BUSINESSEUROPE EXPECTATIONS FROM AN EU INVESTMENT PLAN

1. PRINCIPLES FOR AN EU INVESTMENT PLAN
2. OBSTACLES TO PRIVATE INVESTMENT

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EXECUTIVE SUMMARY

Over six years since the onset of the financial crisis, the EU is the only major global economic region to have failed to return to pre-crisis levels of economic output. Most worryingly, without urgent policy changes, including structural reform implementation, we risk damaging the foundations of our future prosperity. We are all aware that rising long-term and youth unemployment levels risk damaging the future productivity potential of the workforce, as well as contributing to greater inequality. But in addition, the EU has seen investment fall as a share of GDP to its lowest level in 20 years, with the EU's share of global foreign direct investment in particular having fallen from over 40% in 2007 to 20% in 2012.

The start of a new European Commission is for the EU the opportunity to demonstrate that it has a renewed commitment to supporting business in creating prosperity and employment.

We believe that the target of raising EU investment by a total of €300 billion over the next three years is an important starting point and we welcome the fact that the new Commission has made raising EU investment its first priority. But if we are to lay the foundations for our future competitiveness and prosperity, we need a step change in efforts to tackle the obstacles hampering private investment in Europe.

Part 1 of this report sets out in more detail the principles we believe the EU should adopt to meet the €300 billion challenge. Whilst the key focus must be on raising investment by the private sector, public investment, carefully directed to support competitiveness and not spent in a consumptive way, can also play an important role. In the words of Vice-President Katainen, "we need to make available as much public investment as necessary, and as much private investment as possible". In particular, we believe Member States should give greater priority to productive investment within their overall expenditure plans, supported by the flexibility provided within the rules of the Stability and Growth Pact while ensuring the sustainability of public finances.

There also needs to be greater emphasis on investment in the EU budget, with more efficient use of EU funds, including structural funds, to support the expansion of EIB's use of risk bearing, market-based instruments such as project bonds. These funds need to be better focused on projects that complement private-sector activities in supporting long-term growth.

In the long term, we will only increase investment if we improve the attractiveness of the EU business environment. While the EU has many strengths, including millions of skilled workers and innovative companies, global competition for business investment is increasing. In particular, we need to invest in key transport, energy and broadband

projects (particularly those with a cross-EU dimension that can enhance the single market) as well as R&D, skills and ICT, if we are to improve the attractiveness of the EU as an investment location.

Part 2 sets out in detail 12 barriers that businesses across the EU, through our member federations and companies, have identified as key to being addressed if we are to improve long-term investment. Each barrier presents concrete actions for EU and/or national policy-makers. In particular:

- **Businesses are unsure of Europe's commitment to supporting competitiveness and are hampered by unnecessary and overly expensive regulation.** Companies need a clear commitment from governments to structural reforms, stable public finances, better regulation and a predictable regulatory environment which supports long-term decision-making.

- **The cost of doing business in Europe is too high.** It is important to address high energy prices, uncompetitive tax regimes, and high labour costs.

- **Access to finance remains a concern, particularly as demand for funds increases as the economy picks up.** As well as supporting bank lending through balanced regulation, policy must also help expand non-bank financing sources. Greater use should be made of EU funds, including through the EIB, to leverage private-sector lending.

- **Europe must strengthen its single market and improve market access outside the EU.** The EU single market is Europe's main asset, but numerous barriers still make it difficult for companies to work cross-border. In order to establish the EU as a location from which businesses have the best global market access, we must take an ambitious EU trade policy forward.

- **Businesses find it too difficult to engage in public-sector-led investment projects.** Member State governments can play a key role in fostering the right skills, setting public-private partnerships (PPPs), identifying and facilitating investment projects, and coordinating actions with the private sector.

- **Policy needs to be more supportive of risk-taking, innovation and entrepreneurship.** EU rules minimise risks to the maximum and funds for innovative projects do not allow for much risk-taking.

Removing these barriers will not be easy but it should be regularly reviewed. BUSINESSEUROPE and its member federations are committed to working with the EU institutions and Member States in order to ensure Europe has a world-class business environment which provides a platform for quality jobs for all our citizens in the years and decades ahead.

Main actions

Uncertainty

- ✓ Streamline competitiveness across all policy areas.
- ✓ Step up enforcement mechanisms for implementation of structural reforms and further strengthen the EMU.
- ✓ Use built-in flexibility of the Stability and Growth Pact, while consolidating public finances.
- ✓ Avoid legislation with disproportionate effects on competitiveness; take account of the cumulative effects of different proposals; introduce better impact assessments. Avoid gold-plating.

Costs of doing business

- ✓ Energy costs: Complete the internal energy market and expand cross-border interconnections as well as energy infrastructures. Reform the ETS and improve carbon leakage protection post-2020.
- ✓ Taxation: Focus tax reductions on labour and capital. Withdraw the proposal for a financial transactions tax and take forward an optional common consolidated corporate tax base. Ensure corporate tax regimes encourage long-term investment.
- ✓ Labour rigidities and skills: Implement structural labour market reforms leading to employment-rich growth; aim at open, dynamic and mobile labour markets, also for the young, with leaner employment protection. Reduce high labour costs, including non-wage labour costs. Better align education and training systems with labour market needs. Increase access to and cost effectiveness of education and training systems.

Financing

- ✓ Revive a high-quality asset-backed securities market and lift restrictions on investment in long-term assets. Expand non-bank financing sources.
- ✓ Increase the scope of EIB Group action; use structural funds to address structural weaknesses and promote growth, jobs and competitiveness; quickly channel EU funds to quality projects and simplify rules in the use of EU funds; allow companies of all sizes to access EU structural funds.

Market access

- ✓ Implement existing single market rules; harmonise and streamline national rules. Introduce consistent reporting and benchmarking. Develop the digital single market.
- ✓ Conclude comprehensive and ambitious trade and investment agreements with our major partners. Include investment provisions in all free-trade agreements.

Public-sector engagement

- ✓ Define a credible pile of infrastructure projects of major interest; accelerate project bonds initiative.
- ✓ Promote PPPs; cut red tape in licensing and solve the problem of late payments.

Risk-taking

- ✓ Introduce an “innovation principle” to complement the precautionary principle; allow EU funds to bear more risk; and increase support to small business.
- ✓ Include competitiveness and investment considerations in EU competition policy.

1. OVERALL PRINCIPLES FOR AN EU INVESTMENT PLAN

BUSINESSEUROPE welcomes the commitment of the new Commission to prioritise investment and, in particular, to launch a plan to increase investment by €300 billion in total over the next three years. Both public and private investment are presently too low in many Member States.

We believe such a plan can play an important role in stimulating private investment in the short term. However, it represents only a 2% annual increase in investment[1], a figure that we already expect to be achieved under most 'business as usual' forecasts[2] as the economy continues to grow moderately. Returning EU investment to the sustainable levels seen in 2000, before the pre-crisis boom, would require a stronger increase in investment.

