique selling proposition in international technology competition. The results of the international monitoring process should be reflected in the definition of the strategic research priorities of the EU in the framework of Horizon Europe. Only then can the EU succeed in developing and sustaining its unique selling proposition in the global development of energy innovations.
- Build up strategic technology alliances on the basis of reciprocity and transparency: the principles of reciprocity and transparency in the interests of the international partners are an important foundation for the success of potential technology alliances. The EU would have to be able to speak with one voice to international partners in this endeavour.

Strengthening the EU an international partner and a bastion of stability

Proactive foreign economic policy

The prosperity of the EU is founded on free and rule-based global trade. However, not all in the EU have benefited equally from trade. The EU intends to change this with its Trade for All Strategy of 2015. This forward-looking strategy is based on open and transparent trade policy with clear rules. High standards regarding the transparency of negotiations and sustainability targets in EU trade agreements are to improve the level of support for trade agreements within the EU. All efforts in this regard are, however, destined to fail if the EU does not manage to overcome internal blockades and withstand external pressure.

Strengthen the global trade order and multilateral cooperation

In these times of globalisation, open markets for trade and investment, rule-based competition, market economy principles and high international standards are becoming ever more important to secure European prosperity.

Demands

- The EU must take action against all forms of protectionism. The available forums of global governance such as G20, G7 and OECD should be used more intensively to strengthen the multilateral trade order, expand international law and address fundamental problems such as state-driven excess capacities and market distortions.
- The enforcement of rules and the functioning of the World Trade Organization (WTO) need to be improved and the rulebook modernised, this includes: reforming and improving dispute

settlement within the WTO; enhancing the role of the WTO secretariat in the monitoring and enforcement of rules; and increasing transparency on trade policy measures.
- New rules should be created for subsidies and for dealing with state-owned enterprises.
- The WTO should take stronger action against flouted notification requirements.
- The plurilateral initiatives in the WTO must in particular create basic international rules for e-commerce and investment facilitation.
- New market access must be put back on the WTO agenda, either in the form of expanded or new plurilateral agreements (Government Procurement Agreement, Information Technology Agreement, Trade in Services Agreement, chemical sector agreement, etc.).
- Lastly, the EU should energetically press ahead with its ambitious bilateral negotiations agenda as a complement to and driver of the multilateral trade order. Through speedy implementation, the EU can open up new markets and provide reliable framework conditions for our companies.

Further develop EU free trade agreements

Preferential trade agreements are a central building block of the EU's trade strategy. They supplement the multilateral trade system and must comply with WTO regulations.

Demands

- Modern FTAs, including with South Korea and Canada, do not just dismantle tariffs. The agreements also improve market access by eliminating non-tariff trade barriers – through regulatory cooperation, for example –, by liberalising services markets and by further opening public procurement markets.
- Trade agreements should stretch well beyond the scope of WTO regulations. Points of negotiation include competition rules, digital trade, protection of foreign direct investment and sustainability issues (e.g. labour rights and environmental protection). The EU should expand its older global agreements with Chile and Mexico, which only cover elementary economic aspects, into modern FTAs.
- Those FTAs of particular economic significance, such as with Japan, the Mercosur states and ASEAN states including Indonesia, Singapore and Vietnam, need to be negotiated and/ or ratified swiftly. The planned FTAs with Australia and New Zealand are equally conducive.
- A transparent political and social debate at the EU and member state level on the agreements needs to be systematically encouraged. To increase the capacity of the EU to act at the international level and reap the benefits of trade agreements for companies and consumers swiftly and reliably, the FTAs should take the form of an EU-only agreement where possible.

