
BANK
PROSPERITY
SUPERMARKET

TO INCREASE PROSPERITY, THE EU SHOULD

1. **COMPLETE THE SINGLE MARKET,** which is the basis of European prosperity. This requires bringing the Single Market back to the top of the EU agenda, with priority to making more progress in reducing regulatory barriers to cross-border services and continuing to work on better regulation to reduce administrative burden and compliance costs for companies.

2. **DEFEND RULES-BASED TRADE,** fight protectionism and create a level playing field by supporting a reformed multilateral trading system while maintaining an ambitious bilateral international trade and investment agenda.

3. **PUT IN PLACE A MORE PRO-ACTIVE INDUSTRIAL STRATEGY,** combining enabling conditions for industry as a whole with the identification of strategic value chains and Important projects of Common European Interests (IPCEI).

4. **ACCELERATE DIGITALISATION** of the European economy, seizing the opportunities it creates, promoting uniform application of the General Data Protection Regulation (GDPR) and mirroring its risk-based approach in the ePrivacy proposal.

5. **SUPPORT AND FACILITATE RESEARCH, DEVELOPMENT AND INNOVATION** throughout the EU and the European Economic Area, fully implementing the innovation principle and protecting intellectual property to regain our world leadership in technology and bring more innovative products and services to the market.

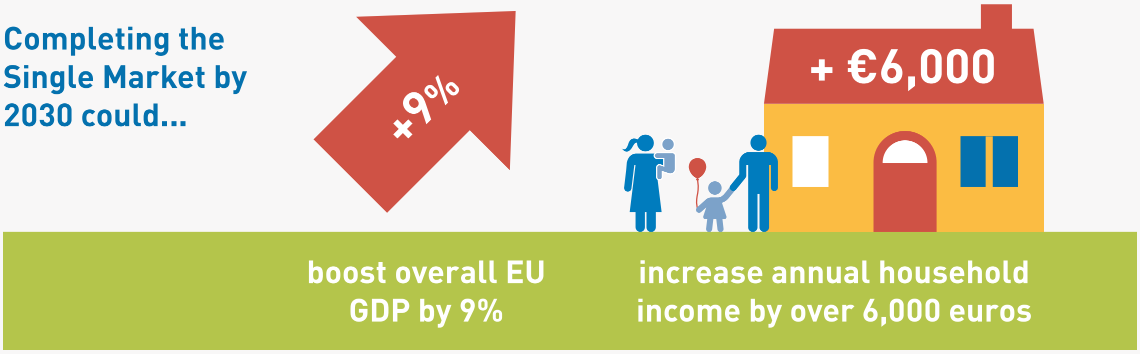
6. **ENSURE THAT THE POST-2020 EUROPEAN BUDGET IS ADOPTED** without delay, allocating at least €120 billion to Horizon Europe and concentrating on enhancing competitiveness in areas where the EU can deliver concrete benefits and help companies to prepare for megatrends like digitalisation and the energy transition.

7. **FURTHER STRENGTHEN THE ECONOMIC AND MONETARY UNION,** reinforcing the European Semester role to ensure national structural reforms, completing the Capital Markets Union, putting in place a full Banking Union and following up on EcoFin Council commitments to the Euro-area budgetary instrument for convergence and competitiveness, developing it to include a stabilisation function.

1 SINGLE MARKET

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Free movement of goods, services, people, capital and data in the Single Market must be firmly supported. Completing the Single Market by 2030 could boost overall EU Gross Domestic Product (GDP) by up to 9% and increase household income by over €6,000 per year. The EU Single Market is the world's largest market, with a GDP of €15 trillion, more than 500 million consumers and 21 million small, medium-sized and large enterprises. It is the driving force of a higher GDP, higher employment, higher internal and external trade, higher investment for all Member States. It gives the EU unique leverage in the world and is the best tool to deal with challenges that no EU Member State would be capable of addressing alone. Unfortunately, Single Market achievements are being undermined by rising protectionism which is reversing the trend of progressive removal of obstacles and even sometimes leading to the introduction of new obstacles to free movement in the European Union and European Economic Area.



Source: BusinessEurope staff calculations, European Parliamentary Research Service, 2014

RECOMMENDATIONS

The EU should:

1. **complete the Single Market, which is the basis of European prosperity.** This requires further strengthening and developing intra-EU trade and investment within a barrier-free Single Market.

2. **bring the Single Market back to the top of the political agenda** as an overarching instrument in the EU policy-making. Reconciliation of social or consumer or privacy protection interests with the freedoms of the Single Market should not result in less choice, higher costs and slower convergence for Europeans. Europe needs a fair level playing field with the freedoms of movement of goods, services, people, capital and data.

3. **make the Single Market for services a key priority,** given the lack of progress made in reducing regulatory barriers. Seamless functioning of manufacturing value-added chains calls for effective and barrier-free business services and logistics, including significant improvements in physical and digital infrastructures and their interoperability. Further integration of network industries in general remains very important.

4. **address inefficiencies in the transport sector** which fulfils a vital function as one of the key enablers of the Single Market. Removing cross-border barriers, facilitating the digitalisation of the industry, and ensuring the interconnection of transport modes will enable businesses to develop more efficient EU-wide solutions. Moreover, further developing our EU-wide and future-proof transport infrastructure network is crucial. The EU and Member States must ensure adequate funding to complete the trans-European transport network on time.

5. **urgently put in place an effective alternative mechanism to protect cross-border investments** in the Single Market before the termination of intra-EU bilateral investment treaties (BITs) at the end of 2019 to safeguard investment protection and avoid that third-country investors are better treated than EU investors.

6. **reinforce the Single Market governance infrastructure** at EU and national level in order to strengthen timely, transparent and efficient implementation and enforcement of the Single Market rules. Correct, full and uniform implementation across all Member States is essential to ensure a level playing field on the Single Market. For example, on the public procurement market, it is key to ensure that requirements in public tenders always have a direct link with the subject matter of the contract and that they are not overburdened by unrelated societal goals. This in order to avoid unnecessary complexity and discouragement of (cross-border) bidders.

7. **ensure that effective and well-coordinated market surveillance systems are established.** In this context, secure sufficient funding for market surveillance of goods from the Single Market Programme under the new Multi-annual Financial Framework (MFF) for the EU budget to ensure a level playing field and prevent circulation of unsafe products on the Single Market.