The €300 billion plan should be accompanied by ambitious policy measures which will increase the attractiveness of the EU as a location for long-term investment. These specific measures are covered in chapter 2. More broadly, raising investment needs to be part of a broader strategy for increasing growth and jobs built upon structural reform of product and labour markets and a strengthening of institutional administrative capacity in many Member States, supported by sustainable and growth-friendly public finances and accommodative monetary policy.

In taking the €300 billion investment plan forward, the Commission should follow the following principles:

1. **The key focus must be to raise private investment, through ambitious policy measures to break down barriers to company investment**. As mentioned by Vice-President Katainen, "we need to make available as much public investment as necessary, and as much private investment as possible"**.**

2. **A strong and clear commitment by EU governments to reforms at both EU and national level** in order to strengthen investor confidence is key to increasing private investment and harnessing private sector competition to deliver projects efficiently. It is particularly important that companies feel confident to invest in new plants, machinery and R&D, if we are to avoid the roughly half a percentage point fall in the EU's potential growth rate we have seen since the crisis became permanent.

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[1] This calculation assumes a constant increase of investment over a three-year horizon (i.e. not a one-off increase in year 1 which would amount to around 4%).

[2] The IMF forecasts investment to increase by 3.6% in 2015, not taking into account the measures announced by European Commission President Juncker.

3. **Targeted increases in public investment are also important**, particularly when used to address key infrastructure and skills barriers. Some Member States need to *increase* their public investment, while others need to *optimise* it.

4. While a number of Member States still need to make progress in overall fiscal consolidation, **all Member States should achieve a more growth-friendly composition of fiscal policies by reducing the tax burden**, which could be accommodated in a budget-neutral way, by cutting expenditures in unproductive areas and prioritising growth-enhancing investment. We need to raise the proportion of public expenditure that goes towards investment.

5. **Member States should make full use of the existing flexibility within the Stability and Growth Pact to ensure that they prioritise public investment**, while at the same time ensuring the sustainability of public finances.

6. **Eurostat should be required to give clear guidance and certainty to Member States on exactly how expenditure will be classified**.

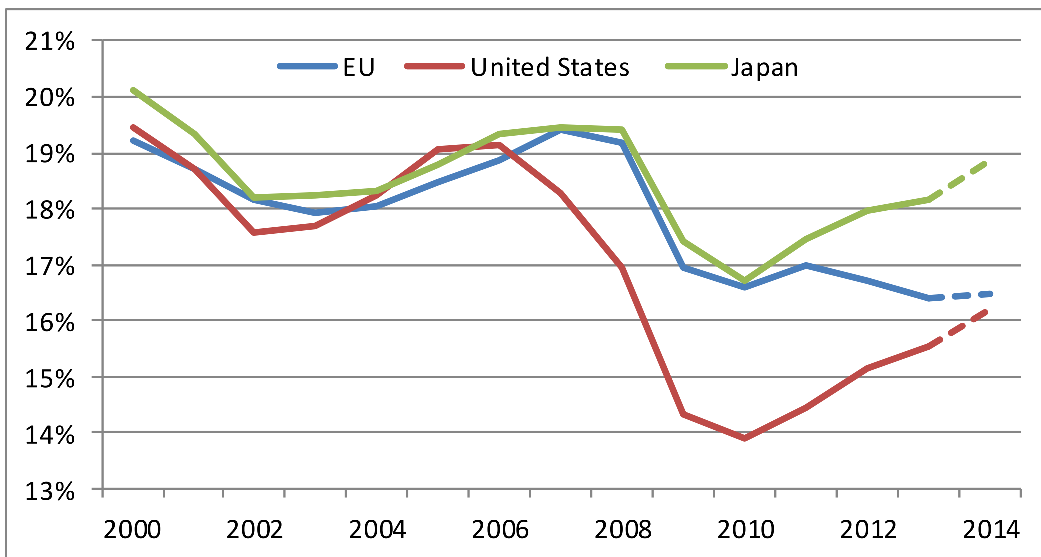
7. **More efficient use of the EU budget should be made to support long-term, growth enhancing investment.** The EU must use whatever scope it has to prioritise and optimise long-term investment within agreed expenditure headings, consider the scope to refocus overall expenditure more towards productive investment, and consider if there is scope to bring forward, or 'front load' investment expenditure. The Commission should allow proper access, as agreed in the regulations, of large firms to structural funds; this can also play an important role in improving the timely absorption, and efficiency, of structural funds. Structural funds must contribute to addressing structural weaknesses and to promoting growth, jobs and competitiveness.

8. **The EIB should play an increased role in supporting investment**. New market-based instruments should be developed, and existing rules adjusted, to allow the EIB to play a greater role in lending to private-sector-led, long-term, investment and infrastructure, without undermining its credit rating or crowding out existing market lending. Such action can help, particularly programme countries to adapt to unusually adverse circumstances. Greater use should be made of the EU budget to subside more risky EIB Group lending (drawing on examples such as project bonds, and the InnovFin scheme - formerly the Risk Sharing Financing Facility). More must be done to ensure both that the EIB rules on lending are sufficiently flexible, and that the offer they make is sufficiently attractive to firms for *additional* lending (that does not 'crowd-out' or replace lending which would have taken place anyway, in the absence of the EIB) to take place.

2. Obstacles to private investment in Europe

The fall in EU investment during the crisis was sharp, unprecedented, and is taking time to rebound. Private investment contracted by more than 11% between 2007 and 2013 and it is expected to start bouncing back only in 2014. The contraction of private investment in Greece, Ireland, Portugal and Spain was over 43%. At the same time, US private investment, having fallen dramatically during the crisis, is recovering at a much faster pace than EU investment, and Japanese private investment has consistently exceeded the EU one.

Chart 1: Private investment in selected advanced economies (% GDP)



Source: European Commission, AMECO database

While SMEs in some crisis-afflicted Member States, innovative companies and start-ups all over Europe, are struggling to find access to finance at reasonable costs, **the problem is not only a scarcity of private capital**. **The current uncertainty,** with modest growth prospects and low inflation expectations, **is a key reason holding back investment**. In addition, there are many other factors that impose real obstacles to investment in Europe such as burdensome regulation, and high costs of energy and taxes.

BUSINESSEUROPE identifies 12 main obstacles to private investment in Europe. For each section, we **put forward recommendations at EU and/or national level**, in line with their respective competence. We believe all of these barriers must be addressed, and be regularly reviewed, if we aim at creating a business environment conducive to investment.

OBSTACLES TO PRIVATE INVESTMENT

UNCERTAINTY

1. Economic and political uncertainty
2. Regulatory uncertainty and administrative burdens

COSTS OF DOING BUSINESS

3. High energy prices and security of supply
4. Uncompetitive tax regimes
5. Rigidity of labour markets and skills mismatch

FINANCING

6. Difficult access to finance
7. Difficult mobilisation of EU funds

MARKET ACCESS

8. Barriers to single market
9. Absence of an ambitious EU policy on trade and foreign direct investment

PUBLIC-SECTOR ENGAGEMENT

10. Difficulties in public-private engagement, particularly for infrastructure projects

RISK-TAKING

11. Lack of a supportive policy for risk-taking in innovation
12. Lack of a competitiveness-oriented EU competition policy

1. ECONOMIC AND POLITICAL UNCERTAINTY

Uncertainty and weak demand expectations are strongly hampering private investment in Europe and are leading companies to postpone their spending decisions until uncertainty eases off and demand expectations improve.

