



Mr Donald TUSK
President
European Council
Rue de la Loi 175
BE – 1048 Brussels
“BELGIUM

1 December 2017

Dear President,

Message to the European Council on 14-15 December 2017

1. Reforms to defend our European way of life

Europe can remain one of the best places in the world to live, work, and invest if the European Union and its member states do necessary reforms. Economic and social challenges must be addressed in a coherent way, recognising that economic progress is the basis for social well-being

Companies have a central role to play. Their ability to deliver innovation, growth and jobs depends on a broad policy-mix. All European policies have to be mobilised. Our European Single Market is at the core of our strategy to ensure prosperity. It needs to be developed, defending its 4 freedoms and the Schengen system, empowering our industrial basis, activating the Permanent Structured Cooperation (PESCO) to facilitate future military and industrial cooperation in defence, embracing digitalisation, pursuing forceful EU trade policies and strengthening our Economic and Monetary Union.

BusinessEurope is proud of the social values that are part of our European DNA. However, to be able to finance social safety nets, we must be competitive and do better in terms of growth, employment and productivity. For that, we need to lift rigidities in labour law, reduce excessive non-wage labour costs, address skills mismatches and remove unemployment traps.

The European pillar of social rights rightly recognises that the main responsibility for the delivery of its principles lies in the hands of Member States, and that the autonomy of the social partners has to be respected. To be effective, labour market and social policy decisions should be taken as closely as possible to the employers and citizens concerned. The EU should avoid further heavy-handed legislative intervention. It should support Member States in their efforts to achieve employment and social objectives by building consensus on a European framework for national labour market reforms and reforms of educational systems to increase employability, by promoting free movement of labour, by ensuring proper enforcement and application of existing EU social legislation, and by facilitating European social dialogue.

2. A full roadmap to strengthen EMU

Recent months have seen the EU recovery gain strength. However, ensuring that the recovery is long-lasting and sustainable requires further actions to strengthen investment and business confidence and a well-functioning EMU is particularly important to have a stable investment climate fostering more growth and more job creation. Completing EMU and strengthening trust in the euro is therefore a priority for business.

Following the economic crisis, the EU made important progress in strengthening EMU, including through the development of the banking union and strengthening of the Stability and Growth Pact. But since the publication of the 2015 Five Presidents Report progress has been too slow. In addition, too many member states remain reluctant to implement agreed country specific reform recommendations to boost economic performance and convergence.

We count on the European Council to set out a full road map outlining the measures necessary to further strengthen EMU, with a clear and specific timetable for action.

For BusinessEurope, the following objectives must be a priority:

- **EMU must deliver convergence towards strong growth rates in all member states.** We must reinforce the European Semester's role in increasing growth, competitiveness and convergence, ensuring that all Member States implement agreed growth and employment enhancing structural reforms alongside strengthened implementation of the Macroeconomic Imbalance Procedure in both deficit and surplus countries. Completing and enforcing the single market is a crucial and powerful convergence driver.
- **The efficiency of the fiscal rules must be improved,** paying more attention to the quality and composition of public finances for a proper implementation of the Stability and Growth Pact (SGP), drawing on its in-built flexibility to help member states put their public finances on a sustainable footing. Fiscal sustainability, including where appropriate fiscal consolidation, is key in order to strengthen investors' trust in the Euro area, while giving the fullest support possible to member states who wish to orientate their budgets towards investment and growth-supporting expenditure.
- **A full banking union must be put in place,** with rapid agreement and implementation of an EU deposit insurance scheme, alongside the existing supervision and resolution pillars to address the continued fragmentation of EU savings and credit markets. Member states have now implemented the bank recovery and resolution directive and are creating harmonised deposit insurance systems. In addition, further asset quality reviews of all banks are necessary steps before establishing a common system. In addition, **implementation of a comprehensive Capital Markets Union** improving access to diversified funding sources can also reinforce resilience to asymmetric shocks.

We look forward to the Commission proposals regarding the following areas and believe that:

- The present **role of Eurogroup chair** can be strengthened by transformation into a full-time position. However, such a position would need to be empowered, and placed within the existing competencies of EU bodies, in a way that streamlines and simplifies economic governance, avoiding ill-designed overlap of institutions. Therefore, the proposal to combine the two separate roles of Commissioner and Eurogroup/Ecofin chair into a single position merits further examination.
- Strengthening the long-term stability of EMU and its ability to handle asymmetric shocks to one or more of its economies through access to a **Euro Area stabilisation fund**, fully conditional on Members States implementing structural reforms, without increasing the overall tax burden and ensuring that the stabilisation fund support is rapid and temporary.
- **Transforming the European Stability Mechanism (ESM) into a European Monetary Fund**, integrating it into EU law, would be an important step. However, the expertise and support of the IMF is still decisive to develop, implement and monitor comprehensive assistance programmes. Further explanation of what is being envisaged by such a transformation, including the powers, financing and governance structure of the new fund should therefore be given.
- The euro area does not have a 'safe' asset on a par with US treasuries and we agree that the development of a **European safe asset** can lead to a diversification of assets held by banks, improve liquidity and mitigate the interconnection between banks and sovereigns. The EU should examine how the regulatory framework may support financial markets in developing such 'safe' assets, both for government and commercial debt, for example, through encouraging greater securitisation.
- The process of deepening EMU should be an **open and inclusive process**, with member states whose currency is not yet the Euro able to participate in the various aspects of EMU. We are absolutely convinced that a deeper EMU underpinning strong growth, competitiveness, investment and prosperity is the best way of encouraging more member states to take the necessary steps to membership of the single currency, further strengthening the single market and promoting strong and stable growth across the European Union.



3. Urgent progress in Brexit negotiations.

Business is extremely concerned with the slow pace of negotiations. One year has already been lost and time pressure is rising. Business wants to avoid a cliff edge and we will publish examples of what a cliff edge would mean in practice for companies in a few days. Our companies need certainty and time to prepare and adjust to the post-Brexit situation.

Therefore, we need transitional arrangements to allow companies enough time to prepare while we don't have clarity about the future relation. A "status quo-like" solution ensuring the UK remains in the customs union and the single market, for the duration of the transition period, with all appropriate rights and obligations, would be best to provide citizens and business with more certainty and predictability and to ensure a level playing field for all our companies.

The only way to achieve this objective is to have sufficient progress on the issues that have been identified as necessary for an orderly withdrawal of the UK. This means citizens' rights, the situation of Ireland, and in particular the financial settlement.

In this context, we urge the UK Government to rapidly provide further concrete negotiating proposals for all the 3 issues that are critical in the first phase of the talks. At the same time, we count on the EU to constructively receive these proposals once they are presented. We very much hope that enough progress will be made in the short period available until the December EU Council meeting.

In our view, the new model that will govern EU-UK future relations should be in line with the following principles:

- It preserves the integrity of the Single Market based on its four freedoms;
- It maintains as close economic relations as possible between the EU and the UK;
- It organises a smooth transition allowing business to prepare and adjust to the new situation;
- It mitigates the adverse effects of Brexit for companies and citizens;
- It provides legal certainty as soon as possible by delivering achievable solutions in a reasonable and predictable period of time.

BusinessEurope counts on the Euro Summit and European Council meetings on 14 and 15 December 2017 to move forward the EU leaders' agenda adopted in October 2017. Swift progress in implementing necessary reforms, further strengthening EMU and progressing in Brexit negotiations is essential to ensure prosperity across Europe.

Yours sincerely,


Emma Marcegaglia