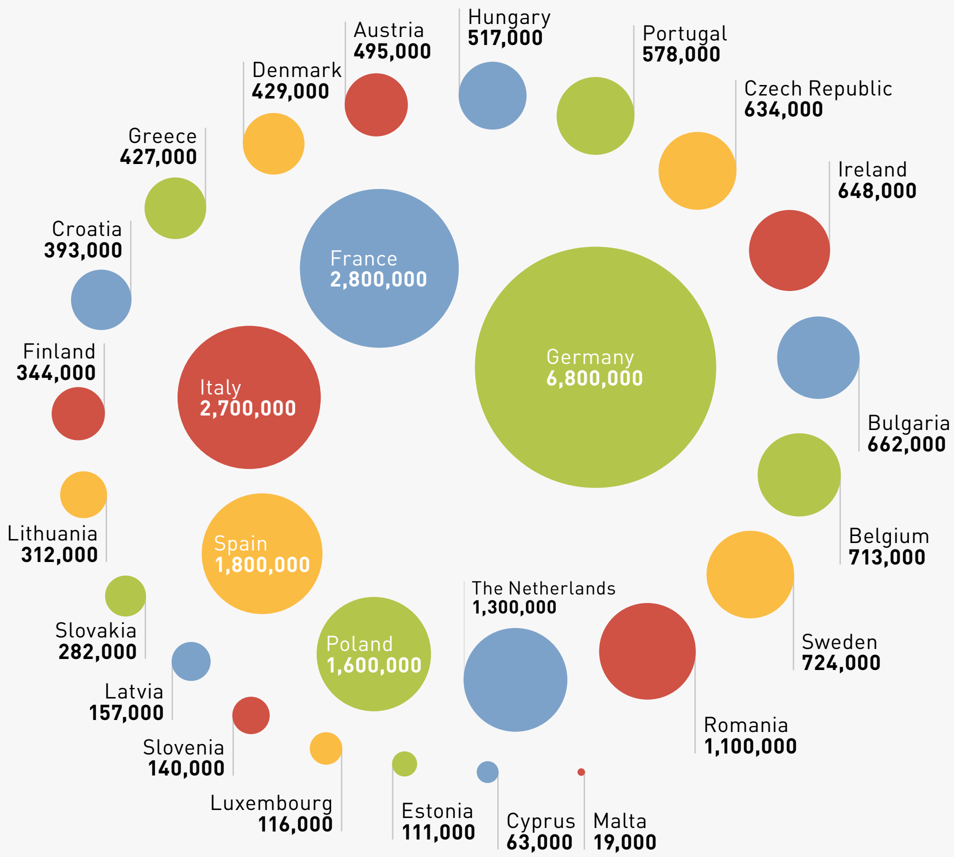
8. **restore the role of industry in standardisation** as well as the principle of 'presumption of conformity' in the application of harmonised standards. Standardisation is an industry-driven process and its success rests on the relevance of the standards developed for the market. In order to be competitive and keep our role in global standard-setting, we need to ensure that European standardisation is flourishing. Over the last years, the business community has noted changes in the functioning of the EU policy for products standardisation. Industry is forced to follow development of harmonised standards mainly in response to legislative or political requirements. As a result, harmonised standards lose market relevance and it is less attractive for companies to engage in the drafting and usage of harmonised standards. This reduces regulatory homogeneity on the Single Market. A proper balance should be restored between the role harmonised standards play to meet market needs in developing state-of-the-art technical solutions and their role for better compliance with harmonised EU regulations.

2 INTERNATIONAL TRADE

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

The EU has an extensive network of free-trade agreements with partners around the globe and needs to further expand over the next years. Trade with non-EU countries creates millions of jobs in Europe. 1 in 7 jobs in the EU depends on exports. The global decline in trade due to increasing protectionism leads to more uncertainty for business and undermines employment. The EU should respond to these challenges with a strong and multi-faceted trade strategy. A stable, transparent and predictable trade environment is key to promote more investment, more innovation, more growth and job creation in Europe, as well as to promote our values and standards in the world.

CHART 1.1 *The EU needs a strong trade strategy*
Number of jobs linked to trade with non-EU countries



Source: European Commission, 2018

RECOMMENDATIONS

The EU should:

1. **defend rules-based trade, fight protectionism** and create a level playing field by supporting a reformed multilateral trading system while maintaining an ambitious bilateral international trade and investment agenda. It should ensure that trade in services is enshrined in future FTAs.

2. **ensure that the future EU-UK relationship is as close and frictionless as possible,** while preserving the integrity of the Single Market. Both partners should also work together multilaterally on trade policy and foreign policy issues of mutual interest.

3. **maintain strong and stable relations with the USA** and look for opportunities to develop a positive agenda that reduces the costs of trading and investing across the Atlantic. Developing regulatory cooperation in key sectors, eliminating tariffs for industrial goods, reforming the World Trade Organisation (WTO) and developing modern trading rules in areas of common interest are some of the issues that should be addressed in our bilateral agenda with the US. In parallel, we should address trade irritants and the EU should look for long-term cooperation with the USA and other long-standing allies in key strategic areas like digital trade and cybersecurity.

4. **rebalance its relationship with China** by promoting a framework that takes differences of our respective economic models into account, pursues the elimination of asymmetries in trade and investment conditions, ensures the effectiveness of European trade defence instruments, and improves market access with fair and equal treatment for European companies. The timely conclusion of an ambitious and comprehensive agreement on investment (CAI) should remain a priority. Moreover, the EU should insist on a - long overdue - revised market offer from China in the context of the country's accession to the WTO Government Procurement Agreement. This could pave the way for a better access European companies to the Chinese public procurement market. The EU should also engage with China to address key multilateral challenges such as the WTO reform, while insisting that China complies with its commitments and actively contributes at a level that is proportional to its current economic and technological development.

5. **implement the agreed EU connectivity strategy** including significant and sustainable funding for infrastructure projects in partner countries in the neighbourhood and in Asia.

6. **remain strongly engaged in the reform of the WTO,** fighting against unilateralism and protectionism, promoting a more effective international trading order and stronger compliance with WTO rules. It is crucial to ensure that the transparent and independent dispute settlement mechanism which is the backbone of the WTO does not become dysfunctional. A bigger role by the WTO Secretariat in the rule-making pillar of the WTO should also be further explored.

7. **stay at the forefront of the development of modern and effective rules** in key areas like digital trade and e-commerce, intellectual property, regulatory cooperation, subsidies and the role of state-owned enterprises, and the role of services in manufacturing. The EU should secure high levels of market access for its businesses outside the EU, including in public procurement, through plurilateral agreements like the WTO Government Procurement Agreement, bilateral agreements and EU instruments.

8. **continue to develop the EU's network of bilateral agreements** with strategically important, fast growing and promising regions in the world, while standing up against protectionism. The EU should swiftly ratify and implement key trade agreements with Mercosur and with Vietnam and push ahead with free-trade agreement negotiations with Australia, New Zealand and Indonesia. The European Commission should continue to support the creation of an international court for the settlement of investor-state disputes (Multilateral Investment Court, MIC). It should also monitor and enforce the implementation of the trade agreements in force, e.g. Canada and Japan.

9. **ensure peace and stability at its borders by forging deeper and closer political and economic ties with neighbourhood countries.** With heated debates around migration, it is even more important and a vital EU interest to ensure stability and prosperity near our borders. Trade, especially when it is combined with other policies, plays a very important role in achieving this objective. Considering the current geo-political context, the EU's neighbourhood needs to be seen in a broader setting including: Brexit and the future EU-UK relationship, Russia and the Eurasian Economic Union, Ukraine and enlargement countries, Western Balkans and Turkey, a strategy towards Africa and the Mediterranean countries.