The protracted period of political and financial uncertainty the euro area experienced during the sovereign bond crisis has **heavily damaged business confidence in the last few years**. Macro-economic stability is also necessary. Companies need demand for their products, stable inflation prospects in line with ECB target, and balanced public finances that reduce the risk of sudden raises in taxation. Unfortunately, recovery in Europe remains fragile and there are constant factors of preoccupation for companies: low growth rates, prolonged period of low inflation/deflation, political problems in Member States, geopolitical tensions, etc.

These factors require resolute action from policy-makers. Through the European Semester process, **Member States must commit to taking structural reforms forward**, including through more growth-friendly composition of fiscal policies. BUSINESSEUROPE's Reform Barometer shows that only 23% of the country-specific recommendations were satisfactorily implemented in 2013. A strong commitment to structural reforms should remain a key framework, with close cooperation between the Commission and Member States.

Structural reforms are also essential to increase the competitiveness of EU industry. A strong industrial base is precondition for Europe's solid recovery. Industry is responsible for around 65% of R&D and 49% of innovation expenditure. Moreover, industry accounts for 57% of total exports and directly and indirectly employs some 52 million people. However, while Asian emerging countries increased their share of added value in world manufacturing by almost 18 percentage points between 2000 and 2012, the EU's share decreased by around 5 percentage points. Europe needs an ambitious industrial policy, if it wants to retain the current living standards.

ACTIONS

- ➔ To regain the trust of companies, European and national policy-makers must provide a **clear direction of policy-making** for the coming years, clearly prioritising competitiveness as the driver for growth and jobs and dropping actions that hurt the competitiveness of companies.

- ➔ Implement a **comprehensive strategy of structural, fiscal and monetary policies** that will restore long-term growth and ensure inflation is in line with the ECB target. **Continuing to strengthen the EMU** and ensuring that Europe can aspire to the significant unrealised growth and employment potential are key to reduce economic and political uncertainty and to improve market expectations.

- Member States must take forward real implementation of **structural reforms that can strengthen the resilience of European economies**. The European Commission must ensure that country-specific recommendations take account of their impact on investment and competitiveness and **step up enforcement mechanisms for implementation of reforms** at national level. The development of a 'limited Euro-area fiscal capacity' can, when linked to contractual arrangements, be a means of strengthening EU's role in encouraging structural reforms and fiscal consolidation.

- To strengthen the industrial base and achieve at least 20% of industry's share in Europe's GDP, European institutions and Member States need to **agree on an industrial compact**. The Competitiveness Council should become the gatekeeper of competitiveness in the EU and has to ensure that all policy initiatives support industrial growth and do not impede it.

2. Regulatory uncertainty and administrative burdens

Predictability of the regulatory framework is an important variable when deciding where, how and in what to invest. Regulatory uncertainty is very problematic for business as it increases the risk weight of investment decisions. In recent years, uncertainty regarding the regulatory environment in Europe has increased. This concerns not only the overhaul of financial regulation, but also many other areas such as energy and climate, data protection, and the EU fiscal framework.

Moreover, administrative and regulatory burdens in Europe also put a great load into companies. The annual costs of **administrative burdens amount to 3.5% of EU GDP**[3]. Meeting over-burdensome compliance requirements diverts management time and resources away from business development and fuels risk aversion. Almost one third of the regulatory burden of EU legislation is caused by the way it is implemented by Member States.

While the Commission has reviewed the concerns put forward by business regarding the top 10 most burdensome EU laws for SMEs, the subsequent proposals were not radically new. It remains therefore unclear whether tangible results can be expected from the REFIT (Regulatory Fitness and Performance) programme.

The Small Business Act (SBA), as a set of 10 basic pro-entrepreneurship action lines, needs to be implemented in a much more ambitious way, in particular in order to reduce administrative burdens for SMEs generated by national/regional rules. BUSINESSEUROPE fully supports the setting of minimum regulatory efficiency targets for national authorities.

[3] European Commission staff working document, "Action Programme for Reducing Administrative Burdens in the EU Final Report", 2012.

ACTIONS

- ➔ The European Commission and EU Member States must ensure a **stable, consistent and transparent regulatory environment** conducive to attracting investment to Europe.

- ➔ Impact assessments should **fully evaluate the impact of new legislative proposals on investment and competitiveness**. Competitiveness proofing must become an integral part of ex-ante impact assessment for all policy initiatives and legislative proposals, and include the options of self-regulation or no action. This should be ensured by independent reviews. Stakeholders should be allowed to contribute at an early stage of the process to impact assessments through timely consultations, including on costs and benefits and, if appropriate, on alternative options before proposals are adopted by the Commission. The significance of impact assessments should also be emphasised in the regulatory process.

- ➔ The Commission should **abstain from proposing legislation with disproportionate effects on investment and competitiveness.** It should also withdraw legislative proposals when the final regulation will not serve its purposes. It must also **take account of the cumulative effects of different rules** by clarifying their interplay and identifying inconsistencies and overlap.

- ➔ The Commission should **strengthen ex-post evaluations** by taking full advantage of knowledge derived from the finalised fitness checks, and introduce a **net EU target for the reduction of legislative burdens** in all policy areas, which covers compliance and enforcement costs. In addition, the Commission should develop new methods for receiving information from stakeholders about burdensome measures linked to implementation of EU legislation or lack of harmonisation.

- ➔ **Avoid gold-plating** by increasing transparency when Member States transpose EU legislation. Member States should explain the impact of additional requirements that negatively affect the single market, competitiveness and growth, and estimate the additional costs. The Commission should properly monitor transposition and create a database benchmarking the concrete measures (and provisions) undertaken by Member States when transposing directives. All relevant national information should be included in its published annual scoreboards.

- ➔ **A new governance for the Small Business Act (SBA)** involving clear and ambitious objectives for improved regulatory efficiency at national level. For example, an EU objective should be set whereby national technical licences needed to operate a company should be obtained within one month. Today, taking the example of SMEs manufacturing steel products, the minimum time needed for getting licences varies between three days in some EU countries and nine months in other EU countries.

3. HIGH ENERGY PRICES AND SECURITY OF SUPPLY

Global energy consumption will increase by 41% by 2035 with India and China accounting for half of the growth. Meanwhile the **USA will be energy self-sufficient** and will maintain their position as the world's top producer of liquids and natural gas. In the EU, production of oil (-57%), coal (-49%) and natural gas (-46%) will decline, and its **gas import dependency will rise from 66% to 84%**[4]. These changes as well as the recent situation in Ukraine and the Middle East show clearly the challenge and need for Europe to secure its energy supply.

