European Economic and Social Committee
Employers' Group

Newsletter

December 2022

2023: TIME TO TAKE IN A COMPETITIVENESS AGENDA

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As 2022 draws to an end, we can very easily conclude that this has been an *annus horribilis* for Europe. At a time when Russia has brought war back to the European continent, assumptions and expectations of a lasting peace have been shattered in the wider European space. The war has prompted serious reflection about the instruments and tools available to safeguard peace in times of geopolitical aggression and of weakened multilateral institutions.

One thing is crystal clear: without peace, there can be no prosperity.

The effects of the war on Ukraine are evident in the form of diminishing food and energy security, inflationary pressures, economic crises and global polarisation. New types of threats and destabilising factors such as pandemics, climate change, foreign interference in democracy, cyber-attacks and bio-terrorism, as well as various types of hybrid warfare, call for innovative thinking and new types of resources and solutions.

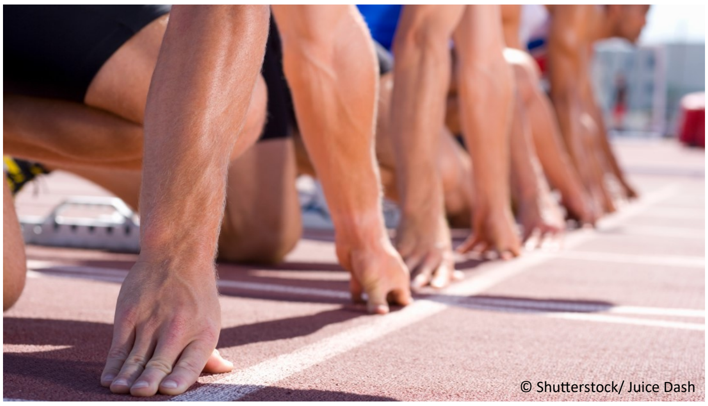
While the EU has made significant progress on further strengthening its presence and efficiency in the area of peace and security, more remains to be done, particularly in terms of thinking about how to rebuild Ukraine.

Ukrainian President Volodymyr Zelenskyy said earlier this month that his country will need around EUR 56 billion to address next year's budget deficit and to repair damaged infrastructure. The International Monetary Fund (IMF) has estimated that, for 2023, Ukraine will need between EUR 3 and 4 billion in foreign aid on a monthly basis to keep its public services running against the backdrop of Russia's invasion. European Commission President Ursula von der Leyen announced that the EU is set to provide Ukraine with up to EUR 18 billion in financial assistance in the course of 2023 to cover the basic budgetary needs of the war-torn country.

The Employers' Group has been fully supportive of EU action to assist Ukraine in its time of need and to start work on rebuilding Ukraine, even before the war is over, which we hope will happen in the very near future. We have engaged with our employer counterparts in Ukraine and have pushed our EU policymakers to do whatever it takes to help Ukraine first to survive and then to defeat Russia's aggression. The EESC, and especially the Employers' Group, was the first EU body to call for EU Candidate Status for Ukraine.

While we continue to invest energy in helping Ukraine, however, we have also continued to push for the EU's recovery, which must be based on a competitive economy and a fully revamped Single Market. We have been assertive in our work for the Conference on the Future of Europe to call for a more decisive focus on competitiveness, by establishing the good practice of having a competitiveness check to build a stronger and more resilient economy. The Commission and the EU presidencies have been very receptive to this call and that instrument is now being prepared. More importantly, it is becoming increasingly clear to all that the EU must adopt a Competitiveness Agenda that centres on the sustainability and strength of enterprise. Only in this way can we guarantee a heathy society in which we can afford to provide citizens with a good quality of life.

Looking towards 2023, we need to maintain the sense of urgency. We cannot allow ourselves to be lulled into a false sense of "business as usual", because these are extraordinary times, and such times call for extraordinary measures. The competitiveness check has to be incorporated into the wider debate on a competitiveness agenda. Businesses of all sizes across Europe face an existential threat as a result of the unprecedented energy crisis. They are also struggling with record shortages of skilled labour, the many and various requirements of the green and digital transitions, and now face the prospect of higher borrowing costs and lower consumer demand. The imminent threat of production losses, the permanent relocation of energy-intensive industries to



non-European countries and the closure of thousands of European companies cannot be ignored.