10. **move closer to Africa** and the negotiations of the Post-Cotonou Agreement between the EU and the African, Caribbean and Pacific countries provide a golden opportunity to do so. Conditions need to be created for African countries to diversify their economies and become part of regional and global value chains. The African Continental Free Trade Area could unlock the tremendous development potential of intra-African trade, joining up Africa's fragmented markets, igniting industrialisation and creating millions of jobs. While it will take time to accomplish this ambitious project, the economic partnership agreements could be important building blocks towards continental free trade as they play a key role in supporting the regional integration processes of the African, Caribbean and Pacific (ACP) countries, for instance in terms of harmonisation of regulation, taxation, customs procedures, free movement of goods or strengthening regional institutions. To increase European private investment, it is critical to fully implement all the 28 guarantees foreseen in the European External Investment Plan by the end of 2019.

11 **urgently look at new ways of effectively safeguarding its economic interests and protecting its companies against extraterritorial measures.** For instance, extraterritorial effects of non-coordinated US sanctions against Iran and Russia have a significant negative impact on EU companies and undermine the EU economic interests. Finding effective ways of mitigating this negative impact and increasing the margin of autonomy for EU companies is essential, building on the recent recommendations to reinforce the international role of the euro and possibly find alternative tools and means to settle international payments to establish a level playing field on the issue of extraterritoriality.

12 **better use the instruments at its disposal to ensure a level playing field** in trade and investment. For instance, it should reinforce the Market Access Strategy and resume discussions on the development of an international procurement instrument while safeguarding the interests of European companies. The EU should also use tools to better leverage the export potential of EU companies, especially small and medium-sized enterprises (SMEs).

13 **support small and medium-sized enterprises** through dedicated tools in the framework of the EU trade policy to grasp the export potential of European SMEs. For instance, the EU should include dedicated SME chapters in all its free-trade agreements and increase the visibility and effectiveness of instruments such as the market access database.

14 **have the necessary resources** to be able to deliver its ambitious international trade and investment agenda in a way that defends EU's interests. In particular, DG Trade and other relevant European Commission services need to have adequate resources.

15 **promote best sustainability practices by third countries,** for example by giving them special preferences, as an effective way to boost sustainability provided that there is a close monitoring of the effective implementation of the commitments. For instance, the EU Generalised System of Preferences (GSP) contains a particular pillar - the GSP+ - that supports sustainable development and good governance in the recipient countries based on 27 UN Conventions. "Aid for Trade" is another important scheme, in which the EU is the largest donor.

16 **use its leverage to generate new market opportunities for European companies in third markets,** by placing economic issues like trade and investment on the agenda during all EU official visits, high-level meetings and missions to third countries and providing political and business leaders with the opportunity to exchange openly on these topics.

17 **avoid new regulations on transparency and due diligence** which would result in unworkable requirements along the value chains, disproportionate administrative burdens or unmanageable legal responsibilities.

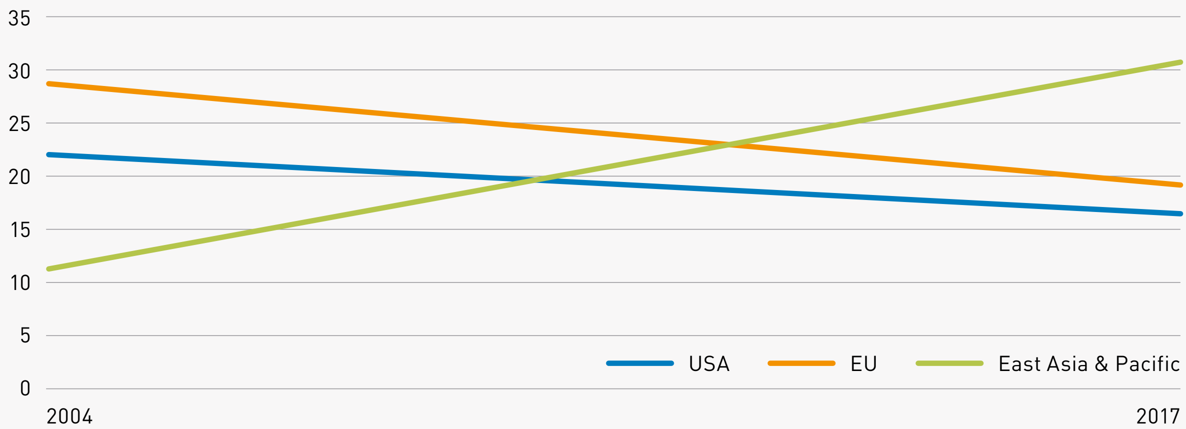
3 INDUSTRIAL STRATEGY

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

A strong and competitive EU industry is essential to deliver value for EU citizens, the environment and the economy and enables us to deal with challenges and grasp opportunities that arise. Due to its beneficial effects on other sectors, industry is very important for the overall functioning of the European economy and wealth creation, significantly contributing to economic growth, employment and innovation. Industry accounts for over half of Europe's exports, around 65% of research and development investments, it provides about 62 million jobs (direct and indirect, meaning 26.5% of jobs in Europe), generally high-skilled jobs and above average pay, and in high economic value-added activities. Industry generates strong positive spill-overs on the economy. In certain countries, industrial frontrunners generate 25% of all added value through direct and indirect effects.

Europe is a global leader in industries which supply high-value jobs, such as the automotive, aeronautics, engineering, chemicals, energy and pharmaceuticals. However, Europe's share of worldwide manufacturing added value dropped by almost 10 percentage points between 2004 and 2017, compared with a decline by only 5 percentage points for the US and a rise of about 9 percentage points for emerging economies. Urgent action is needed to reverse this downward trend and strengthen Europe's industrial base.

CHART 1.2 *The EU's share of global manufacturing is falling*
Share of world manufacturing's value-added in % - selected regions



Source: World Bank, BusinessEurope staff calculation

RECOMMENDATIONS

The EU should:

1. **Introduce a more pro-active and strategic approach** that will allow European manufacturing and services value chains to compete with global economic powers such as the US or China and increase growth and employment across Europe. The European Commission should elaborate on the concrete steps to put in place the EU's industrial policy as requested by the European Council on 21-22 March 2019.

2. **combine enabling conditions for the benefit of industry as a whole** (i.e. Single Market, competition, research and innovation, trade, intellectual property, etc.) with the identification of strategic value chains where public authorities will need to support and co-invest more intensively with the private sector. The work by the Strategic Forum on Important Projects of Common European Interest (IPCEI) on strategic value chains should be further developed, in a clear and transparent process. Building on the first experiences, the IPCEI instrument should be kept under review to make sure it is agile enough to cope with a fast-changing global playing field.

3. **foster industrial cross-border cooperation** and networks around value chains that are key to the EU's industrial competitiveness and strategic autonomy. For instance, the work around microelectronics, batteries, low-carbon industries, hydrogen or cybersecurity is important to position the EU in areas of key technologies and to find solutions to societal challenges.