In addition to disposability issues, **electricity and gas prices are higher**, and have recently risen more in the EU than in a number of other economies. Industrial gas prices in the United States are around a quarter of the OECD-Europe average and industrial end-user electricity prices in the European Union are currently more than twice as high those in the USA[5]. This makes it increasingly difficult for EU firms to compete in global markets. If appropriate measures are not urgently taken, this gap risks growing even deeper.

Safe supply of energy at affordable price is crucial for businesses and citizens across Europe. To decrease prices and reduce dependency, sources and routes of energy have to be diversified, domestically and externally. Domestically, interconnection and the full implementation of the 3rd energy package play a key role to bring more competition in the market. Externally, sufficient and appropriate infrastructure, such as LNG terminals, is urgently needed. This is not only important to make energy affordable for businesses again, but it also offers a lot of opportunities for investment. Europe's energy system requires investments of approximately €1 trillion by 2020, but investments are also key to re-design the energy market and avoid black-outs, as it is sending the wrong signals today.

ACTIONS

➔ Fostering the **completion of the internal energy market** through effective and consistent implementation of the 3rd energy package across Member States must be a priority. Stronger efforts regarding the **financing and development of cross-border electricity and gas interconnection, modernisation of energy infrastructure as well as expansion of storage capacity** are needed. Therefore the EU should initiate and support coordinated and co-funded initiatives as well as project bonds. A strong and stable EU energy policy also attracts long-term investors for required investment.

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[4] BP, "Energy Outlook to 2035".
[5] IEA, "World Energy Outlook 2013"; European Commission, "Helping firms grow – European Competitiveness Report 2014".

- Addressing further energy efficiency measures to the **sectors with the highest potential** for improvement, such as **houses and buildings** which account for nearly 40% of Europe´s energy consumption[6].

- A genuine reform of the ETS, including a market stability reserve, and an improved carbon leakage support must take place post-2020. **Improving the current protection of European industries** at risk of carbon leakage is crucial, because they face competition from industries in third countries without comparable greenhouse gas emissions restrictions.

- Europe needs a **combination of all the different sources** and therefore a **coordinated approach** supportive of conventional and unconventional sources. Exploration and exploitation of interesting potential for various forms of indigenous energy production should be on the agenda.

- Given the importance of the transatlantic energy trade, **CETA** and **TTIP** are necessary to **diversify external sources and suppliers**. Efforts should be intensified to include an energy chapter in the TTIP agreement.

- A technology-neutral policy framework and **investment in research, development and innovation** (R&D&I) in order to reduce costs and speed up the introduction of cutting-edge technologies to the market are needed. Therefore a European energy and low-carbon technology programme which includes all sectors should be established. Both private and public finance is crucial for upgrading R&D&I, but it must include part of the revenues from EU ETS auctioning.

- To achieve **level cost playing-field** between major economies the EU should link their energy and climate policy to international climate negotiations. At the upcoming conference in Paris in 2015 the EU has to push for a **global agreement**.

- To **avoid significant disruption and market distortion, transitional support schemes** should be designed for renewable technologies, taking into account differences regarding the expected technological progress and decrease in production costs. They should consider cost-efficient and more market-oriented support. Nevertheless, preference should be given to the more efficient production sites. The EU ETS should play a more prominent role in the post-2020 structure, incentivising low-carbon solutions, including renewables.

[6]European Commission, Report to the European Parliament and the Council: Financial support for energy efficiency in buildings, COM(2013) 225 final (April 2013).

4. UNCOMPETITIVE TAX REGIMES

High levels of taxation risk weakening incentives for investment in both physical and human capital, impacting negatively on long-term growth. The **overall tax burden in the EU is 50% higher than in the USA and 30% higher than in Japan. Businesses contribute annually** to almost one third of all tax revenues in the EU, amounting to **more than €1.5 trillion**. The average tax wedge on low-income earners is also much higher in the EU than in both the United States and Japan.

ACTIONS

- While a number of Member States still need to make progress in overall fiscal consolidation**, all Member States should look to achieve a more growth-friendly composition of fiscal policies by reducing the tax burden in a budget-neutral way.** This means in particular focusing on increasing the efficiency and quality of public expenditure and prioritising growth-enhancing investment.

- **Reductions in tax should be focused on those taxes which are most damaging to growth** – taxes on labour and capital. At EU level, this means withdrawing the proposal for a financial transactions tax.

- In contrast to businesses operating in different states in the USA, EU companies cannot offset losses achieved in one Member State against profits earned in others. This reduces the incentives, particularly for SMEs to invest and expand in new EU markets. **The EU should press ahead with plans for an optional Common Consolidated Corporate Tax Base (CCCTB).** A careful assessment on the impact of transfer pricing regulation on SMEs should be taken into consideration in order to prevent a disproportionate burden in comparison to multinationals**.**

- The Commission should encourage Member States to share best practice and learn from each other in terms of **developing corporate tax regimes that encourage long-term investment.** Priorities include favourable rules for depreciation (**accelerated capital allowances**), allowing losses in one year to be offset against profits in future years, and **encouraging in a neutral way both the use of equity** financing and debt financing.

- Make the tax systems and its **administration simpler and more user-friendly.** Greater co-operation is required at EU level to reduce the administrative burden of **VAT** and reduce delays for companies having claims for VAT repayment completed.

5. LABOUR MARKET RIGIDITY AND SKILLS MISMATCH

Business depends on people being able to consume their products and services and to provide the workforce. The fact that Europeans enjoy good health, long life expectancy, and first-class living and working conditions is a strong point for our continent.

However, there are a number of structural social challenges facing Europe's societies, which depress the overall economy. **Employment protection legislation tends to be higher in Europe than in other countries globally**. During the crisis, the setting-up or adaptation of short-time working schemes to maintain employment has meant a policy focus on internal flexibility. But to get out of the crisis, achieving more external flexibility will be crucial for employers to hire more staff.

For several years, high levels of unemployment, i.e. 24.6 million unemployed people in September 2014, have been coexisting with 2 million vacancies. This demonstrates the existence of skills mismatches and a lack of mobility to fill available jobs. Skills mismatch puts into question the ability of societies to capitalise on their human potential. Moreover, with only few exceptions, Europe's educational performance has not progressed at the pace needed to provide the skills needed for innovation to take place in Europe. With a few exceptions, international rankings of educational and training institutions (Shangai university ranking; OECD PISA and PIAAC studies) show an increasing challenge to deliver the right skills in Europe. There is not enough focus on learning outcomes, entrepreneurship and employability at all levels of education and training.

ACTIONS

➔ Member States must effectively **implement national structural labour market reforms** contributing to employment-rich growth and ensure the financial sustainability of national social protection systems. The overall objective is to ensure open, dynamic and mobile labour markets through reforms focusing on stimulating job creation and employment participation, smoother labour market transitions, and better allocation of labour based on employers' needs.

➔ Companies and workers must be able to choose freely between a **variety of contracts, when entering into an employment relationship.** Overly strict employment protection legislation must be avoided if one wants to encourage the conclusion of indefinite duration employment contracts. When making investments and creating jobs, companies need to know in advance that they will have the flexibility needed to adapt their workforce's contractual arrangements, working time and wages to their changing needs and means. Mobility between more permanent and more flexible forms of work must be facilitated to avoid segmented labour markets.

