BUSINESSEUROPE

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BUSINESSEUROPE REPLY ON PUBLIC CONSULTATION ON EU FUNDS

Background:

BusinessEurope published on 8 January 2018 its strategic view on the post-2020 MFF (Multiannual Financial Framework). The present document is a more complete version of BusinessEurope's position on MFF, containing the general statement from 8 January as well as some specific and more technical comments in an annex.

1. BUSINESSEUROPE VIEWS ON THE MFF POST 2020

1. Following a difficult decade for the European Union, the recovery is finally anchored, entering its fifth year in 2017 with positive numbers both in terms of growth and employment creation. We also clearly witness renewed signals of unity by EU leaders and less uncertainty at political level in many member states due to recent elections. All these circumstances create a clear window of opportunity for Europe.

2. In order to fully exploit the present momentum and make the positive cyclical component of the recovery last in a sustainable manner, we must take decisive steps regarding the future of Europe, and ensure that reforms at national level continue to structurally strengthen our economies. The present moment is therefore not to relax, but to vigorously advance with all the reforms that remained in stand-by in the past years, developing the necessary tools to prepare Europe for a new and decisive decade.

3. The EU budget is one such tool. We cannot continue with marginal changes. **The Multiannual Financial Framework (MFF) post-2020 will need to reflect the new context and speed-up the important transformations which have been steadily occurring in the EU budget**, namely an increased focus on areas with clear EU added value, greater role for innovation, and focus on results. The proposal on the next MFF must be made on the basis of a thorough assessment of the current budget, in order to identify both strengths and areas for improvement.

4. **Timing will be crucial**. With the European Commission proposal expected in May 2018 at the earliest, and with European elections by mid-2019, there will be a very tight time frame to agree on the new MFF. Failing to agree on the proposal by the time of the European elections will be of serious consequences:

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it would very likely mean a last-minute deal, followed by serious delays in the start of programmes in 2021, and a lost year in investment by the EU budget.

5. The size of the next MFF must be dependent on the needs required to face common challenges ahead. Currently, the EU budget stands at around 1% of EU's GDP and it is therefore **important not to create unrealistic expectations on how much it can deliver**. **However, the EU budget has provided for important investments** with clear results in terms of innovation, infrastructure, training, improved skills, employment and company development, SMEs in particular. Furthermore, it is clear that financing the provision of certain EU public goods with joint resources can bring significant cost savings, ensure efficiency gains by avoiding duplication, and achieve important economies of scale.

6. We must optimise the impact of the EU budget, amplify **the benefits, and ensure visible results,** especially in a moment where we need to bring the EU closer to its citizens and when the exit of the UK from the EU is likely to reduce the means available at EU level. For that, its priorities and functioning must be improved to ensure a more efficient and effective spending, and key concerns of citizens and businesses must be properly addressed. This is it is particularly important to react and look for concrete answers to bring the EU closer to its territories.

7. The EU budget must **focus on projects of real European added value** and concentrate efforts on improving EU's competitiveness in order to boost long-term growth. Therefore, it should **deliver concrete benefits**, such as in the areas of competitiveness, single market, common currency and common trade policy, research, development and innovation, SME development, including through their interaction with larger companies, cross-border cooperation, and security. The next MFF must **address key concerns** such as employment creation; **prepare Europe for the mega trends,** with a renewed focus on areas such as the digital economy, industrial policy, cutting edge technology, energy transition and decarbonisation of the economy and clearly **reflect new priorities** such as migration, security, and defence.

8. We must also **ensure a more cohesive Europe**, which is a basic condition for a proper functioning of the EU, and of the euro area in particular. Cohesion policy is very important to support a cohesive Europe in all its forms: economic, social, and territorial and must therefore be ensured an adequate financial framework. We must boost the success cases of this policy turning it into an integral part of a European investment strategy, aiming at empowering each region with the necessary tools to build-up their competitiveness, and supporting structural reform implementation where possible.