4. **smooth the way for a pooling of public and private resources,** including investments, at the critical phase of moving technologies from labs to first industrial deployment and commercialisation as this is the moment when public support is most necessary to fill the financial gap to overcome market failures.

5. **complement a new industrial strategy with a solid industrial governance structure** to monitor implementation on a strategic level. This comprises a set of appropriate and future-proof indicators, as well as consequent mainstreaming of industrial competitiveness throughout the European policy-making processes to strengthen the European industrial base and minimize unintended regulatory costs and negative impacts.

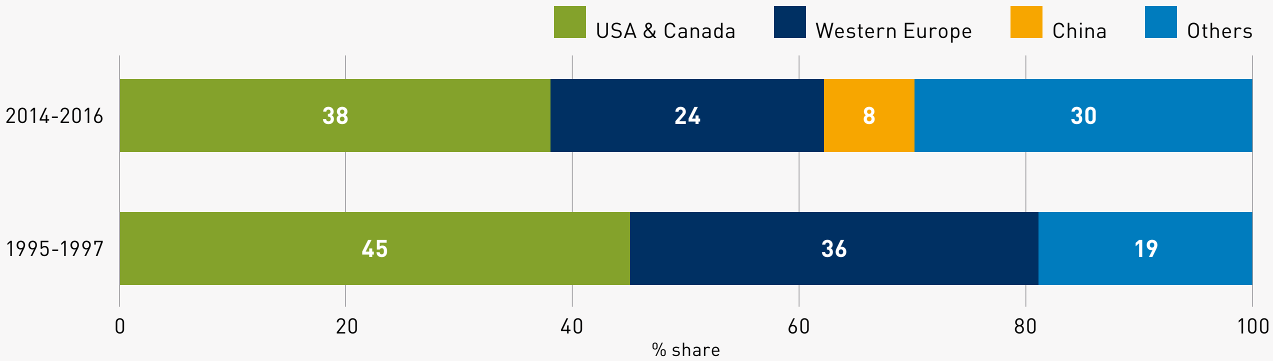
6. **further develop an inclusive defence industrial policy** in order to boost the competitiveness of EU industry in such a strategic sector. In this regard, it will be crucial to implement the European Defence Fund.

4 COMPETITION POLICY

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

The EU is losing ground in terms of developing world-leading companies. For example, none of the top 10 global companies by market capitalisation is based in the EU. When considering the most profitable global firms, we see that the global share of 'superstar' firms (companies with an annual revenue greater than $1 billion) in Europe declined over the last two decades. While Western Europe hosted 36% of the top 10% of global firms by economic profits in the mid-1990s, its share has dropped to around 25% in recent years.

CHART 1.3 *The global share of 'superstar' firms in Europe declined over the last two decades*
Most profitable 10% of global firms by country or region



Source: McKinsey, BusinessEurope staff calculation, 2018

RECOMMENDATIONS

The EU should:

1. **pursue a strong EU competition policy** that guarantees sound competition between companies of all sizes on our Single Market and benefits consumers, whilst ensuring that EU companies can better compete at global level with the necessary level playing field for all business models allowing them to be competitive and to respond to customer demand, also in a rapidly changing digital environment.

2. **carry out effective and independent competition law enforcement** preserving legal certainty, a level playing field in the internal market and non-discrimination.

3. **ensure that the administrative and procedural framework of EU competition proceedings,** particularly in EU merger control, is sufficiently speedy, transparent and proportionate. For example, the creation of a non-political, technical, specialised chamber at the General Court, which could appoint economic experts, should be considered. In addition, the use of the accelerated procedure should be contemplated more often, especially if the Court detects a procedural flaw.

4. **ensure effective checks and balances** in competition procedures to assure a proper due process and an independent objective check of both the procedural and substantive aspects of cases. In practice, the Commission acts both as investigator and decision-maker in merger proceedings. It is therefore crucial that there is a proper due process and that there are effective checks and balances within the system.

5. **put in place an effective leniency framework** which provides incentives to companies which are able to provide relevant information about competition law infringements.

6. **make sure that merger rules define markets in a realistic way,** taking account of global market conditions and adopting a dynamic analysis and long-term view to assess the existence of competitive pressure to allow European industrial and services value chains to compete with global economic powers such as the US or China and increase growth and employment in Europe and ensure that competition in the internal market is not distorted by competing companies, in and outside the EU, that are not operating under the same rules.

7. **ensure that the EU state aid policy** supports good aid and investment in large research and innovation projects that contribute to growth, jobs and EU global competitiveness while fundamentally safeguarding a market-driven European economy. The EU should also ensure effective state aid control to safeguard fair competition and a proportionate and speedy treatment of state aid cases which do not raise competition concerns.

8. **make certain that EU rules on horizontal cooperation encourage companies to collaborate** to carry out joint technology development or achieve objectives of other EU policies (e.g. environmental and sustainability objectives). Especially in the age of Industry 4.0, such joint research projects or collaborations through industry platforms play an important role. The Commission should therefore give clear guidance to companies intending to collaborate, including in the context of temporary consortia.

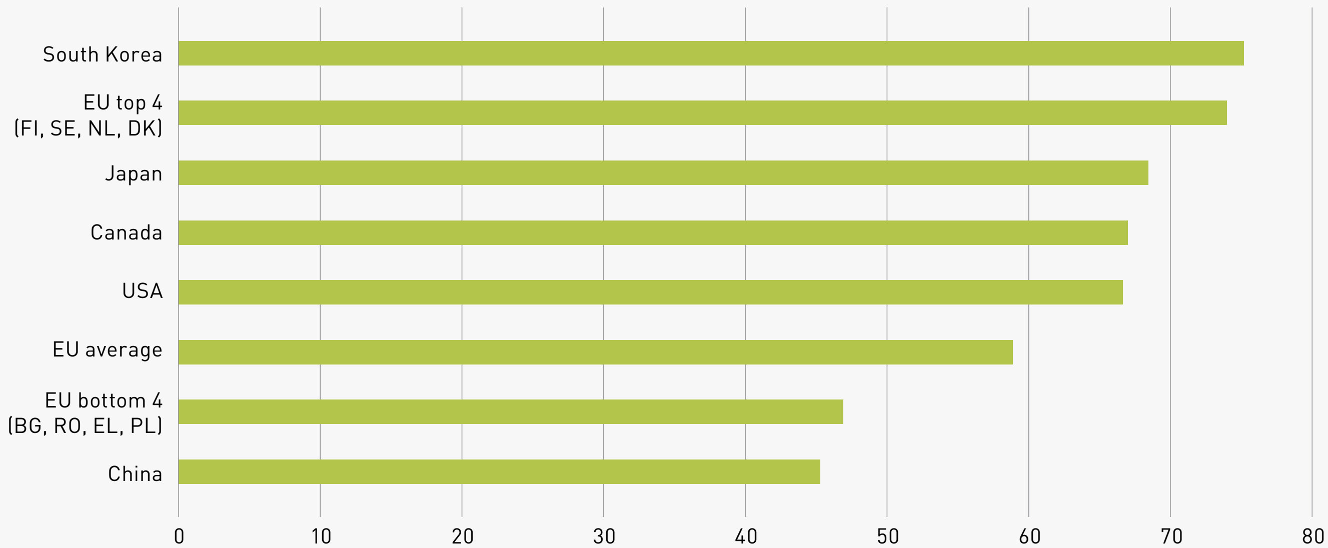
9. **ensure that technological innovations, notably in the context of the digital economy, foster market integration,** enhance consumer welfare and allow EU companies to effectively compete in digital markets, in the same market under the same regulation.