- **Reforms to pension and healthcare systems** need to be intensified to ensure sustainability and adequacy, as well as increasing employment. Social expenditures need to maintain social systems in an economically efficient way, whereby more targeted use of social spending can lead to savings.

- **Reduce high labour costs.** Currently, taxes on labour in Europe are much higher than in the rest of the world and they must be reduced, as these hamper European companies' competitiveness and job creation. The average tax wedge on low-income workers is 40% higher in Europe than in the USA and Japan, which must be addressed urgently if Europe wants to reduce unemployment. It is important to reduce non-wage labour costs and the Eurogroup common principles for reforms should lead to concrete measures at national level.

- Further progress in **modernising wage setting mechanisms** with greater role played by firm-level bargaining to strengthen the responsiveness of wages to productivity should be achieved.

- Take forward a more targeted approach to increase **employment opportunities for the young**. For example, temporary contracts should be valued as they act as a stepping stone into a first job. By contrast, high minimum wages may be particularly damaging for the young. This must be taken into account when setting their level. Member States should **speed up implementation of the Youth Employment initiative** to achieve tangible results.

- Better **alignment of education and training systems with labour market needs**, with more focus on improving learning outcomes and employability. BUSINESSEUROPE encourages Member States to use the funds made available through the European Social Fund and the Youth Employment initiative to develop or strengthen dual-learning apprenticeship systems. In addition, a national framework needs to be in place which ensures that the provision of apprenticeships by companies is a cost-effective investment.

- Identify ways to increase **access to and cost effectiveness of education** systems, for example through the use of new technologies.

- Future priorities should include **better anticipation of skills needs**, a policy framework for STEM skills; promoting entrepreneurship education, and higher levels of cooperation between the private sector and education institutions.

6. Difficult access to finance

Access to finance on reasonable terms is a pre-condition to enable businesses to make the investments necessary to strengthen their competitive position, innovate and create jobs. But despite a period of improving financial market stability, supported by an ECB-induced low-interest rate environment, **access to finance conditions remain constrained and uneven among Member States**.

While the cost of equity for financial intermediation has increased and expectations move towards low growth and inflation, **alternative ways of financing the private economy have not been advanced**, nor have institutional and other obstacles to its development been removed at the same pace. As a result, the deleveraging and increased risk aversion of financial intermediation has put aggregate private-sector financing, both bank and non-bank, under pressure adding further to the entrenchment of expectations that growth will remain modest in Europe for the foreseeable future.

This problem is mostly affecting SMEs in some Member States, innovative companies and start-ups all over Europe, but also infrastructure and large investment projects with long maturities and low liquidity on secondary markets. As the economy picks up, and investment intentions build, **access to finance threatens to become a more widespread and increasingly biting constraint**. While it is important to continue improving the traditional banking system it is equally important to expand non-bank financing sources that can give a boost to entrepreneurship and start-ups.

Actions

- ➔ The Commission must **examine the cumulative impact of the different financial reform measures** on access to finance in 2014 and 2015 and act accordingly to ensure that a good balance is found between stability of the financial system and lending to the real economy.

- ➔ **Encourage investment in high-quality asset-backed securities** by increasing confidence and removing legislative obstacles which discourage investment in these products, such as prohibitions for money market funds to invest in securitisations and margin posting requirements for derivative transactions entered into by a securitisation. Prudential rules for banks and insurance companies also discourage investment in these products. Further work on guidance in those markets for securitised structures based on SME loans, infrastructure investment financing and various other asset classes would be highly welcome. These segments in the EU capital markets are partly underdeveloped because of a lack of EU-wide high-quality standards, scalable projects, insufficient legal environments and a number of practical hurdles in establishing the supply and demand side of those markets. Mostly, these issues do not call for legislation but for EU-wide practical guidance, standardisation of market practices, "best case" approaches on how to do

things and a sufficient dialogue of potential investors and potential players in the securitisation business on how to structure products.

➔ **Lift restrictions on investment in long-term assets**. New prudential rules for banks disincentives these institutions from funding long-term infrastructure projects and providing long-term loans. Solvency II for insurance companies also makes it unattractive to fund such projects. The proposal to revise the directive on institutions for occupational retirement provision, due to the high level of detail of some of the proposed new requirements, would make the provision of occupational pensions more costly for employers. This could lead to a reduction in their provision which would have negative consequences for long-term investment.

➔ Ensure that **companies can continue to bank with large universal banks** that provide them with integrated services to hedge risks and issue bonds.

➔ **Fully implement the Banking Union** to restore confidence in financial markets and resolve fragmentation of financial markets. Building on the comprehensive stress tests by the European Banking Authority and asset quality reviews by the European Central Bank, this means **ensuring that the Single Supervisory Mechanism gets off to a successful start and is followed by prompt implementation of the Single Resolution Mechanism and strengthened deposit insurance.**

➔ **Expand non-bank financing sources by:**

- **Supporting the development of equity and corporate bond markets,** particularly for SMEs (progress to a capital market union i.e. particularly deepening the single rulebook for European financial instruments where necessary such as in company and securities laws, and tackle barriers in other cross-cutting areas such as taxation).
- **Reviving high-quality securitisation market,** by lifting disproportionate regulatory impediments.
- **Expanding pan-European private placement,** addressing existing barriers, analysing best practices, and examining possibilities for standard documentation.

➔ Increase **attention to specific structural reforms in certain countries**, like the speed at which justice is administered by courts, that are crucial to encourage the market towards the use of more complex contracts that usually are the underpinnings of non-bank financing. Such reforms should therefore receive increased attention.

➔ Facilitate long-term financing of **venture capital** funds by:

- Making the tax, institutional and regulatory framework for venture capital investment more attractive.
- Ensuring a more favourable tax treatment of venture capital funds and target companies that ensures financing neutrality and avoids tax-induced misallocations of financial resources. Removing

disproportionate financial market regulations to encourage potential institutional investors.
- Evaluating and – if necessary – streamlining existing state initiatives to promote venture capital financing properly.
- Setting up a pan-European stock market segment that meets the specific needs of young and innovative firms.

➔ Guide the public financial instruments (EIB, EIF, or similar national entities) towards the provision of guarantees for corporate investment projects.

7. DIFFICULT MOBILISATION OF EU FUNDS

Access to EU funds by companies is a difficult and burdensome process. Compliance with procedures is both costly and time consuming, leading many companies to prefer using alternative sources to EU funds. The uptake of EU financial instruments that can play an important role in the current context, remains poor. Moreover, there is a clear **information gap:** many companies remain unaware of eligibility rules, what needs to be done to access EU funds, and which financial intermediaries to contact as required in many operations with the EIB.

Regarding European structural and investment funds (ESIF), regulations for the 2014-2020 period are generally welcome, intending to simplify procedures and facilitate access to EU financial instruments, also encouraging the use of the funds by SMEs. However, **while support to SMEs is fundamental, the discriminatory approach towards companies of other sizes in some areas sends the wrong signal to private investors**. This is particularly worrying in the case of innovative front-runners that act as crucial anchors in regional and local development.