As the European Commission announced in its Autumn 2022 forecast, growth will slow significantly at the turn of the year. Given that the EU's share of the global economy has been declining for some time, these poor growth prospects will further exacerbate Europe's relative decline.

Against this backdrop, we must step up efforts to develop an ambitious and forward-looking agenda that takes due account of the needs and concerns of business, not only to mitigate the effects of the energy crisis in the short term, but above all to strengthen Europe's competitiveness and resilience, enhance its global influence and ultimately create a favourable environment for businesses to operate and thrive, creating jobs and boosting growth and prosperity. The current situation calls for a number of fundamental objectives:

1. Competitive access to the factors of production (energy, raw materials, labour, capital and data)
2. Realise the full potential of the Single Market and its freedoms, by creating a fully-fledged Digital Single Market.
3. Ensure that open and rules-based foreign trade is made another pillar of the EU economy.
4. The green and digital transition - which we strongly support - must be achieved in a cost-effective way that fosters entrepreneurship and innovation

The first six months of 2023 are the right time to push for the competitiveness agenda to be made a top priority. Sweden, taking the helm of the EU presidency, ranks in the top 10 of the world competitiveness index and is well placed to take on the very important work done by the Czech Presidency and to drive this agenda forward. In a world rife with uncertainty, there is one thing we can be sure of: without a prosperous and competitive Union, the social wellbeing of our society is at serious risk.

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A new check to enhance competitiveness

We all know that competitive businesses are crucial. They create value - for themselves and for society at large. Only competitive businesses can secure the green transition and preserve and create new high-quality jobs.

But what is the competitiveness of businesses and how can we enhance it?

No single definition exists, but it can be described as a company's ability to succeed in the market in a profitable way. The availability of production factors, such as a skilled workforce, energy, raw materials and capital is important here, as are the overall production costs, the demand and markets for the products, and the capacity to innovate and seize opportunities.

Unfortunately, the EU is becoming less and less competitive. Its share of the global economy has been falling for quite some time. Today, the global GDP is around 15%. In 2050, it will be less than 10%. The consequences will be felt.

We must also add the current looming global recession, Russia's aggressive war in Ukraine, disruptions in supply chains, a weakened order situation, rising inflation and high energy prices to this negative long-term perspective.

But this picture is not all gloom. Unique opportunities, driven by the green transition, exist. Europe's ability to innovate is vital for the green transition. The following three points to help the green transition are of particular importance:

Europe must win the global race for skills. It's as much about finding and retaining people with the right skills as it is about finding people who are prepared to work in places that are sometimes far away from urban areas. We need not only better skills alignment in education and better mobility within the EU, but also the ability for companies to recruit the right staff from all over the world.

Access to raw materials and energy. The aim is to make Europe less susceptible to geopolitical risks. For this, it is essential to create a competitive market within the EU for the exploration for and the extraction and refining of metals and minerals. Any legislation on this matter needs to strengthen the attractiveness for exploration while also balancing high environmental standards.

Permits must be easier and quicker to obtain. Today, permit procedures for industrial operations or for hiring staff from third countries take far too long and often end with an outcome which is to the detriment of the company in question, with negative effects far beyond.

The new competitiveness check should be seen as a tool to make sure that proposals support increased competitiveness, more jobs and sustainable growth. It should be a key part of balanced EU decision-making and should be applied in the context of any EU policy and law-making process.

It should consider the impact on businesses, employment, working conditions at various levels, including compliance costs and other direct effects, multiplier impacts on value chains, and their consequent macro-economic impacts. In this regard, attention should be paid to the competitive position of the wide variety of enterprises in terms of sector, size and business model, including social economy enterprises.

The competitiveness check would consist of two levels.

Technical level, or impact assessment level. This is where the European Commission currently assesses how proposed legislation affects other policy areas, in line with its current better regulation guidelines and toolbox. In this context, the assessment on how initiatives affect the competitiveness of European businesses and of the EU as a whole must be significantly reinforced and made mandatory.

Political level, or decision-making level. The European Commission must, when shaping new initiatives, pay due attention to competitiveness and give it the proper weight it deserves. This could be described as establishing a competitiveness-sensitive mindset.

While the main focus of the competitiveness check is on initiatives with primary objectives other than improved competitiveness, we also believe the time has come for preparing a specific competitiveness agenda, with the long-term goal of enhancing the EU's competitiveness.