9. The EU budget must match EU priorities. Financial needs are however different in the different areas and resources should be adjusted accordingly. **A number of areas clearly need additional financial resources**:

- Despite positive results, high demand, and benefits of EU action, **research, development and innovation activities** are still clearly underfunded. The overall EU budget for R&D&I should therefore be consistently scaled-up. We applaud the call from the Lamy report to double the overall budget of the post-2020 EU R&D&I programme (i.e. €160 billion over seven years).

- Additional financial resources must be made available to face new problems such as in the areas of **security, defence, and migration**, where action at EU level can lead to more efficient spending and better results.

- Further developing **trans-European infrastructure projects** in the fields of energy, transport and digital services is of strategic interest for the EU and must therefore be given adequate resources. Financing resources alone will however not suffice and must be accompanied by a coherent legislative framework.

10. The combination of less resources and new priorities means that **we must, more than ever, focus on results that meet the EU added value principle**. It is important to more strongly evaluate the impact of the different policies and projects to ensure an efficient allocation of resources. All funds should therefore follow this approach.

11. In terms of effectiveness and efficiency of the use of EU funds, **expenditure at EU level must ensure that synergies are created with national funding**. Co-financing rates must be carefully analysed to ensure the proper incentives and national responsibility. These should be introduced in all policy areas and strengthened where adequate during the next programming period. Conditionalities in the use of funds must be of a positive nature, in order to create the right incentives and work effectively, and ensure a result-oriented use of EU funds that leads to clear EU added-value. The ex-ante conditionalities should be enhanced as they proved a very helpful tool in terms of effective and efficient use of resources.

12. **The efforts to mobilise private investment and boost the use of financial instruments must also be stepped-up**. Financial instruments cannot fully replace the need for grants in some areas, particularly for very innovative and risky projects, in cutting edge technology, cross-border infrastructure, applied research and experimental development. Indeed, in several projects, grants are much better suited than financial instruments and should be preserved in the new MFF, including in the next R&D&I framework programme. It is, however, fundamental to ensure a wider use of financial instruments in projects where these are justified. Innovative instruments such as the European Fund for Strategic Investment, which aims at using small amounts of public money to mobilise private investment that would otherwise not occur, are welcome and should be given particular attention in the post-2020 period.

13. **It is however necessary to rationalise EU funds**. We have seen a proliferation of EU funds and new financial instruments, often with overlapping objectives and too little shooting power. In view of the upcoming MFF, it is fundamental that all funds are duly assessed, streamlining those with overlapping objectives and inefficient results, ensuring that their use is simplified, blending is facilitated, and synergies with other EU funds are strengthened in order to give each fund enough capacity to ensure results.

14. We support 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 and there being no increase in the overall tax burden. To ensure the stabilisation fund is effective, support should be rapid and temporary.

15. **The upcoming MFF must also be able to better balance predictability of means and the flexibility to react to unforeseen events**. Over recent years the EU has managed to make the best out of the EU budget in face of unforeseen events. However, it has also stretched its capacity to the limit. Moreover, the pressure to quickly mobilise funds is generally done at the costs of programmes which do not have pre-allocation by member states, such as innovation and infrastructure programmes, that are generally highly performing and already underfunded. But the predictability of the budget must be maintained and all measures aiming at increasing flexibility of reaction must be therefore foreseen within the limits of the budget and not in new non-budgeted instruments outside the budget.

16. For all of these changes to be made possible in view of the MFF post-2020, it is necessary to change the mind-set and understanding of the EU budget by member states. It is **absolutely necessary to move away from a logic of "net return"** (e.g. net contributor/receiver debate) when agreeing in the next MFF. This fails to capture all the benefits of spending at EU rather than national level, including savings and efficiency gains.