ACTIONS

➔ Ensure that EU **structural funds contribute to addressing structural weaknesses** and to promoting growth, jobs and competitiveness.

➔ Ensure that the new regulations 2014-2020 for ESIF bring **real simplification** for companies in accessing EU funds, including more effective reimbursement methods, simpler project applications, technical assistance for capacity building, online reporting, and simpler auditing for smaller operations.

➔ **Reduce project cycles which involve EU funds**. From programming and project identification to the actual implementation and finalisation, it can take up to five years. Moreover, for larger companies, projects are often on hold for several years. Not only does this discourage private-sector involvement as the project might have lost part of its attractiveness in a fast changing environment.

It also hampers the use of new and innovative technologies that have the potential to increase the impact of a project.

- **Quickly channel structural funds** to projects on the ground, making sure negotiations between the Commission and Member States on quality programmes advance swiftly. The possibility to bring forward structural funds should be foreseen especially for those regions that are undertaking important fiscal consolidation processes. Moreover, the possibility to increase co-financing rates by the Commission for Member States that are facing difficulties should be considered again for the period 2014-2020.

- When analysing proposals for the use of structural funds, the Commission should **evaluate the quality of investment and its economic impact and not the size of the companies to be involved in the project**, fully respecting the legislation on EU regional policy. In current negotiations between the European Commission and Member States on partnership agreements and operational programmes, despite legislation which allows for non-SMEs to access structural funds, it is clear that Member States are finding it particularly **challenging to gain approval for projects involving larger companies**.

- The definition of **performance targets in EU projects** should prevent exogenous factors, such as macro-economic conditions and currency fluctuations, to penalise beneficiaries. Targets should focus on the merits of the project and take account of events outside the control of project promoters.

- **The EIB should further develop adequate financial instruments in the context of EU regional policy.** Cohesion policy support for financial instruments amounted to €12.6 billion by the end of 2012. While representing a significant increase from the period 2000-2006 (where it stood at €1.2 billion) there is scope for improvement.

- **Ensure information to companies on eligibility and financial intermediaries for EIB funds is properly provided** and ensure that the network of intermediaries is functional and adequate. For instance, the first bid for the Connecting Europe Facility did not make it clear that also companies were eligible. National promotional banks could have a key role in coordinating available national and EU schemes. Member States should clearly identify the responsible body to encourage the intermediaries required to operate portfolios under certain programmes. Partnerships between companies and Member States can be developed for a common project. In some cases, relatively simple solutions can provide good results. In Belgium for instance, an initiative to inform accountants - that stand close to entrepreneurs - about investment support and credit applications aims at increasing awareness of and applications for EIB and EU funds.

- **Relaxing specific rules governing EIB activities**, to enable them to invest in a wider variety of projects or in a way that is more attractive to private-sector investors, taking into account the unusual circumstances prevailing in

particular, but not only, in programme countries. EIB's technical project specifications are also very restrictive. For instance, applying specific energy performance standards excludes any EIB support for investment in modernising conventional fleet in Eastern Europe. Moreover, the average project size excludes small-scale projects even though they may have an important economic impact.

➔ The EIB Group should be encouraged to **expand its products and schemes to support additional private-sector investment under InnovFin** – EU finance for innovators. More support is needed to facilitate the emergence of technology-based local firms and encourage innovative activities in less research intensive sectors across the EU.

➔ The review of the **Multiannual Financial Framework in 2016** should ensure that funds are properly channelled to growth-enhancing projects in areas that can increase the competitiveness of the European economy. The EU budget should be provided the means to respect its payments in a timely manner.

8. Barriers to Single Market

The single market is a key driver for growth and job creation and, as such, its advancement is a necessary precondition to improve the growth prospects of Europe. It adds about €600 billion a year to our economy and since 1992 it has helped create almost 3 million new jobs in Europe. But we see that companies are still facing obstacles when providing their goods and services across borders. **Barriers to trade and mobility still represent an untapped economic potential of €235 billion every year for the next 10 years**. Better implementation of the 2006 Services Directive alone can bring additional gains up to 1.8% of EU GDP. Further measures are necessary to tackle remaining barriers to completion of the single market for services.

The current difficult economic situation has also created serious challenges coming from protectionist trends, weaker political support and disenchantment. This could put achieved the benefits at risk and stall further progress.

Focusing on what is needed to integrate the single market further and improve its functioning often does not require introducing new legislative measures, but rather ensuring that the rules in place work better in practice and are correctly applied in all Member States. Therefore, the right balance should be struck between measures to further improve implementation and enforcement of existing rules and new policy initiatives.

Particularly the **digital single market is a key priority for the coming years**. But it is still subject to heavy or fragmented regulation, for instance in the case of data

protection. This has the negative effect of disincentivising investment in the digital sector.

ACTIONS

- ➔ Increase **focus on implementation and correct application** of existing single market rules, increasing the Commission resources in ensuring correct implementation.
- ➔ Further **harmonise and streamline national rules**, for instance in the area of consumer rights (e.g. consumer legal guarantees) and e-commerce.
- ➔ Introduce **consistent reporting and benchmarking, training national officials, stronger enforcement and regular evaluation.**
- ➔ Establish an improved **framework for Member State authorities to cooperate** on market surveillance activities to obtain a better synergy and more aligned procedures. Encourage Member States to invest in more efficient market surveillance.
- ➔ On the basis of the existing **Points of Single Contact**, establish a true business portal for companies to find all information and assistance they need for doing business across borders, including information on taxation and social security, and offer the possibility to complete administrative procedures and formalities online.
- ➔ Analyse and evaluate national regulations, notified and listed in the TRIS database.
- ➔ Promote the **principle of mutual recognition**: in areas where full harmonisation is not desirable or feasible, mutual recognition can help to improve the functioning of the single market by providing a certain degree of flexibility and cross-border acceptance - for instance for certification, permits, qualifications and other administrative procedures. In order to improve the functioning of mutual recognition, **a fast-track complaint system** should be established with direct access for companies in those cases where the SOLVIT system does not work due to different national regulations, also within the harmonised area.
- ➔ Shortcomings in terms of **interoperability of equipment** and means of transport prevent logistics from being effective and more efficient. To improve interoperability, clear and transparent requirements are needed, harmonised as much as possible at European level and implemented similarly across the EU. Example: empower the European Rail Agency as a one-stop-shop, issuing EU-wide rolling stock authorisations for manufacturers and safety certificates for rail operators.

- ➔ Difficulties in obtaining **permits** pose problems to companies. Procedures should be clarified online and it should be possible to advance in the processes through an online platform. There is clearly room for exchanging best practices in this area.

- ➔ **Take the digital single market forward**. The EU regulatory environment must support the free movement of products and content through digital channels, not only physical ones. Digital products must be allowed to move from one EU country to another as freely as within a single EU country. Market wider investments in infrastructure are needed.