At present, there is an unfortunate lack of more systematic thinking about competitiveness at European level. Businesses are suffocating under the weight of new legislation that primarily pursues objectives other than improving competitiveness, and which adds to the excessive cumulative burden imposed on businesses in recent years. This must change.

The Swedish Presidency will place a significant focus on competitiveness, and is likely to organise an informal summit on the issue.

Let us, as we say in my country, strike while the iron is hot.

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The Single Market Emergency Instrument

GOOD GOAL, WRONG FOCUS

The single market is one of the EU's greatest assets. Recent crises have demonstrated the vulnerability of the single market, although in the end it functioned rather well during the COVID-19 pandemic, for example. The European Commission presented the new Single Market Emergency Instrument (SMEI) to better address new obstacles to free movement or shortages of crisis-relevant goods and services that can affect the functioning of the single market in the event of possible future emergencies. The aim of the SMEI is good but the proposal itself can seriously damage European businesses. The focus of the SMEI should be to ensure the free movement of goods, services and people even in times of crisis.

A well-functioning single market is an efficient tool and an asset for preparedness and addressing crises. Unfortunately, some Member States imposed restrictions on intra-EU export of agricultural and medical products both during the COVID-19 crisis and during Russia's invasion of Ukraine. In addition, the rules for free movement of people in the EU were anything but clear and transparent in the beginning of the pandemic. Lessons must be drawn from these experiences, which had a significant negative impact on businesses, citizens and societies at large.

The European Commission presented the SMEI on 19 September 2022. It establishes a crisis management framework to identify different threats to the single market and ensure its smooth functioning by:

- Creating a crisis governance architecture for the single market: a new mechanism to monitor the single market, identify different levels of risk and coordinate an appropriate response comprising several stages;
- Proposing new actions to address threats to the single market;
- Allowing last-resort measures in an emergency.

The measures to avoid disproportional national barriers to the free movement of goods, services and people in the single market during crisis are very welcome. Greater information sharing, transparency and administrative cooperation are needed. The prohibited restriction on free movement needs to have clear consequences for Member States.

Lack of reliable, timely and widely accessible information about restrictions was a major problem in the beginning of the pandemic. Better and faster communication for people and for businesses needs to be ensured in future crises. A dedicated online information interface should be immediately operational.

In addition to tackling restrictions to free movement, the proposal tries to deal with broader supply chain challenges in times of all

serious crises. Only some products and services are excluded from this proposal – mainly because they are subject to other detailed EU-level measures.

Some of the requirements proposed are very interventionist on economic operations, such as mandatory requests to disclose commercially sensitive information, including production capacities, stocks and expected output, even in third country facilities. The Commission could require companies to alter their orders and European companies might be forced to overrule their contractual obligations. The efficacy of these exceptionally interventionist measures is very uncertain.

Because of the broad scope of the proposal, the definitions of "crisis", "strategically important areas" and "goods and services of strategic importance" are ambiguous. Therefore, the burdensome measures such as new reporting requirements can potentially apply to a wide range of products and services and thus affect a large number of companies. Additional and disproportionate requirements in times of crises are always the most difficult for SMEs.

The production of goods and services and their supply chains work best in a market-driven way and are part of regular contingency planning and preparedness by businesses and governments. During the pandemic, companies demonstrated their willingness and ability to coordinate the production and availability of critical products on a voluntary basis in response to the crisis.

Emergencies sometimes require exceptional action, but they must not jeopardise business freedoms or damage European businesses. Supply chain challenges require much more tailored measures due to their diversity, and careful considerations in each case rather than what is proposed in this single legislative proposal.

A well-functioning single market is vital for the EU's economy. That is why we need to take care of its core – the freedom of movement – even in times of crisis. The Single Market Emergency Instrument should also be better targeted and concentrate on promoting this very objective.

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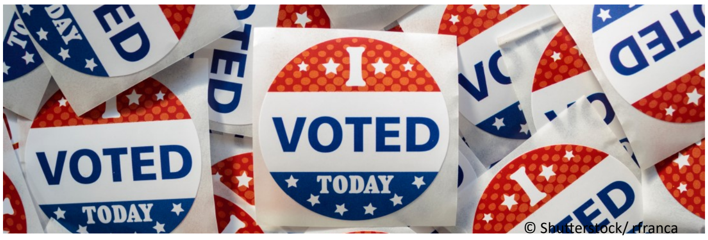
How strong is the transatlantic trade relationship after the US midterms?