17. The MFF post-2020 discussions and agreement will take place during European elections and coincide with the conclusion of the Brexit negotiations. European leaders must work together in a logic of common benefits, which must be fully explained, rather than reducing discussions to how much money each member retrieves. We believe that it is important that the discussions on the next MFF are not divisive, but rather create a moment where European leaders can show their solidarity and responsibility, listening to the voices of citizens and social partners, avoiding any additional upward pressure on overall taxation, focusing on what is important to strengthen the efficiency and competitiveness of the European Union as a whole. BusinessEurope and its member federations will work with the objective to offer positive and constructive contribution to the discussion.

2. ANNEX: SPECIFIC COMMENTS

2.1 Research and Innovation

- Despite many efforts, the EU (2.0%) is still lagging behind countries like Japan (3.6%) or the US (2.7%) and China is catching up rapidly in terms of R&D expenditures as a percentage of GDP. With the highest share of R&D spending coming from the business sector, which accounts for 65% of all R&D spending in the EU, it is extremely important to significantly scale up public spending both at EU and national level to address the innovation gap.

- The EU framework programmes play a pivotal role in strengthening European finances for research and innovation. What is at stake is that the programmes bring a clear European added-value. We support the calls to double the overall budget of the post-2020 EU R&I programme (i.e. €160 billion over seven years). Financing defence research at EU level cannot be done at the expense of the civil EU R&I funding programme.[1]

- For decades the European framework programmes have been contributing, together with national programmes, to scale up European funds in support of research and innovation. Coordination and complementarity between EU and national level is essential to maximise the impact of funded projects. Matching an increase in EU funding with an increase in national R&I budgets will have the maximum leverage effect to reach the too long-waited EU target of 3% GDP invested in R&I. Europe needs a virtuous circle, with increased public funding leveraging more private sector investment.

- Increasing the budget would significantly help address the low success rate issue that is critical to secure the medium- to long-term credibility of the EU R&I funding programmes. A success rate of 20% would be the bare minimum. Where a two-stage selection procedure is applied, a more selective first stage selection should be implemented, leading to a higher success rate in the second stage.

- Lastly, companies of all size must be kept in scope and funded, to bring Horizon 2020's successor to the next level. Any exclusion of large companies or even lowering the funding rate would be a tremendous set-back for Europe, affecting negatively the whole R&I ecosystem and value chain (including SMEs), diminishing the possibilities of international collaborations and harming an innovation-friendly environment in general. In addition, it would severely jeopardize the EU's goal of leveraging private investment.

- But addressing Europe's innovation deficit requires more than public money. It is about mainstreaming innovation across all EU policy domains by applying an EU

[1] It is important to note that those figures assume that the UK remains fully engaged financially in the post-2020 EU R&I programme.

innovation principle and by designing demand-side innovation. On top of grant-based financing, the private sector also needs more favourable conditions for investments in more risky projects, with new means of financing, a better banking culture and more risk capital.

2.2 Single Market

Effective market surveillance in the Single Market

Effective enforcement of harmonised product rules in the Single Market is key for both companies and citizens. For companies, it creates a level playing field which is undermined when non-compliant products circulate freely with low levels of detection. For citizens, proper market surveillance results in safer products that are compliant with the high standards of EU product regulation. However, market surveillance needs adequate resources, suitable facilities and skilled officers in order to function well. This requires considerable financial resources at a national and European level. In particular in the context of the recently presented Goods Package, which contains a proposed Regulation on Compliance and Enforcement, we strongly recommend sufficient allocation of the post 2020 MFF budget to national market surveillance authorities and for the coordination of enforcement activities at EU level. The European Commission's Impact Assessment accompanying the proposal also flags the lack of resources as an important constraint to proper controls.

Supporting responsible roll-out of AI and Robotics

The robotics public private partnership achieved good results and demonstrated that EU funding, at €700 million for 2014-2020 bolstered an additional €2.1 billion of industry commitments. But more is needed to support a responsible roll-out for both AI and Robotics in Europe. This will maintain our global digital leadership. Coherent financial incentives need to follow European policy for research, reskilling, long-life learning and high class infrastructure that will support its development.