- ➔ In this regard, the EU should make sure free-trade agreements contain provisions addressing **the IT sector**. The European IT sector is developing rapidly and has a significant potential to become a global leader in many areas, but this will only happen if our companies can actually export their technologies and know-how to third countries and compete in a level playing-field.

- ➔ **Create a regulatory framework which enables big-data use and innovation**. Companies need uniform rules on data protection which strike the right balance between the need to protect privacy and the need to enable free flow and legitimate use of data. This needs to be ensured not only within the EU digital single market, but also globally.

9. ABSENCE OF AN AMBITIOUS EU POLICY ON TRADE AND FOREIGN DIRECT INVESTMENT

The EU must start reflecting upon the world as its market and the ability to attract foreign direct investment comparatively to other, fast-growing and promising markets in developing economies. 90% of world economic growth by 2015 is expected to be created outside Europe – with a third being created in China. Developing and emerging countries are likely to stand for nearly 60% of the world GDP by 2030 (from less than 50% today).

Free trade-agreements are the most far-reaching economic relationship a country or region can establish with the European Union. By concluding modern and ambitious trade and investment agreements with the USA, Japan, Canada and other emerging markets the EU has the potential to shape globalisation according to high-level 21st-century standards, and at the same time maximize the benefits of new trade and investment opportunities for its companies and citizens.

The capacity to attract and generate new foreign direct investment also depends on the ability to develop a clear and consistent policy at EU level. Until very recently, investment and particularly investment protection has been an exclusive competence

of Member States. This situation has led to the existence of different legal frameworks within the EU with an impact on FDI attractiveness. With the Treaty of Lisbon, the EU is now negotiating stand-alone bilateral investment agreements and including investment provisions in all its free-trade agreements. Inclusion of state-of-the-art investment provisions including investment protection in all FTAs and bilateral investment agreements the EU is negotiating and will negotiate in the future, will give investors a clear sign that we have a solid, reliable and consistent EU policy in this field. Confidence and reliability are key to retain and attract investment.

ACTIONS

- ➔ **Conclude comprehensive and ambitious trade and investment agreements** with our major partners (TTIP, CETA, Japan, ASEAN members, Mercosur, and others). The new generation of free-trade agreements, which include a comprehensive investment chapter covering market access as well as investment protection, are critical to ensure the EU retains world leadership in trade as well as investment. Addressing tariff and non-tariff barriers in key areas like public procurement, standards or investment allows EU companies, in particular SMEs, to fully reap the benefits of economic growth that is taking place outside Europe.

- ➔ Include high-standard and state-of-the-art **investment provisions**, including investor-state dispute settlement mechanisms, in all free-trade agreements the EU is negotiating and intends to negotiate in future. These agreements should address shortcomings in existing bilateral investment treaties (BITs). This is particularly important regarding TTIP, given that a TTIP agreement will be seen as a model for future BITs.

- ➔ Negotiate **stand-alone far-reaching investment agreements** with key trading and investment partners in case a free-trade agreement is not foreseen.

- ➔ Promote discussion on investment rules, market access for investment and investment protection at international level, especially among members of the World Trade Organisation (WTO). The European Commission should push for a swift conclusion of the Doha Development Agenda and – with that – clear the way for a new **multilateral initiative**. A new initiative for an international investment agreement is overdue. The best way forward would be in the framework of the WTO.

10. DIFFICULTIES FOR PRIVATE INVESTORS TO ENGAGE IN PUBLIC-SECTOR-LED PROJECTS

The public sector has a crucial role to play in promoting **infrastructure projects** which are critical to ensure the effective functioning of the economy and an important factor in determining the location of economic activity as well as the kind of activity. Governments have little room in their public finances but their participation remains fundamental to crowd-in private investment in many areas.

In Europe, the European Commission has identified €1 trillion of large infrastructure needs up to 2020 for energy, transport and communications. Such an impressive amount does not consider the maintenance of existing infrastructure that is constantly deteriorating. To this, one must add the investment needs in other areas such as water, sewerage, waste management, social infrastructure, power generation etc. Efficiency of infrastructure must also be thought of: for instance, congestion costs are about 1% of EU GDP every year and freight transport activity is expected to increase by around 40% in 2030 and by 80% by 2050. Unfortunately, many projects are delayed, networks are still far from being complete, and core network corridors must be better linked.

More generally, Member State governments and respective regional and local authorities can play a crucial role in identifying and facilitating investment projects and coordinating actions with the private sector. Especially in times of increased pressures on public budgets, Europe can gain a lot from stronger cooperation between the public and private sectors in the delivery of more efficient and cost-effective public services.

- While the **public-private partnerships (PPPs)** market showed some signs of improvement in 2013 it remains underdeveloped with companies experiencing many difficulties with setting up partnership approaches, mainly due to a **lack of awareness** and a **lack of know-how** on the side of public authorities. Deployment of public-private partnerships (PPPs) for the maintenance, construction and operation of European infrastructure should be promoted.

- The **public procurement directives** are welcomed by European business as an important tool to ensure a common legal framework in this area that upholds principles of: transparent, market-open and competitive tendering. Safeguarding these principles in the process of public procurement through correct application and enforcement will increase involvement in tendering and as a result, investment from European businesses. The recent revision of these directives has led to considerable improvement of the legal framework. However, the revised directives also contain some potentially problematic rules which lead to some broadening of the scope of in-house (public-public) exceptions that could lock up potential markets to private companies and of potential political aspects being involved in the award criteria of a tender while

taking into account the specific production process which could lead to an absence of qualified bidders.

- **Late payments** and outstanding debt towards enterprises from the public sector are a real problem to companies in many countries that strongly impacts investment decisions. Over 50% of businesses blame administrative inefficiency for late payments, and about 55% of businesses expect a loss of income due to late payment.

ACTIONS

➔ Ensure adequate infrastructure that supports contemporary industrial activities. Member States must define a **credible project pipeline and decrease re-negotiation risks** through appropriate contract mechanisms that would allow for a better understanding of needs to take projects forward. The selection of investments requires the definition of clear and precise rules to assess the economic relevance of and return on investment, with involvement of the private-sector expertise, and legal certainty should be reinforced.

➔ Member States should include in their stability or convergence programmes a list of investments of major interest, in order to ensure their funding commitment in subsequent years avoiding any uncertainty.

➔ **Encourage investment in long-term infrastructure by pension funds and insurance companies,** now corresponding only to 1% of their institutional assets but with appetite for more.

➔ EU funds should be targeted first at **projects with the greatest European added value**, such as cross-border projects. The Connecting Europe Facility must be used to the full.

➔ Accelerate **the EU project bonds initiative**, ensuring an adequate pile of projects. Project bonds have the potential to be an important instrument, providing supplementary financing for large infrastructure projects, particularly of a cross-border nature. These bonds can increase the attractiveness of projects by allowing the EIB to absorb some of the risk. Risk-taking by the EIB should however be increased in projects that bring EU added value and the scope of project bonds increased to allow other projects to take advantage of this instrument, provided it does not endanger the EIB rating. Move towards creation of a central EU agency for cross-border infrastructure to facilitate projects, and simplify procedures that currently involve multiple national approvals. One possibility could be to build on the experience of the existing Transport Core Network Corridors structures. Comparable information should also be provided on the performance of infrastructure bonds, in order to increase transparency.