Since the EU-US Summit in June 2021, the world's two leading economies have taken positive steps to put the transatlantic agenda on a forward-looking path. Now, stakeholders on both sides of the Atlantic are hoping for concrete results from the EU-US Trade and Technology Council (TTC) ministerial meeting in December.



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Are there good reasons to be optimistic about the EU-US trade partnership? Will President Biden's trade policy shift after the midterm elections? What are Europe's views on the latest developments in the US?

The fact is that, in the face of Russia's illegal and abhorrent aggression against Ukraine, the transatlantic partnership has become closer than it has been for many years. We have very successfully coordinated our sanctions against Russia. We have also recently found pragmatic solutions to some costly ongoing trade disputes and taken action to avoid new ones.

But now there are new dark clouds rising over our trade relations. Regrettably, with the recently adopted US Inflation Reduction Act (IRA) the US seems to be moving away from this cooperative and forward-looking approach. From a trade and investment perspective, the US IRA subsidies for green technology will discriminate against EU producers in favour of US-based producers by introducing local content and production requirements.

After the midterm elections, boosting the national economy will be the Biden administration's key policy. Both the Democrats and the Republicans want to speed up domestic growth by tackling inflation. Securing the country's own interests and strengthening domestic industry are the starting points of all the US's economic activity.

Trade policy is seen as internal, as an instrument of foreign and security policy, the purpose of which is to create jobs for Americans. In this regard, the Biden administration is listening carefully to the opinions of the US trade union movement. "American jobs first", as part of its work-centric trade policy, is the main driver of the administration's actions. Therefore, recent legislative packages like the IRA lay down significant domestic requirements and are against WTO regulations in many places.

In fact, in the US, there is still no discussion about the development of the WTO; rather, it is considered one of many forums in which to counter China's hegemonic aspirations. The US's new national security strategy does not mention the WTO even once.

The US considers stronger production chains to be a basic requirement in its competition against China. The term "nearshoring" is here to stay. Bottlenecks of critical minerals and the lack of microchips are perceived as real threats. The US hopes to be able to source these products from among its allies, like Japan, South Korea and Taiwan, because the technological battle between the US and China is intensifying over time and the country is focusing on export control legislation.

The TTC's work has now been overshadowed by concerns about new trade barriers from the IRA. So far, the US administration has not responded to their allies' concerns about the problems raised, other than by agreeing to establish an EU-US Task Force.

At the latest European stakeholder TTC dialogue at which I had honour of presenting the EESC, European Commission Executive Vice-President Valdis Dombrovskis expressed his hopes that the TTC will finally deliver some positive, concrete results to facilitate more transatlantic trade and investment. For example, a "Transatlantic Sustainable Trade Initiative" will be launched to cooperate on standards that can aid green transition in a mutually beneficial and supportive way. Furthermore, conformity assessment in specific sectors is moving forward, as is coordination on investment screening, export controls and economic coercion.

The outcome of the December TTC ministerial meeting is crucial for the future of the whole TTC process. If the EU and the US cannot find credible solutions for removing the discriminatory treatment of EU companies and products from the US IRA, the rest of the TCC's work may collapse. Furthermore, we should find permanent solutions to bilateral disputes, including trade in steel and aluminium and digital services.

Despite these challenges, transatlantic stakeholders are still engaged and hoping for positive results from the TTC. While the Democrats managed to avoid widespread defeat by the Republicans, the situation may be different in 2024 if the US economy enters a recession. President Biden's domestic policy may stall and he may need to look to foreign policy, including trade policy, to deliver results. Building a positive trade policy agenda with the US's European allies would be the easiest way to deliver results and to boost economic growth on both sides of the Atlantic.

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COP27: Combating climate change?

This year's COP27 had a lot of "firsts", but it clearly did not break any records. Stopping climate change will be an insurmountable challenge if we don't tackle it together. If nothing more, COP27 proved once again that it has the power to bring stakeholders together to focus on the biggest challenge of our generation.

With 45 000 registered participants, COP27 had more attendees than ever before. Among the participants were many heads of government, but notably absent were the leaders of China, India and Russia.

Another first was the inclusion of agriculture on the meeting agenda. This was desperately needed, given the worrying impacts of land and forest degradation on our food systems and the livelihoods of many, in particular small farmers. In addition, more than a third of global greenhouse gases are caused by food systems.

