europe fast forward DI

14 May 2012
ISSUE #10

di.dk/europefastforward
EU Business-App
Download in App Stores

DI Newsletter on Danish EU-Presidency

THE CONFEDERATION OF DANISH INDUSTRY (DI)

Editorial

Growth vs. austerity? When European leaders meet in Brussels at the extraordinary European Council on 23 May, they will hopefully dismantle the conception that growth can be created without getting Europe's public finances under control.

This is necessary as some politicians have succeeded in establishing a picture where those who demand balanced budgets are against growth. This is not only incorrect. It is nonsense.

Growth and austerity are not opposites. In fact, sound public finances are essential for long-term sustainable growth. DI therefore wishes to put this false premise, subscribed to by some politicians, in the grave. Getting elected by promising the voters less austerity and more growth based on loans, increased public spending, and increased taxes is adding to our troubles, not solving them.

The sheer size of European public debt is today hampering growth. Budgetary consolidation, based on structural reforms, is therefore an essential ingredient in solving the sovereign debt crisis and a prerequisite to growth and job creation. Without the unequivocal measures of the Fiscal Compact, no growth policy can succeed.

And growth and jobs must be created. This is no news to the European business community. However, investments in new jobs are only made in stable economic environments. When political leaders create uncertainty about the course of Europe this immediately creates instability. Look at the stock market's roller coaster ride over the past week. This is exactly what we do not need.

Let it be completely clear that budgetary balance and growth enhancing policies are closely interlinked. Both objectives will remain unfulfilled if they don't go hand in hand. There is no contradiction between the two. But an offensive strategy to create sustainable long-term growth can only be successful if budgets are balanced.

This means prioritizing public spending and a swift execution of structural reforms, which improve competitiveness. It will reduce pressure on public finances and free means to invest in areas with long-term growth potential. This calls for determined leadership.

Sinne Backs Conan
Director of European Affairs,
The Confederation of Danish Industry (DI)

Content

DI, Brussels office
Avenue de Cortenbergh, 168
1000 Bruxelles
Director of European Affairs
Ms Sinne Backs Conan
Tel.: + 32 2 285 05 50
e-mail: postbruxafd@di.dk

EUROPE FAST FORWARD is published by The Confederation of Danish Industry every fortnight during the Danish Presidency in the EU Council.

Please visit **di.dk/europefastforward** for further information, news, analysis, publications and much more.

Get the latest Council conclusions with our free **EU Business-App** – to be downloaded in App Stores.

The Confederation of Danish Industry (DI) is the premier lobbying organisation for Danish businesses on national and international issues. Our members benefit from our influence, a wealth of expertise, business services and events. DI is a member of BUSINESSEUROPE. BUSINESSEUROPE plays a crucial role in Europe as the main horizontal business organisation at EU level. Through its 41 member federations, BUSINESSEUROPE represents 20 million companies from 35 countries.

DI BUSINESSEUROPE

Europe - United in Diversity and Destiny

DI Opinion:
Crisis-management must maintain the integrity of EU27. A multispeed Europe should be careful not to undermine the Single Market, the foundation for future growth in Europe.

To save the Euro, European leaders have had to make tough, but necessary, choices for Europe. They have accelerated the process of economic integration in the EU to a level unimaginable just a few years ago.

In doing so, they have created a complex economic governance system that divides Member States into groups of frontrunners, followers, and sideliners - a multispeed Europe.

Eurozone countries have ensured immense integration, followed by a catch-up group of non-Euro countries opting in to the Fiscal Compact, while the UK has placed itself on the sidelines of European integration.

It is evident that the crisis has called for better rules to ensure budgetary discipline. To that end, it is natural that the Eurozone has led the way to further economic integration. However, the EU must not risk a real split between the two main groups, Euro countries and non-Euro countries.

Solving the acute crisis without squandering the integrity of EU27 is not easy. It is, however, the main challenge for European leaders. Some Member States will catch up, as has happened in the past. But a permanent division between Euro countries and those without the common currency will be damaging to European businesses at large, to growth and to job creation.

A protectionist Eurozone seeking to detach itself from the rest of the EU would jeopardise free movement in the Single Market, and the Single Market has been a central driver for European growth. A Europe where Euro countries and non-Euro countries are strongly divided would leave a large group of Member States and businesses in a second division.

But the ‘followers’ are also responsible. They must not resist increased integration when it is needed the most. Hence, political leaders of different convictions must find common ground. Only joined efforts can enforce European cooperation, strengthen our competitiveness and lay the basis for future prosperity. We need growth enhancing policies and a complete opening of the Single Market to fully harvest its great potential.