- ➔ Better use EU and national financial and regulatory means to **promote PPPs, including for infrastructure projects,** and encourage a wider exchange of national **best practices** in partnerships between the public and private sectors. This includes **support for information** (for instance European PPP Expertise Centre "(EPEC) guides") and **training programmes** for Europe's civil servants to enhance their capabilities in working with PPP contracts.

- ➔ Public procurement should deliver high-quality infrastructure and services for European citizens through exploiting the potential of the legislative framework. The European Commission should ensure **correct implementation of the directives to support initiation of awarding for the most economically advantageous tender (MEAT)**, rather than permitting an excessive use of in-house (public-public) exceptions or overburdening of public tenders with far-reaching obligations of an overall political nature. Member States should help towards achieving this aim through sharing best practices in the award of public tenders to support the MEAT criteria.

- ➔ Member States must **cut red tape in licensing**, including for infrastructure projects, but also export procedures, establishments and operation. This can be an important incentive for private investors to take projects forward.

- ➔ Member States should provide **support services for companies**, with integrated mechanisms that help innovation and internationalisation of companies.

- ➔ Introduce a **zero tolerance attitude to late payment** by public authorities and push for a satisfactory solution to the backlogs of EU late payments accumulated in the past.

11. LACK OF A SUPPORTIVE POLICY FOR RISK-TAKING IN INNOVATION

The approach to risk-taking in the field of innovation is an important variable in investment strategies. In order to maintain competitiveness and achieve leadership in research and technology, **a culture of innovation is necessary** to have greater acceptance of innovative technologies by the society. The current risk-aversion climate is hampering important investments. Innovation and knowledge exchange need to be boosted to make sure that innovative ideas lead to marketable products and services.

ACTIONS

- ➔ To enable enterprises and people to develop ideas, technologies and services while ensuring that related risks are properly managed, the **"innovation principle"** should be introduced to complement EU's reliance on the precautionary principle. Crux of this principle is that in order to prevent stifling innovation, risk-tasking needs to be admitted by policy-makers rather than

avoided. The principle should be introduced in the EU treaties, aiming at thoroughly evaluating and analysing the impact on innovation of any new legislative proposal. As a first step, we propose inclusion of the “innovation principle” within the initial work programme of the new Commission in the areas of better regulation and impact assessment.

➔ The European Commission must ensure that the gap between research and market deployment of new products and services is supported by **adequate funding and an appropriate regulatory environment**. Therefore **innovation networks and clusters** of small and large companies, universities, research institutes and public agencies to pool together skills, know-how and funding for commercialisation are necessary.

➔ To foster business-based innovation in a market-friendly way, the Commission should stimulate Member States to seek means to promote investment in research & innovation projects, for instance through **tax incentives and exemptions for R&I expenditures**. The EU should also **exploit the considerable potential of private capital** in order to secure sufficient funding for innovative projects.

➔ The **EIB should provide funding for higher-risk projects** to complement market provision where market provision alone would be suboptimal. This is particularly the case for projects such as applied research and demonstration projects where benefits are uncertain, high risk and long term and where there are spill-over benefits to the economy beyond those undertaking the investment. The EU budget should provide funding to the EIB to subsidise leveraged private-sector lending, building on the experience of project bonds.

12. LACK OF A COMPETITIVENESS-ORIENTED EU COMPETITION POLICY

Competitive markets are fundamental in encouraging innovation and they must not be endangered. However, it is important that **competitiveness and investment considerations are taken into account in policy design** and therefore applied in the regulatory and enforcement activity.

At times, important economies of scale are hindered by a lack of a sufficiently dynamic approach in merger cases. It is typically the case claimed by telecom operators, who often signal that mergers and acquisition are too difficult in their market due to competition constraints. This leaves little incentive for large investment in innovation and networks in this area.

As regards state aid, its basic principles are sound and should be maintained. However, the global dimension is hardly getting any attention in this area and should be addressed by adequate international (multi or bilateral) agreements and

instruments. State aid policy must not only ensure a level playing-field within the EU, but also a level playing-field for Europe's industry in competing worldwide, especially in industrial sectors supported by targeted stimulus measures in other regions. Moreover, a strong effort should be done by the Commission to assure a swift analysis of state aid for investment.

ACTIONS

- ➔ The EU competition policy should include **competitiveness and investment considerations**.
- ➔ The EU should seek to achieve a **global level playing-field regarding state aid.**

ANNEX: MAKING THE RIGHT INVESTMENTS

It is important to mobilise resources to invest in projects that have a positive impact on growth and employment creation, avoiding the mistake of the pre-crisis period when some public infrastructure investment was addressing little economic demand, and subsequently remains idle or under-utilised.

Ensuring that the majority of the increase in investment comes through the private sector, or through public investment that works alongside market-based provision, is the best way to avoid undertaking projects that will not help strengthen the European economy.

Member States should invest in the sectors where they hold a competitive advantage or where they believe there are key bottlenecks or weaknesses that are undermining growth, in order to strengthen the resilience and output potential of their economies.

From a European perspective, BUSINESSEUROPE believes the following criteria should be applied in prioritising the use of public funds for specific projects:

- Public funds should not be used for projects that would otherwise be undertaken by the private sector (no crowding out).
- However, relatively small levels of public funding can be used to make the project economically viable by leveraging private funding.
- The benefits of projects will be felt widely across EU member states.
- The project will boost competitiveness and growth.
- Projects maintain a level playing-field for all EU Member States.

The following areas can be of fundamental importance:

1. Infrastructure projects

1.1. Projects of common interest which increase Europe's interconnectivity:

- **Transport**: trans-EU core transport networks which reduce costs and improve the efficiency of transport and logistic services.
- **Energy**: trans-EU network connections to ensure availability of energy, smart grids, energy efficiency, modernisation and expansion of infrastructure (e.g. storage capacity).
- **Broadband**: next-generation networks (fixed and mobile); 5th generation (5G) of communication networks; industrial areas networks and fibre-to-the-office to speed up information flows in a technologically neutral manner.

1.2. Environmental and social infrastructure

2. **Internet of things, including**: robotics, cloud solutions and focus on projects for ICT use:
    - Development of big data and industry 4.0
    - Technologies such as cloud computing, the Internet of things (IoT) and machine-to-machine (M2M) to ensure connectivity between people, objects and networks
    - Trust and security

3. **Research and innovation**
    - Boosting market deployment through applied research and demonstration projects
    - Expansion of innovation networks, PPPs and clusters
    - Exploration of conventional and unconventional energy sources
    - More efficient, sustainable and safer transport infrastructure
    - Low-carbon economy
    - New-age materials and nano-technology

4. **Skills**: education in the competences of the future and entrepreneurship
    - Expansion of on-the-job learning and apprenticeship programmes
    - Education and training systems with a focus on science, technology, engineering and mathematics (STEM)
    - Skills needed in various professions in the digital economy and skills enhancing digitalisation of economies and societies as a whole

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