We at the EESC also arranged an event on "Food Systems Transformation to Support Climate Ambition: Opportunities for coherent and collaborative action", with input from African farmers and European food security organisations, among others. It proves that the COP is a great forum for interaction. For national, regional and local governments, it is an opportunity to showcase their initiatives and a communication platform for their representatives. For NGOs, platforms and various groups, activists and minorities, it is a chance to raise their profile. For companies, it is an opportunity to show and evaluate their commitments and present upcoming programmes.

The conference also coincided with the birth of the world's 8 billionth person, at least according to official statistics. The number alone makes it obvious that our traditional production and consumption methods need to change to accommodate the needs of this immense number of people.

A further EESC event on just transition was therefore also very topical. It made it clear that change and transformation are inevitable and that paths towards a new, sustainable and just form of society must be developed, using social dialogue and other forms of institutionalised discussions to ensure fair representation and participation for everyone. Mechanisms are also needed to actually empower people to actively participate and hold governments accountable for their promises.

The EESC delegation had its own "first" – for the first time, the EESC had agreed on a resolution for the conference. Among other things, the EESC resolution calls on the EU to further develop sectoral approaches for tailor-made measures or "climate clubs" that could be developed among certain countries.

COP27 did eventually end with some new agreements being made on climate measures. The EU's main negotiator, Commissioner Frans Timmermans, made headlines when he announced the EU's unexpected backing for "loss and damage" funding, one of the key demands that developing countries made this conference.

This was a fortunate turn of events, as for a while major disagreements, even backsliding on previously agreed commitments, especially on the 1.5 degree limit, seemed to prevail. Discussions on how to finance all the measures to combat climate change, on how CO_2 emissions are being verifiably reduced and on who pays whom for environmental "loss and damage" continued well into the second week, causing the conference to go into two days of overtime.

The phasing out or down of fossil fuels was another sticking point, with countries disagreeing on pretty much every aspect of the matter. Indeed, the final conclusions of the conference do not mention the topic at all, essentially foregoing desperately needed action at global level.

The overall approach of "kicking the can down the road", of backsliding, of reopening debates, of postponing pledges, of setting goals for decades away, deserves all the criticism levelled at it. Maybe a new format must be found to break this vicious circle.

Climate change has a bearing on almost every area of life and is having an impact on almost every country and community. From food safety to water scarcity, from energy generation to biodiversity, from desertification and deforestation to health and consumption patterns, from young people to indigenous communities and disabled people – everything is interconnected and interdependent. The universality of the challenge can make it seem a daunting and insurmountable task because action is required urgently in so many areas and in so many ways. But we must try anyway. So, negotiations and dialogue will have to continue, even if progress seems glacial. Perhaps the real-life impact will help countries to abandon their entrenched positions and the well-trodden negotiation paths at the next conference, taking place in Dubai in December 2023.

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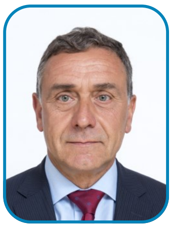

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Seminar with the participation of Commissioner Johansson:

EU ECONOMIC MIGRATION POLICIES: RESPONDING TO LABOUR MARKET AND SKILLS NEEDS

Employers see a growing role for economic migration as part of the EU's overall policy mix for providing the skills and labour that European companies need in order to be competitive, productive and innovative. The role of economic migration as part of the EU's policy response for enhancing the availability of a skilled workforce is set against the backdrop of a declining working age population; stagnating intra-EU mobility and skills mismatches and labour shortages across a wide range of sectors.

The seminar: "EU economic migration policies: responding to labour market and skills needs" explored how the EU's economic migration policy can help to promote a more demand-led approach to migration. It considered the different tools, policy approaches and initiatives at EU, national and sectoral level that shape the role that migration plays in helping to address employers' skills needs.

The event was co-organised by BusinessEurope and the EESC Employers' Group on 7 November 2022. The speakers and participants included Ylva Johansson, Commissioner for home affairs, and representatives from the European Commission, Cedefop, EU and national level social partners, national authorities, as well as EESC members.

At the event, EESC Employers' Group President Stefano Mallia emphasised the importance of economic migration: "In a situation where EU domestic workforce alone is not sufficient to keep the wheels of the European economy running, the EU and Member States must continue to facilitate the migration of skilled workers from non-EU countries, and Member States should ensure that their national systems – for instance labour market tests – are built in a manner that facilitates addressing labour and skills shortages effectively."