5 DIGITAL ECONOMY

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Despite the Digital Single Market strategy, Europe is falling behind in the global digital race. Even though digitalisation will benefit society and industry, for now, we have lost the business-to-consumer battle to the US and China. So, Europe must do its very best to win the next big tech battles of businessto-business and business to public tech-applications and digital services. For the digital transformation of industry to succeed, we need 5G, cybersecurity, a single market that is not divided into online and offline as well as a proper framework for artificial intelligence (AI) and data flows. We already have a lot of ground to make up. The US digital economy accounts for 8% of its GDP, higher than the EU28 average of 5%, with a large variation within Europe. For instance, the digital economy accounts for 4% of Italy's GDP, 5.5% in France and 6.9% in Sweden. Only the very best EU28 countries (Denmark, Sweden, Finland and the Netherlands) have digital performances at the same or higher levels than the best global countries (South Korea, Japan).

CHART 1.4 *In the digital economy, Europe is lagging behind the rest of the world*
International Digital Economy and Society Index, 2018 ranking [1]



Source: European Commission, 2018

1 The DESI index measures performance in five dimensions or policy areas: connectivity, human capital (digital skills), use of Internet by citizens, integration of technology and digital public services.

RECOMMENDATIONS

The EU should:

1. **accelerate digitalisation** of the European economy, seizing the opportunities it creates for society and ensuring that the EU does not miss the ongoing digital revolution. We must make sure that the possibilities of IT and digitalisation can be used to improve and make public-sector services, not least in health care, more efficient.

2. **continue cybersecurity capacity building,** for Europe's digital economy to benefit companies and employees alike. Sharing of best practices in terms of prevention needs to be encouraged and national responses to threats need to be coordinated. A European response to growing cyber-enabled economic espionage is urgently required.

3. **ensure that Single Market regulations are not artificially divided in online and offline rules** and provide a barrier-free and technology neutral framework, that aids roll-out to accelerate digital transformation of the European economy. This should allow us to lead in the development of strategic digital areas, facilitate investment in networks as well as fostering cross-border e-commerce. Legislation should also consistently reflect market integration through reduction of barriers and be future-proof. It should support innovation, flexibility for business to respond to fast-changing environment and enable new business models.

4. **fully engage in the global AI race where Europe has ground to make.** This will bring benefits for citizens (e.g. making mobility safer, resources more efficient, improving healthcare, etc.). Whether these benefits can be delivered depends on the abilities of companies to research, test, have access to a skilled workforce, appropriate infrastructure and a sound legal framework. Existing national initiatives should be better coordinated. Europe has to get the balance right between open innovation and societal protection. Otherwise, the only option will be to buy superior AI solutions from third countries.

5 **encourage Member States to take a coordinated European approach to the cybersecure roll-out of 5G networks** in order to bring the strategic benefits that this new technology can bring to the European economy. We need to avoid digital gaps between regions. State-of-the-art connectivity should not stop with Europe's digital leaders or in highly populated cities but be evenly spread to offer opportunities for all. Progressive 5G network deployment will increase connectivity allowing greater traffic at lower latencies. Our framework should enable investment agreements, ease deployment and foster new use models.

6 **uphold the free flow of data and voluntary data sharing to support a vibrant data economy,** since the value of industrial data will become a new production factor. Our success will be based on its ability to move and be used. Member States should no longer be permitted to apply unjustified localisation measures in practice. Data has become vital for internal and external trade in and goods and services. We should not limit the ability of companies to utilise the full power of the Single Market through heeding the power of data.

7 **promote uniform application of the General Data Protection Regulation (GDPR)** across all Member States, ensuring an innovative framework and supporting companies' efforts to comply with these rules. The provisions of the proposed ePrivacy proposal should be fully consistent with the GDPR and the new EU AI strategy. If Europe wants to be a world leader in the digital economy, a risk-based approach that aligns with GDPR is required.

8. **achieve a good balance between strong IP protection,** on the one hand, and legal certainty to encourage new technologies, on the other hand taking into account both the new challenges and new opportunities that the digital revolution creates in the IP environment. New technologies such as 3D printing, artificial intelligence, the Internet of Things and data managing should be part of any IP policy discussion in the future.

9. **swiftly adopt the MFF so that the Digital Europe programme can begin** to support crucial areas such as supercomputers, artificial intelligence, cybersecurity, digitalisation and skills. We view the €9.2 billion for the Digital Europe programme as the low water-mark.

10. **encourage Member States to invest in digital skills** in order to bridge the current skills gap. This requires improving basic digital education at early curricular levels as well as basic and advanced science, technology, engineering, and mathematics (STEM) which are fundamental for the ongoing industrial revolution to be a success. STEM skills are also important for developing systemic and critical thinking. The EU should support them by allocating sufficient resources to digital skills training in the European Social Fund (ESF) and other relevant funds.

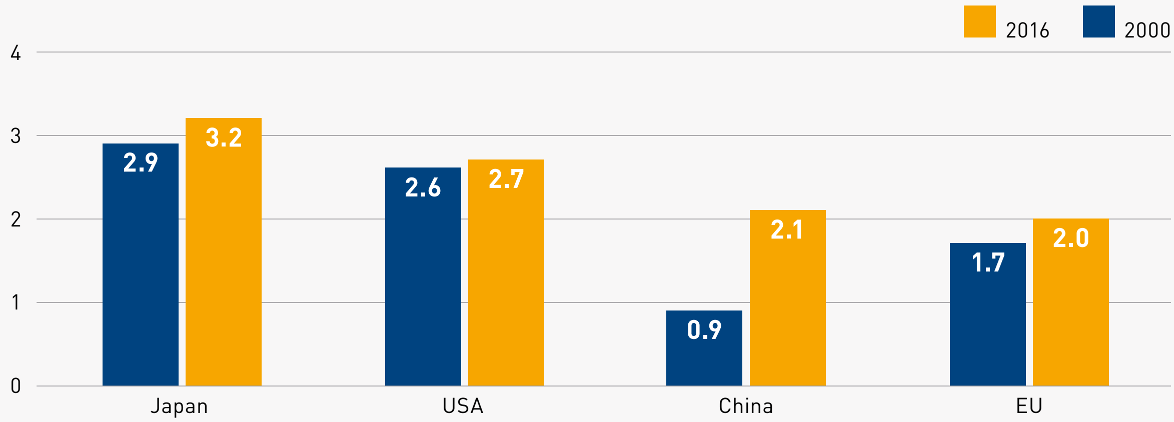
6 RESEARCH & INNOVATION

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Research, development and innovation (RDI) is one of the most important levers to boost Europe's economy and competitiveness. It can help to increase a company's market share, as well as foster job creation. Through RDI, entirely new markets can be created, leading to new business opportunities at potentially massive scale. The societal benefits of RDI are equally important: RDI can make substantial contributions to dealing with today's and tomorrow's societal challenges, such as poverty, ageing, social exclusion, health, climate change and energy security. Being largely accessible to all categories of the population, rapid innovation can foster overall well-being and improve the European way of life.