In order to restore growth and avoid a marginalised Europe in a challenging and changing world, European leaders are obliged to maintain an ambitious vision of an open and unified EU. Member States are united in diversity and destiny – they must act accordingly.

Read more about the political situation in Europe, future integration and the complex governance structures in this edition’s interview with Danish Minister for Economic Affairs and the Interior, Margrethe Vestager.

Future Council meetings

Informal European Council

Brussels, 23rd of May 2012

DI Opinion:
Balanced budgets are the basis for any growth policy.

Agenda (highlights) – Issues for business:

Herman van Rompuy has summoned the European Heads of State and Government for an informal 'growth' European Council on 23 May.

The need for active growth policies has long been advocated by the business community. DI therefore welcomes the talks of a new 'Growth Pact' to supplement the Fiscal Compact Treaty.

DI sees no conflict between the budget discipline, as required by the Fiscal Compact Treaty, and growth policies - on the contrary.

Balances budgets are the basis for any growth policy. This is the number one lesson from the current debt crisis. Re-opening of the Fiscal Compact Treaty is therefore not an option.

As balanced budgets must be the starting point for any government, a new Growth Pact should focus on structural reforms. Structural reforms will increase European competitiveness and create growth and jobs, while also reduce the pressure on public finances.

Also, a Growth Pact should be used to push for tough priorities in public spending, in support of investments in long-term growth.

Better use of EU's budget is also an obvious tool to create growth. This would require a much closer alignment between EU budget and EU's growth strategy, EU2020.

Giving the ECB a more active role in the crisis management has been advocated by the newly elected French President, Francois Hollande. This is, however, not the right path to choose.

Compromising the ECB's principal objective of ensuring price stability, either by giving ECB a bank license or by increasing ECB's purchases on the bond market, is the not the way to move Europe fast forward and out of the crisis.

Read more on business priorities for growth **here**.

Financial and Economic Council

Brussels, 15th of May 2012

DI Opinion:

A common consolidated corporate tax base and a new VAT strategy can lower administrative burdens for companies and boost intra-EU trade.

Agenda (highlights) – Issues for business:

— **Common Consolidated Corporate Tax Base (CCCTB)**

Ministers will meet to have an orientation debate on a possible development of a common consolidated corporate tax base (CCCTB). The purpose of the CCCTB is to give companies the possibility to comply with just one common EU tax system, rather than different rules in each Member State in which they operate.

DI sees the current EU corporate tax system as being fragmented. It reflects a time when the level of intra-EU trade was significantly lower than today. As a result of the 27 different tax systems, the EU is positioned with a disadvantage vis-à-vis major trading partners.

The lack of a common corporate tax base makes it complex and expensive for businesses to operate in more than one Member State. This stands in stark contrast to the principles of the Single Market. The CCCTB can reduce compliance costs, burdens for businesses and eliminate tax obstacles in the internal market. The CCCTB can alleviate administrative costs and burdens for businesses. But it is important that a CCCTB only deals with tax rules and not tax rates. It must also be voluntary and introduce a “one-stop-shop”.

The proposal is also, however, politically controversial as a CCCTB would cause shift in national tax revenue. To overcome the controversy surrounding the proposal, one possible solution could be to remove the sales factor from the apportionment method. Moreover, politicians should view the comprehensive impact assessments which clarify how long term gains outnumber possible short term losses.

— **New VAT strategy**

Ministers are also expected to adopt conclusions on a new VAT strategy. This is important as increased reporting obligations have caused a rise in the compliance burdens and risks to a level, where it is often easier and less risky to trade with third countries than within the EU.

For businesses it should be as simple to conduct business in other EU Member States as it is to operate at national level. In reality, studies show that companies have abstained from doing business in another EU country due to the burdens of VAT compliance. This is due to the fact that the VAT system was designed at a time with a limited volume of intra-Community trade and has not developed sufficiently to meet the trade patterns of today.

DI is dedicated to engage in a positive dialogue with the Commission and the Member States to improve the system to the benefit of all. DI finds that the EU needs a VAT-strategy that sets the path for creating a simpler and harmonised VAT system – a system designed for the trade patterns of today. Such a system should ensure the neutrality for businesses and facilitate intra-community trade to the extent that this trade is not significantly riskier, more burdensome or complicated as compared with domestic trade.

Real improvements in the VAT system require political willingness and compromises by the Member States, but the benefit for all would be increased growth – and thus increased tax revenues. We hope that the Council will meet our expectations and agree on an ambitious strategy setting, both short and long term goals.