2.3 SME development

General

SMEs are a key asset that should be integrated in any strategy aimed at fostering a return to sustained growth in the EU.

The post-2020 MFF should therefore include projects of real European added value that deliver concrete benefits in the areas of SME competitiveness and SME development, including through their interaction with larger companies.

Some SME-geared actions should naturally be integrated in broader EU flagship initiatives. For example, SME-geared actions will need to be deployed in the areas or RD and innovation, as is the case with Horizon 2020. But deploying EU SME-geared actions only under flagship initiatives or thematic programmes is not enough to give the right visibility to the EU SME policy. BusinessEurope therefore insists that the post-2020 MFF should contain a specific EU programme dedicated to the promotion of the competitiveness of SMEs, like the current COSME programme (the EU programme for the competitiveness of SMEs).

Supporting SME development by deploying EU financial instruments

It is essential that the post-2020 MFF allows for continued support for the development of SMEs through innovative EU financial instruments. The post-2020 MFF should build on the positive experience made in particular with the financing models of COSME and EFSI (SME Window of the European Fund for Strategic Investments).

Improving the SME business environment

The successor programme to COSME should also have an SME policy pillar, financed by adequate means, aiming at improving the SME business environment. These measures should focus on a limited set of policy areas, including:

- Internationalization of SMEs
- Better Regulation
- Access to finance.

The Enterprise Europe Network (EEN) should remain a key instrument under the post-2020 MFF for promoting the internationalization of SMEs, with efficient implementation of the EEN future vision, based on an enhanced portfolio of services meeting company evolving needs. The EEN should focus on areas where it can bring added value compared to national initiatives

2.4 Social aspects

Setting in motion a genuine partnership for reforms to implement the European pillar of social rights

Rather than trying to solve labour markets challenges across the board at European level, the EU's primary role is to provide information, incentives and know-how for Member States and social partners to design, implement and evaluate policies addressing structural labour market challenges. Priority areas are to:

- Prioritise reforms to achieve open, mobile and dynamic labour markets;

- Reduce and/or shift the tax wedge on labour to encourage job creation;

- Create or adapt policy frameworks and make use of available public resources without adding to tax pressure on companies, with a view to:
    - encourage companies and workers to invest in developing skills that fit with labour markets requirements and unlock labour productivity growth;

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  - increase the number of placements in childcare services, including through private sector providers, with a view to increasing women's employment participation without decreasing men's employment rates.

Investing in skills development and care infrastructures

As part of investment priorities for Europe, emphasis should be put on fostering productive investment in skills and an enhanced employment participation of women and men through improved care infrastructures.

Firstly, education and training is an important driver of productivity growth. And productivity growth is the only sustainable way for enterprises to be able to generate more growth and offer more jobs and improved conditions to workers. In particular:

- Improved skills training policy frameworks are needed.

- The acquisition of STEM skills (science, technology, engineering, mathematics) is an important challenge.

- Ensuring people are equipped with digital skills is a priority.

- Focus support on new technologies in education and training, both in terms of the learning process (modern infrastructure / equipment allowing for digital / distant / interactive / intuitive learning methods) and to improve learning outcomes, i.e. focusing on training that delivers highly demanded skills on labour markets, notably digital skills, as well as transversal/social/linguistic skills.

Secondly, investments and coordinated national policies must be promoted to improve the **availability and functioning of care infrastructures**.

- Care infrastructures, including in particular for childcare and caring for the elderly as well as disabled/seriously ill relatives, should be made more efficient in terms of affordability, opening hours and quality of services provided. Public-private partnerships are part of the answer in this area, which will also add new job opportunities for women and men.

- The Commission can add value by organising a mutual learning seminar with interested Member States, social partners and those public and private organisations providing childcare services to identify what actions are needed, by whom and at which level, to unlock the investments needed, as well as to learn from each other on how to make good use of public resources to maximise the return on investment in childcare.