The EU accounts for 20% of global R&D investment, produces one third of all high-quality scientific publications, and holds a world-leading position in industrial sectors such as pharmaceuticals, chemicals, aerospace, mechanical and electrical engineering, fashion or research output in artificial intelligence. However, R&D investment across the EU falls short of the 3% GDP target the EU has set itself for such investment. The EU has fewer start-ups valued at over $1billion ("unicorns") and young leading innovators ("yollies"). The EU policy environment is still less attractive for private RDI investments than key competitors. As a result, private RDI investment reaches only 1.3% of EU GDP compared to 1.6% in China, 2% in the United States, 2.6% in Japan or 3.3% in South Korea.

CHART 1.5 *EU spending on R&D remains well below US and Japanese levels*
R&D intensity as % of GDP in 2016 and 2000



Source: World Bank, 2016

RECOMMENDATIONS

The EU and its Member States should:

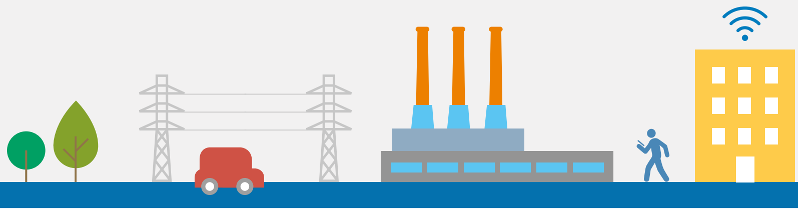
1. **support and facilitate research, development and innovation** throughout the EU and the European Economic Area to regain our world leadership in technology and bring more innovative products and services to the market.

2. **develop a more coordinated and strategic approach to intellectual property (IP),** focusing on how IP policy can contribute to European industrial competitiveness as a whole. Innovators and businesses in Europe must rely on a solid IP system. A stable legislative framework is key to facilitate investment and ensure that companies continue to innovate and grow. Moreover, it is important to ensure effective enforcement and real commitment to fight counterfeiting and piracy.

3. **increase R&D spending and support stronger private-sector R&D investment,** in order to reach the EU's 3% target. The EU should allocate at least €120 billion to the Horizon Europe programme to take European RDI to the next level. This financial ambition will be key to unlock private funds, address societal challenges and narrow the gap in R&D spending to other regions.

4. **pursue more business-oriented innovation policies** to ensure a greater economic return on investment in research and innovation. Targeted initiatives must stimulate private R&D investment and incentives for cooperation between companies, research institutes and education in networks and clusters of knowledge, and competence should be improved in order to facilitate the commercialisation of innovation. EU funding programmes should be agile and aim at reducing risks for companies so as to foster market uptake of innovative solutions.

5. **fully implement the Innovation Principle,** as part of the impact assessment for all relevant new EU legislation and across the whole policy cycle, from evaluation to implementation. This is essential to enhance the development of "make or break" technologies for Europe's future prosperity and shape the regulatory environment with a positive approach on emerging technologies. Regulation excessively focused on precaution and risk avoidance will stifle investment in innovation.

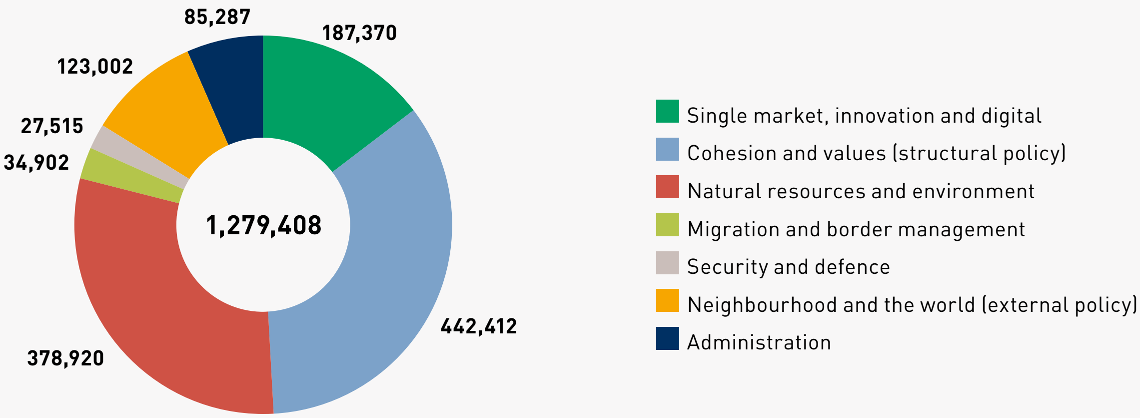


7 MULTIANNUAL FINANCIAL FRAMEWORK (MFF) AND EU BUDGET

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Developments in recent years have made it clear that the EU's finances are in need of fundamental reform. Moreover, the withdrawal of one of the EU's largest net contributors will leave an annual financing gap of tens of billions of euros. The European Commission has put forward its response to these challenges in the form of proposals for the 2021–2027 MFF. The proposals include the MFF Regulation as well as 37 spending programmes, which must be finalised and adopted in time.

CHART 1.6 **2021-2027 Multiannual Financial Framework (MFF) according to the European Commission's proposal in million euros**



Source: European Commission, 2018

RECOMMENDATIONS

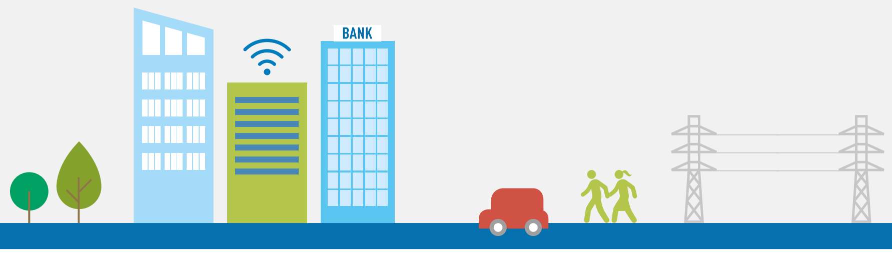
The EU should:

1. **ensure that the post-2020 European budget concentrates on boosting** sustained growth, investment, value added and job creation, as well as supporting Member States in implementing necessary reforms. For that, the European budget should focus on enhancing our competitiveness in areas where the EU can deliver concrete benefits and help prepare industry and companies for megatrends like digitalisation and the energy transition.