Remain open for investments

Open markets for trade and foreign investment are an important foundation for the success of German industry on global markets. European investors have invested 6.9 trillion euros in other countries (foreign direct investment stock as of 2015, according to Eurostat). Foreign investors, for their part, hold investments to the sum of 5.5 trillion euros in the EU and are therefore responsible for 14 percent of jobs in EU countries. Nonetheless, Europe is falling behind other regions as a destination for investment. Dynamic economic growth, young and growing populations and an increasing skilled workforce have made emerging economies a magnet for foreign direct investment. The percentage of worldwide cross-border direct investment flowing into the EU has dropped from 40.2 percent in 1990 to 28.8 percent in 2016.[37]

Demands

- In the last few years, the number of takeovers of European companies by foreign investors from emerging economies, and China in particular, has increased considerably. A way needs to be found to protect member states against problematic foreign direct investment in security-relevant areas.
- The key for innovation and competitiveness in Europe is protecting the market economy system, i.e. the protection of openness, private property and freedom of contract. Investment controls and restrictions represent a major intervention in free enterprise and should only be used to prevent threats to national security. At the same time, Europe needs to better protect itself from the market distortions caused by state-supported enterprises.
- Particularly China does not always play by the internationally valid rules on global markets. As a response, the EU should work towards strengthening competition rules together with like-minded partners, e.g. through:
  - targeted transparency requirements for public tenders and company acquisitions;
  - banning foreign companies from acquisitions or from taking part in public tenders if they cannot provide financial reporting according to IFRS, if the ownership structure is not transparent or if they cannot provide evidence on the sources of financing for acquisitions.
- To increase transparency requirements, the European Commission needs to obtain reliable data on the investment activity in Europe (flows, financing, investor behaviour following acquisition, investor proximity to the state, etc.) via monitoring. The instruments of competition law and state aid control are suitable for this purpose. Further necessary steps are closer cooperation within the EU and higher transparency requirements for foreign investors.
- Lastly, European investments abroad must be given appropriate protection against political risks, among other things. The necessary protection can be established through bilateral investment treaties (BITs) or investment chapters in trade agreements. The EU must continue to enter into new international investment agreements that provide a high level of protection with its key economic partners.

Positively structure the transatlantic agenda

The United States is an important political and economic partner of the EU. Since Donald Trump became U.S. president, transatlantic relations have become more difficult. The U.S. tariffs on imports of steel (25 percent) and aluminium (ten percent) and the current investigation on automotive imports have put a considerable strain on transatlantic relations. We welcome the fact that the transatlantic partners are now working towards a trade agreement. We also welcome that the United States agreed that it would refrain from imposing tariffs on automotive imports from the EU for the time being and that the EU and the United States agreed to work towards a solution to the steel and aluminium tariffs.

Demands

- The EU and the United States should prepare well for the negotiations and ensure that they have a common basis. There should be mutual trust, a common understanding of the scope

[37] UNCTAD (2017).

of the negotiations and open-mindedness towards the agreement among society. Neither the EU nor the United States can afford for the negotiations to fail.
- An agreement must meet the requirements of a modern trade agreement. Talks should have the objective of liberalising substantially all trade, in conformity with WTO stipulations. German industry is in favour of dismantling all tariffs on industrial goods. Tariffs alone say little about actual market access. A mere tariff agreement with the United States would fall short of the mark. Non-tariff trade barriers to trade must be an integral part of talks and public procurement should be considered.
- The EU and the United States should also agree on a common approach to non-market economies and a positive agenda for the WTO.

Develop China strategy

The hopes of many observers in Europe that China will move towards a market economy system and political liberalisation are fading. European companies are still operating very successfully in China. It is in the inherent interests of Europe to foster economic cooperation with China. At the same time, the market system of the EU must be resilient against the increasing activities of non-market economy companies and state intervention from China.

Demands

- A European strategy on China needs to provide answers to the following questions:
  - How can we adapt our regulations to strengthen market economy principles and make our market economy resilient against the activities of state-owned or state-commissioned private enterprises?
  - How do we deal with the WTO loopholes regarding the lack of transparency in subsidies, non-compatible standards, IPR, excessively long arbitration proceedings and differences between investment regimes?
  - When will China cease to be classified as a “developing country”?
- Our competitive instruments are only of limited use in countering practices that trigger market distortions (cartels, insider training, industrial espionage) or state “doping”. This cannot be allowed to become a competitive disadvantage for European enterprises.

Form durable alliances with equally-minded partners

The EU has reliable partners worldwide that share our values and with whom an alliance for free as well as socially and ecologically sustainable trade is possible and advisable. Countries such as Japan, Canada, Mexico, Australia and New Zealand, and also Brazil, India and South Korea are important alliance partners for Europe. Bilateral and multilateral trade agreements with these countries is not just important for free trade and the common setting of global standards and multilateral rules, they also send an important signal to countries that are currently in the process of closing themselves off.