Read more form DI on a Single Market for Growth - **here**.

Read the ECOFIN Council agenda **here**.

Parliamentary actions

Plenary Session

Strasbourg, 21st – 24th of May 2012

Agenda (highlights):

- Internal Market scoreboard
- Scheme of generalised tariff preferences
- EU and China: unbalanced trade?
- Common system for taxing financial transactions
- A resource-efficient Europe

Forthcoming Commission Proposals

DI has made a selection of European Commission Proposals to be presented during the coming weeks. Please note that the list is subject to changes.

16 May 2012
Up-date on latest economic developments (Rehn) and preparation of informal EU Council dinner on 23 May (Barroso)

---

22 May 2012 (in Strasbourg)
Schengen: bi-annual report on cooperation (Malmström)

---

30 May 2012
Growth and employment: country specific recommendations (Barroso) and Convergence report 2012 (Rehn)

---

6 June 2012
Single Market: communication to the June Council on deepening it for services and communication on strengthening its governance (Barnier)
Energy: communication on renewable energy strategy (Oettinger)
Digital agenda: Regulation on electronic transactions in the internal market (Kroes)

---

12 June 2012 (in Strasbourg)
Communication on the new integrated strategy against human trafficking (Malmström)

---

20 June 2012
Legislative proposal on the protection of financial interests of the EU including by criminal law (Reding and Semeta)

---

11 July 2012
Revision of directive on clinical trials in the pharmaceutical sector (Dalli)

Previous Council meetings

Financial and Economic Council

Brussels, 2nd of May 2012

DI Opinion:
Regulation of the financial sector must not affect access to finance for companies negatively.

Agenda (highlights) – Issues for business:

— **Capital Requirement Rules (CRD IV)**

The ministers of ECOFIN discussed the Capital Requirement Directive. The tough negotiations might very well be finalised at the ECOFIN on 15 May, as the Danish presidency expects to conclude negotiations in the Council before handing the baton to Cyprus. The objective is to start negotiations with the European Parliament aimed at adoption at first reading.

CDR IV will introduce intensified requirements to banks capital, such as a higher minimum capital adequacy, better capital quality and a new buffer. Furthermore, it will tighten the requirements by reducing liquidity risks.

In general, DI welcomes responses to the regulatory failures which led to the financial crisis. Hopefully, they can prevent similar events from occurring in the future.

Despite all good intentions, tighter capital requirements in the financial sector will have a wide impact on the real economy. The new framework will require banks to reduce their lending and increase the cost of credit. Moreover, banks are likely to become more reluctant to invest in companies. Altogether, this will impair companies' access to finance and thus their ability to prosper and create growth.

In the light of the current macroeconomic situation, Europe's banks not only need longer respite to adapt to the CRD IV requirements. The implementation process should also address and accept the significant differences of Member States' various financial structures. In addition, the combined effects of new capital requirements imposed on the financial sector, such as Basel III and Solvency II, should be scrutinized with a particular focus on companies' access to finance and the impact on European growth.

At a time when economic recovery can only be ensured by increased corporate investment, the implementation of reform measures could create an overall shortage of finance. In particular, this will affect SME's which are highly dependent on bank lending.

Policymakers must obviously deal with regulatory failures. However, policymakers must also ensure financing conditions for companies enabling them to create growth and jobs in Europe.

Read the Council conclusions **here**.

Q & A:

Margrethe Vestager, Danish Minister for Economic Affairs and the Interior

The EU is experiencing challenging times. In the previous years, the economic crisis has been the center of attention and facilitated increased European integration. The lead role has been played by the capitals, latest in the negotiations of the Fiscal Compact. A compact which strengthened confidence in Europe but at the same time created governance complexity by constructing a Europe in multiple speeds. We decided to talk with Margrethe Vestager, Danish Minister for Economic Affairs and the Interior, about the political situation in Europe, future integration and the complex governance structures.

The present crisis, which has affected companies tremendously, has created a momentum in the European integration. How do you view this process?

- The crisis has indeed proved how interdependent we are in Europe. We have seen that poor economic policies in one country have negative effects also in other countries in Europe. The crisis has illustrated the need for enhanced cooperation among EU countries and strengthened rules of economic governance and a properly regulated and supervised financial sector. These are therefore important priorities of the Danish EU presidency.

How do you view the new economic governance in EU? Will it be sufficient or will further economic and fiscal integration be needed to prevent future crisis?