2. **urgently adopt an MFF** with a size adequate to address common challenges. An agreement on the MFF should be reached as soon as possible. We cannot afford delays in powerful investment incentives and sectoral programmes, in particular research and innovation.

3. **reach its own 3% of GDP research and development investment target** in order to stay competitive with countries around the world that are investing massively. Horizon Europe can boost the EU's efforts, provided it is equipped with an appropriate budget. Investment in Horizon Europe is absolutely vital for Europe's future. BusinessEurope also counts on Member States to reach an ambitious programme of at least €120 billion, with 60% allocated to the 'Global challenges and industrial competitiveness' pillar.

4. **boost the success of the cohesion policy** by turning it into an integral part of a European investment strategy, with an adequate financial framework to support a cohesive Europe. It must be further simplified, and the selection of projects must be made on the basis of their quality and not on the size of the companies.

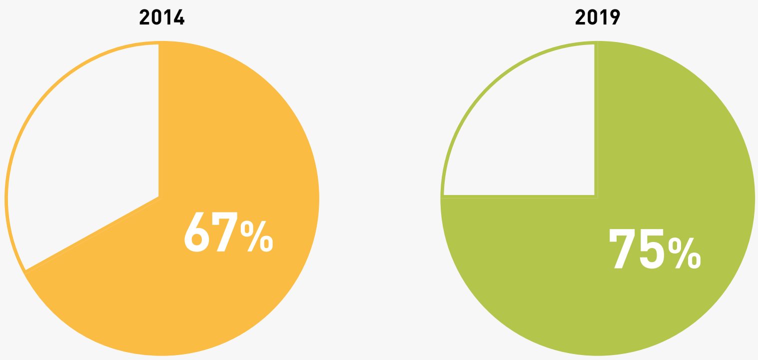


8 ECONOMIC AND MONETARY UNION (EMU)

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

Completing the Economic and Monetary Union (EMU) and strengthening trust in the euro is essential. In June 2019, a record high 75% of respondents across the Euro-area said that they thought the euro was good for the EU. A well-functioning EMU also provides investors with a safe and predictable environment. On 14 December 2018, the European Council endorsed the terms of reference of the common backstop to the Single Resolution Fund and of the European Stability Mechanism (ESM), asked to prepare the necessary amendments to the ESM Treaty, to advance work on the Banking Union and called for ambitious progress on the Capital Markets Union by spring 2019. These are positive steps forward. However, more needs to be done to ensure that our Economic and Monetary Union delivers convergence towards strong growth rates in all Member States.

CHART 1.7 *Public support for the euro is rising significantly*
Respondents across the Euro-area supporting the euro



Source: European Commission, 2019

RECOMMENDATIONS

The EU should:

1. **further strengthen the EMU and trust in the euro** to provide a stable environment to investors. Reforming and enhancing economic governance in the EU through a deepening of the EMU is crucial to ensuring long-run stability and growth and the international role of the euro.

2. **reinforce the European Semester's role** to ensure that all Member States implement agreed growth and employment enhancing structural reforms and strengthen implementation of the Macroeconomic Imbalance Procedure in both deficit and surplus countries.

3. **follow-up on Ecofin Council commitments** to implement a Euro-area budgetary instrument for convergence and competitiveness to strengthen structural reform and economic resilience of EMU countries in normal times. This instrument needs to be enhanced by including the stabilisation function proposed by the European Commission, namely the investment protection mechanism.

4. **foster progress on completion of both the Banking and Capital Markets Union** and further integrate EU capital markets to increase financing options for businesses, such as Venture Capital provision, and remove barriers to cross-border investment.

5. **make sure that Member States respect the Stability and Growth Pact (SGP)** whilst being able to continue to draw on the in-built flexibility to support structural reforms and productive public investment.

6. **ensure that new prudential rules, when transposing Basel III, do not significantly increase capital requirements overall** to support companies' need for capital for investment and trade (bank loans, equity investments, trade finance) and ensure access to risk management products on competitive terms.

7. **review the rules on securitisation** as they discourage the use of this important tool to increase lending.

9 TAXATION

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

In 2017, businesses paid over EUR 2 trillion of taxes in the EU, through corporate tax, social security contributions, property, resource, energy, environmental and other taxes. In addition to paying taxes, enterprises help tax systems to run smoothly by collecting value-added tax (VAT) and income tax from their employees. Taxation is necessary to finance public goods and services, and fighting fraud and evasion is essential to ensure a level playing field for the vast majority of businesses who pay their taxes in full. The EU and its Member States need to keep improving cooperation between the different national tax administrations to establish greater levels of trust and efficiency. The automatic exchanges of information amongst tax authorities, through the country-by-country reporting, is a positive step. However, commercially sensitive information that companies provide must be protected as this can put European companies at a competitive disadvantage.

In general, governments and businesses must work together to ensure that international tax agreements remain fit for purpose as globalisation evolves, while ensuring that European regulation is reformed in order to reduce administrative burdens on companies and improve our competitiveness.

Over €2 trillion taxes paid by business in the EU every year

Source: BusinessEurope staff calculations based on Eurostat, 1,000 pupils per school

RECOMMENDATIONS

The EU should:

1. **respect international taxation principles and Member States' competences** regarding taxation and promote tax systems which support long-term investment and entrepreneurship.

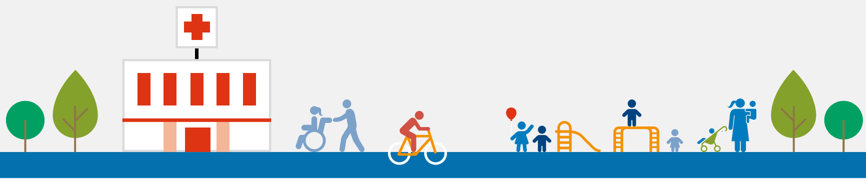
2. **promote only tax systems which support long-term investment.** The Financial Transaction Tax, which could undermine capital market development whilst offering no support to financial stability, particularly if focused only on secondary share trading, should be withdrawn.

3. **work towards an intensification of efforts to find a solution for the tax challenges of the digital economy on a global level.** This is a global issue that requires a global solution at OECD level. It should be ensured that any solution agreed at the OECD is in line with international taxation principles (by taxing profits and not revenue), is easy and simple to administer and comes together with strengthened dispute resolution mechanisms to solve double taxation cases more swiftly.

4. **bring forward work to modernise the EU VAT system and create a single VAT area.** The proposed definitive VAT system however will not improve today's VAT system as it risks creating more administrative burdens, with significant impacts for cash flow without reducing overall VAT fraud. Further steps are needed to simplify the VAT system, in particular for SMEs, by exploring how digital technologies can help to close the VAT gap and simplify VAT reporting. Setting up a VAT web information portal, whereby businesses can swiftly access relevant and accurate EU-wide information about the implementation of the VAT system in the different Member States in a language that they can understand, would be a significant step forward.