Demands

- Regarding the Chinese Belt and Road Initiative (BRI), the EU can only find a persuasive answer together with its partners. The EU should be more self-confident than it has been until now of its own competences to expand infrastructure, such as in Eastern Europe. Close collaboration with alternative connectivity initiatives of equally-minded countries should be driven forward – such as the Free and Open Indo-Pacific Strategy advanced by Japan.
- The option of establishing a new forum in which the EU and other equally-minded countries could agree on a common approach in trade issues and present a unified position and a

common agenda should be reviewed. Such a forum should be open to all countries that commit to rule-based and free trade, transparent investment conditions and fair competition.

- Together with partners that share its values, the EU should insist on the sovereign equality of all states. In these increasingly multipolar times, stability and inclusive growth will only be achieved if this basic principle is respected. The, at times necessary, restriction of this basic principle needs to take place with a broad consensus that can only be legitimised through value-based consideration. National gold plating and extraterritorial policies have a counterproductive and destabilising effect. Policy-makers should always endeavour to find sustainable multilateral or plurilateral solutions.

Speak with one voice in foreign, security and development affairs

The rule-based world order of the post-war era that has maintained freedom in almost all of Europe for an unprecedented period of 70 years is in danger. National gold plating, isolationism and protectionism are all advancing – in new powers and old partners. The European continent can no longer solely depend on others. Europe must ask itself and the world whether it wants to play a serious role in security policy.

Jointly tackle foreign policy challenges

Overshadowed by the United States, Russia and China, the EU is currently not really perceived as an independent force in foreign and security policy. Closer collaboration is urgently needed if the EU is to guarantee the security of people and trade routes beyond development policy and economic cooperation.

Demands

- The EU needs to respond to the security policy developments in Asia. The South China Sea claimed by China is the most important sea route in the world. By using landfill to expand islets and not accepting the Hague ruling, China is taking action that is not counterproductive to a peaceful resolution of the dispute. The EU must support all participating countries on their path to finding a solution. As stipulated in the United Nations Convention of the Law of the Sea, no one country may have control over the South China Sea.
- In the case of North Korea, the EU should take on a more active role. The reliability of the United States and North Korea in the context of the targeted denuclearisation of the peninsula is questionable. The EU needs to have a strategy for a security policy response if this process fails.
- Regarding Iran, Europe must also present a united front and uphold the Iran agreement. The EU should ensure general access to financial transfers via banks for the business operations of European companies with Iran.

Strengthen Europe's security

With the establishment of the European Defence Fund (EDF) and Permanent Structured Cooperation in 2017, the Common Security and Defence Policy (CSDP) now has the instruments and processes required to strengthen the European security architecture. European cooperation in security policy must be intensified. In the opinion of Germany industry, there are four central challenges for the further development of European defence cooperation:

- First, the EU (or rather its member states) lacks a common security policy strategy. Nor have the required military capabilities been clearly defined.

- Second, there is a lack of coordination between member states on arms projects. The divergent standards need to be harmonised in order to cut costs and increase the interoperability of Europe's armed forces.
- Third, the planning, developing and procurement procedures are too long-winded and inefficient.
- Fourth, financing is insufficient and the funds that are available are not used efficiently.

Demands

- Europe must step up its collaboration in security and defence policy. One important element is to push ahead with joint military equipment development and procurement projects.
- Germany and the other EU member states should increase their defence spending substantially.
- Industry should be included in talks on European cooperation projects at an early stage in order to assess the practical feasibility of projects.

Relationship to Russia: develop shared interests

The annexation of the Crimea in violation of international law by Russia and the fighting in eastern Ukraine have greatly strained relations to Russia and led to mutual economic sanctions and rising defence spending on both sides. These developments have been a major contributing factor to exacerbating security tensions in Europe and have caused economic losses on both sides. The path to getting relations between the EU and Russia back to normal will be long and must include an implementation of Minsk II and a successful peace process in Ukraine. Progress in the peace process will, in turn, only be possible through continuous dialogue and a restoration of trust between the EU and Russia.