- I believe that we have made a strong framework for European economic governance which has the potential to prevent future crises. But the EU should not just be a machine taking decisions - what will be decisive now is that we also deliver on our commitments. The Danish Presidency has therefore put strong emphasis on the need for putting our decisions on better economic governance into practice through enforcement of the common rules at the EU level and compliance at the national level.

How do you view the consequences, if any, for the acceleration of the EU in multiple speeds, especially as regards the complex relationship between the euro / non-euro area members and the compact / non-compact members?

- The initiatives on economic governance have cut across euro area and non euro area Member States, adding complexity to decision-making in the EU. At the informal ECOFIN meeting in Copenhagen late March we debated how to improve decision-making and ensuring proper information sharing across the different formats. All Member States agree that economic governance in the euro area needs to be strengthened while at the same time safeguarding the integrity of the internal market of 27. There is a shared commitment to find pragmatic solutions going forward.

Everywhere in Europe we are seeing an immense discussion on how to combine a growth-oriented economic strategy with fiscal discipline. How do you approach this discussion?

- Consolidation is an absolute must in order to regain confidence in the European economies, to ensure financial stability and low, stable interest rates, and to exit the crisis and enter a more positive path of growth and job creation. Sound public finances are a prerequisite for sustainable growth and job creation, not a brake on growth. Europe is undergoing economic recovery and in this process it is essential that we make the right priorities in our budgets. We need to make smart and growth-oriented investments in education and research, at home, as the Danish Government has proposed in our new 2020-strategy, as well as in the European Union budget. Developing the Single Market is another growth driver with great potential - also in the short run. The key to stronger, sustainable growth and employment is budget neutral structural reforms of national labour and product markets. To conclude, smart consolidation and reforms is the way to growth, not new excessive spending that we cannot afford and that will not work.

When politicians meet in Brussels, they agree that only a united approach can solve Europe's troubles. But back in most capitals the EU receives increasing criticisms. How do we ensure further national backing for European collaboration in the future?

- We have a good strategy at the EU level, but we all need to be able to explain it better at home. We have learned from the crisis in Europe and I believe that we have made basically the right decisions to exit the crisis and prevent future crises. Now it is important that politicians deliver on their commitments. We need the trust of markets, companies and citizens. Trust will come when we deserve it - that is when we deliver on our commitments. The new Fiscal Compact, where we commit to implement balanced budget rules in our national laws, is an innovation, exactly because it "brings home" concrete fiscal policy commitments, hopefully ensuring stronger national ownership and backing for European cooperation.

Margrethe Vestager

Danish Minister for Economic Affairs and the Interior

Save the date

CONFERENCE: FINANCING LARGE INFRASTRUCTURE PROJECTS
(24th – 25th of May 2012, Denmark)

Denmark co-hosts the conference on funding for major infrastructure projects along with the European Commission. As the need for investment in infrastructure persists despite the economic crisis, the relevance of considering novel ways of financing major infrastructure projects becomes more pertinent.

Read more **here**.

SEMINAR: EU FUNDING FOR RESEARCH AND INNOVATION IN HORIZON 2020
(6th of June 2012, Copenhagen)

From 2014, Horizon 2020 is expected to have a budget of 80 bn. euro. The programme brings together EU funding for research and innovation, focusing on translating scientific breakthroughs into innovative products and services, creating new business opportunities. This seminar gives companies an overview of the enterprise-orientated opportunities in Horizon 2020.

Read more (in Danish) **here**.

CONFERENCE: MARKET ACCESS FOR EUROPEAN COMPANIES
(13th of June, Copenhagen)

The Danish EU presidency, the European Commission and the Confederation of Danish Industry are pleased to arrange an exclusive EU conference about Market Access for European companies to Emerging Markets. The conference offers a unique opportunity to learn about the EU strategy for improved Market Access and how to take advantage of existing EU instruments and EU free trade agreements in order to enhance European businesses' export and revenue.

Read more **here.**

Updates on the presidency

App for smart phones

DI has launched an EU Business app for iPhone and Android. The app updates you on Council meetings and other important EU events. All relevant documents and news related to the meetings are found in one place and easily forwarded by email.

You can get the app free of charge by download in App store (search EU BUSINESS), or by visiting our website – read more **here**.

Another way to get hold of the app is simply to scan the QR code:

Newsletter and website

We will of course also provide you with business opinions, interviews and calendar services through this newsletter, which will be in your mailbox every fortnight during the Danish EU-Presidency. In between, we invite you to view our website: **di.dk/europefastforward** for the most recent updates.

For questions or comments please mail to: dinewsletter@di.dk