5. **encourage the simplification of Member States' corporate tax systems:** A Common Consolidated Corporate Tax Base (CCCTB) has the potential, by improving the functioning of the Single Market and making it easier and cheaper for cross-border companies to expand, to promote investment and jobs. However, putting in place a CCTB without consolidation will raise costs, without providing competitiveness benefits. Only on the crucial condition of consolidation, and with an allocation key reflecting economic reality, has the CCCTB the potential to provide a boost to investment and reduce administrative costs. Many companies also see a need for the CCCTB to be optional for all companies regardless of size. However, we are concerned that the ongoing discussions at the Council on the CCCTB could actually end up in reducing the competitiveness of the European economy.

6. **ensure that the Energy Tax Directive (ETD) remains effective** and operational, without hampering competitiveness for business while meeting wider climate policy objectives. The EU should keep the tax burden on energy limited to avoid a negative impact on the competitiveness of the European (energy-intensive) industry. Minimising the discrepancies in ETD implementation across Member States is the best guarantee to prevent level playing field distortions.

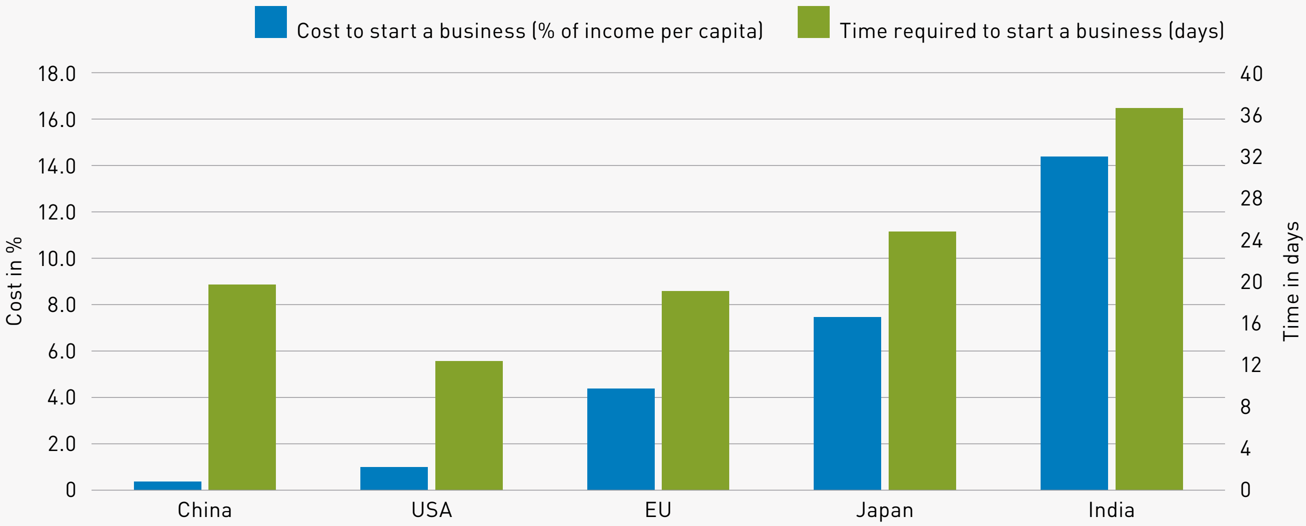


10 BETTER REGULATION

CHALLENGES & OPPORTUNITIES FOR EUROPEAN COMPANIES

A competitiveness-friendly regulatory environment is essential for growth and job creation. We welcome the substantive progress made under the Juncker Commission on the Better Regulation agenda. However, companies wanting to do business in the EU are still facing significant regulatory costs and burdens that could be avoided, such as inconsistent legislation or unnecessary complex procedures. By way of illustration, starting a business in the EU still costs over three times more than in the USA and takes almost twice as long. Importantly, it is also easier to scale up in the USA than in Europe. We therefore urge the new Commission, in cooperation with the co-legislators, to further develop the Better Regulation agenda and to continue to focus on regulatory simplification and improvement, evidence-based decision-making and transparency.

CHART 1.8 *Further scope for the EU to reduce administrative burdens*
Cost and time to start a business in 2018 (weighted average of GDP)



Source: BusinessEurope staff calculation based on World Bank, 2019

RECOMMENDATIONS

The EU should:

1. **continue working on better regulation,** giving more attention to the impact of new EU legislation on our competitiveness and our attractiveness as a place to invest as well as continuously evaluating existing regulation. EU legislation should be innovation-friendly and future-proof.

2. **limit EU rules to what is necessary to deal with pan-European aspects,** in line with the subsidiarity and proportionality principles.

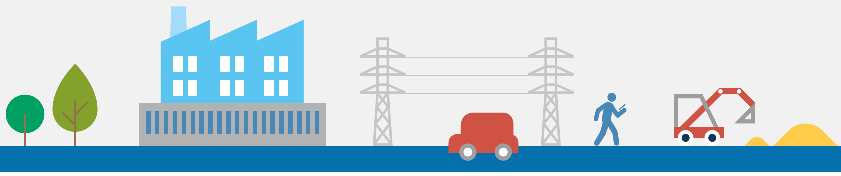
3. **fully apply the political principle of discontinuity** and re-assess the cost and benefit of all pending EU proposals to decide which ones should be maintained, which ones should be modified and re-submitted, and which ones should be simply withdrawn.

4. **warrant that a sound impact assessment** is carried out on all new EU proposals and that the final legislative text is also covered by an impact assessment. All three EU institutions should feel responsible for carrying out an impact assessment. The assessment should take account the cumulative effect of EU legislation on companies, especially SMEs, and the impact of new EU legislations on EU's competitiveness and attractiveness as a place to invest compared to the rest of the world, and make sure that this assessment is updated throughout the EU legislative process.

5. **ensure that the REFIT platform pursues its mandate** and becomes a permanent body making proposals towards regulatory burden reduction through its bottom-up approach.

6. **make sure Member States implement and enforce EU-related legislation** in a more consistent and coordinated manner, avoiding gold-plating and divergent transposition.

7. **increase transparency of trilogue negotiations,** reconciling the Treaty-based principles of transparency and participation with the need for an efficient and speedy legislative process. In practical terms, this means that meeting dates and agendas of trilogues and the negotiation positions established for individual negotiation rounds should be made publicly available in a manner that is easily accessible.



BUSINESSEUROPE

BusinessEurope is the leading advocate for growth and competitiveness at the European level, standing up for companies across the continent and campaigning on the issues that most influence their performance. A recognised social partner, we speak for all-sized enterprises in 35 European countries whose national business federations are our direct members.

Austria	Belgium	Bulgaria	Croatia	Cyprus	Czech Republic
Denmark	Denmark	Estonia	Finland	France	Germany
Germany	Greece	Hungary	Iceland	Iceland	Ireland
Italy	Latvia	Lithuania	Luxembourg	Malta	Montenegro
Norway	Poland	Portugal	Rep. of San Marino	Romania	Serbia
Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Switzerland
The Netherlands	Turkey	Turkey	United Kingdom		

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