We therefore recommend an approach of partial cooperation in areas in which Russia and the EU share similar interests. The objective is to change the zero sum game mindset (i.e. the advantage of the opponent is my disadvantage and vice versa) with a cooperative approach. A long-term dialogue with Russia and the Eurasian Economic Union (EAEU) could lead to the establishment of a common economic area following the resolution of the dispute between Russia and Ukraine. The European Commission and the EAEU Commission should set up working groups to dismantle tariffs, harmonise standards, introduce rules for digitalisation and reduce visa requirements.

We also see the need to cooperate, or a good basis for cooperation, in the following areas: managing migration, demographic change, global food security, developing the Arctic and outer space, climate change, combating terrorism, secure raw material supply, strengthening the WTO, cross-border infrastructure projects, response to the Chinese Belt and Road Initiative, development of the Baltic Sea Region.

Demands

- The approach of being open to dialogue and insisting on compliance with international law should be continued. Europe must be unified in its action for this strategy to succeed.
- A peaceful resolution to the conflict in Ukraine remains a top priority. The EU should continue and increase its efforts to end the Ukraine-Russia conflict. The same applies to Syria, where Russia also plays a key role.
- Dialogue formats such as the annual EU-Russia summit that have been suspended should be reactivated.

- The EU should develop an agenda for areas of possible cooperation with Russia. Joint working groups should then be set up for each area.
- The European Commission and the Eurasian Economic Commission should set up an institutional dialogue on norms, standards, certifications and tariffs.

Advance paradigm shift in development cooperation

Europe needs a paradigm shift in both national and European cooperation that strengthens the role of the private sector in reaching development policy objectives. Germany has already started on this course. The same applies to European development cooperation: stable, long-term economic growth in developing and emerging countries can only be achieved through private sector investment.

Demands

The following steps are necessary to improve the framework conditions for private investment for the long term:

- Establish reliable framework conditions for private investment: the EU must improve the framework conditions for trade and investment policy with and in African countries.
- Implement economic partnership agreements (EPAs): the long-standing standstill in EPA negotiations, above all with eastern and western African countries, must finally be overcome.
- Ensure national coordination and complementarity at EU level: the approaches pursued by the federal government in development and Africa policy must be coordinated better at the national level, also to enable a more efficient integration of the private sector. Coordination with our European partners is as important as ensuring the complementarity of the planned projects at European level. The policy on Africa at EU level must become more coherent.

Strengthening the EU as a bastion of stability and partner of European countries outside the EU

The United Kingdom: aim for deep economic integration

The decision of the UK government of March 2017 to trigger the withdrawal of the United Kingdom from the EU under Article 50 TEU is still now, one and a half years later, raising a great many as yet unclarified basic questions. Important in this context, alongside achieving an orderly withdrawal coupled with a transitional phase until the end of 2020, is structuring the international and trade law aspects in future relations. On account of the varied objectives of the United Kingdom, it is even still unclear what form the future relations with the EU could take. It is even less foreseeable whether the official timeline for Brexit can be adhered to, with a basic agreement in October 2018 and the agreement on withdrawal and transition coming into effect on 30 March 2019.

Demands

- From an economic point of view, disruptions in economic relations following the exit of the United Kingdom from the EU must be kept to a minimum on both sides. The only way to achieve this is through a model of deep integration such as a customs union, remaining in the single market with EEA membership or an equivalent relationship and a number of further cooperation agreements.[38] If, on account of the current "red lines" of the UK

[38] BDI (2018a, b).

government, it only proves possible to agree on a conventional free trade agreement the final result will, in all probability, be a gradual disintegration of the United Kingdom from the international division of labour, above all in the trade of goods, in agriculture and in direct investment.
- Die The EU should, in line with the negotiating guidelines of the European Council, leave a door open to the UK for deeper relations in so far as the United Kingdom accepts the fundamental balance of rights and duties and the integrity of the Union's legal order with its indivisible freedoms and law enforcement mechanisms.

Encourage the countries of the Western Balkans towards the EU

It is in the strategic interests of the EU member states and its economy to positively encourage the countries of the West Balkans [39] towards the EU. The increasing engagement of other countries such as China, Russia and Turkey, makes setting out a clear perspective for accession, a visible presence of the EU and closer relations all the more important.

Demands

- The reaffirmed commitment, made in the final declaration of the EU-Western Balkans Summit of 17 May 2018, to the European perspective for the countries of the Western Balkans and the priority areas for cooperation set down in the annex to the declaration are positive steps.
- The objective of cooperation should be integrating the region into the EU and dismantling market access barriers and trade barriers. Constructing a stable political environment in which European values are respected is the precondition for a good investment climate and would also stem the current steady outflow of skilled workers.
- The countries need to make further progress in combating corruption, the black economy and the associated unfair competitive practices and achieve a robust improvement of their education and training system. The EU supports these countries with the Instrument for Pre-Accession Assistance (IPA) with a budget of almost 900 million euros on average per year so far. This assistance should be further developed in future.

Review relations to Turkey

The political shift within Turkey towards a presidential system with huge powers and strong authoritarian traits, particularly following the attempted putsch, as well as the numerous violations of EU norms and standards, has created difficult conditions for the foreign policy of the EU towards Turkey and have caused a standstill in EU's Turkey accession talks. At the same time, the EU is still giving Turkey aid for accession and specific funding for refugees in Turkey.

Whether a return to the mutual advantageous accession and stability perspective proves possible will depend on the fundamental decisions of the Turkish government, a return to the basic values of the EU, and on the willingness on the part of the EU to open up the way again for Turkey despite years of shortcomings on its part. Basic preconditions according to the EU is a return to the rule of law and a respect of freedom of press and freedom of speech. Nothing currently indicates that these preconditions will be fulfilled in the next few years. The top priority here is to call for democratic reform and approximation to EU legislation.

[39] Albania, Bosnia-Herzegovina, Kosovo, Macedonia, Montenegro and Serbia.

The potential for the further development of economic relations with Turkey is therefore very limited at this point in time. Negotiations on modernising the customs union have come to a standstill at the request of the EU even though there is considerable need for modernisation and Turkey is also violating a large number of provisions by the adoption of protectionist measures. This is a disagreeable situation. For the future, the EU should keep its sights on the objective of creating a new stable and reliable foundation for bilateral relations gradually, step by step. This will only be possible if Turkey recommits to the shared values of the EU.

North Africa: support local economy, private investment and regional integration

On account of their geopolitical importance and geographical proximity to Europe, the North African countries have been an important partner for the EU and Germany for many years. The population growth, high (youth) unemployment and political instability challenging these countries also has direct consequences for the EU, of which migration and refugee movements across the Mediterranean is only one.

The EU's Mediterranean policy – above all the strategy of the European Union on the Mediterranean region and the association agreements in the framework of European Neighbourhood Policy – is designed to create favourable framework conditions for higher economic growth and prosperity through regional integration. The European Investment Bank is implementing the Economic Resilience Initiative called for by the European Council. The objective of the initiative is to rapidly mobilise additional funding for the neighbouring countries of the EU in North Africa and the Levant in order to support them in addressing the problems connected to flight and migration. This initiative is positive.

Demands

- Private investment in key infrastructure areas, the creation of jobs, and education and training prospects are central components in combating the reasons for flight and migration and should therefore be supported at EU level. This also includes political support in implementation issues of investment projects on the ground.
- European investments must have adequate protection, particularly in politically volatile neighbouring regions such as North Africa. The federal government should therefore work towards improving risk protection at EU level.
- Pressure should be increased on some countries, including Egypt and Algeria, to rapidly dismantle non-tariff trade barriers that are disadvantageous to German industry.

Outlook

In its next legislative term, following the elections of the European Parliament, the European Union will have to deal with a wide range of internal tensions and external conflicts. In the opinion of Germany industry, top priorities in the next few years will be to stabilise the Union internally and politically, strengthen its institutions and economy, and consistently gear all individual policy areas towards growth and innovation. The completion of the single market, the deepening of the Monetary Union, the strengthening of foreign policy and efforts towards creating open global markets still hold much potential to further boost the economic growth, employment and prosperity of the EU and its citizens, increase security and make Europe strong and sovereign going forward.

German industry and European industry must take part in the debate on the reform of the European Union to bring in its economic policy expertise and maintain the political balance. In times of intensified international conflict we have no alternative in Europe but to join forces and present a unified front.

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