Markus Beyrer, CEO of BusinessEurope agreed: "We call on the European Commission to make progress towards an EU expression of interest type of economic migration system to help Europe become more attractive to available talents globally. We look forward to contributing to shaping with the Commission the full version of the proposed talent pool, to make sure it is well aligned with employers' needs across Europe."

The discussions showed that cooperation and coordination between the EU, Member States and stakeholders (especially employers) is needed to ensure that the EU's economic migration policy can help to promote a more demand-led approach to migration. The EU Talent Pool can play an important role in helping to match migrants from non-EU countries with available job vacancies. The new EU Migration Platform on improving the governance of labour migration, outlined in the Skills and Talent Package, should improve cooperation and coordination between all relevant stakeholders. Given the importance of having well-functioning national migration policy frameworks, the Commission should identify opportunities for mutual learning and peer review on issues such as ensuring regularly updated shortage occupation lists and well-functioning labour market tests.

Find the full summary of the event here.

New study

CRISIS COSTS FOR EUROPEAN SMES – HOW COVID-19 CHANGED THE PLAYING FIELD FOR EUROPEAN SMES

The advent of the COVID-19 pandemic has become the landmark for one of the greatest recessions ever experienced. As such, many Small and Medium Enterprises (SMEs) were exposed to financial and employment-related losses. However, not all industry sectors suffered same negative rates of income or job disruptions and there is still limited evidence on the matter. In addition, the invasion of Ukraine from Russia has become the trigger for a new wave of economic crisis for all business sectors and sizes.

Therefore, the objective of this study is to develop a systematic classification of COVID-19 (and international crisis)-related impacts on SMEs. It also includes an identification of "winning" or "losing" adaptation factors shaping crisis management. To achieve its finalities, the study develops an explanatory framework by generating six categories of "pandemic challenge areas" (Containment Measures, Workforce, Finance, Digitalisation, Public Assistance, European Diversity) and a targeted performance analysis for SMEs in 6 industry sectors (Manufacturing, Construction, I&R, Tourism, Agro-Food, Retail) over an EU-12 sample of countries. Based upon research evidence, the study ultimately proposes a list of policy recommendations for recovery and competitiveness of SMEs alongside four pillars (emergency support, regulation & governance, training & skills and innovation, sustainability & cohesion).

The study was prepared by Wise Angle Consulting S.L. and SHINE 2Europe LDA and was commissioned by the EESC on request of the EESC Employers' Group.

Europe's enterprises of tomorrow: Sustainable. Resilient. Digital.

REVIEW OF THE SME ASSEMBLY 2022

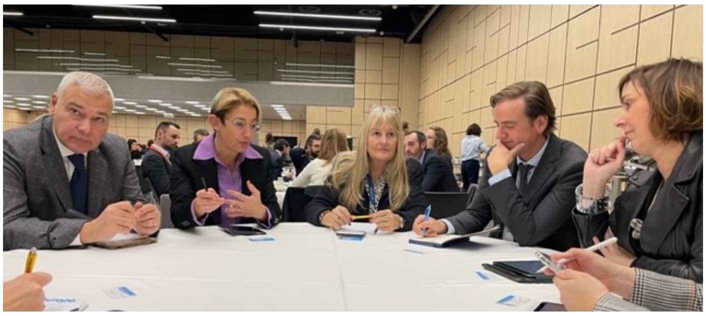
The annual SME Assembly is the go-to event for SMEs in Europe and those that support them. This year, it took place from 28 to 30 November in Prague. The event was organised by the European Commission together with the Czech presidency of the Council of the European Union.

Under the theme "Europe's enterprises of tomorrow: Sustainable. Resilient. Digital" this year's assembly was focused on inspiring optimism against a backdrop of global crises, be it the COVID-19 pandemic, Russia's invasion of Ukraine, rising costs, or labour shortages.

The SME Assembly opened with the European Commissioner for Internal Market, Industry, Entrepreneurship and SMEs Thierry Breton; he introduced the SME Relief Package, which is focused on three main areas: combating late payments, better regulation, and access to finance. The Minister for Industry and Trade of the Czech Republic, Jozef Sikela, highlighted the importance of working together on advancing the strategic resilience of the European economy, especially during challenging times, and the President of SMEunited, Petri Salminen, stressed the need to ensure the preservation of the basic fabric of our economy, our SMEs, the backbone of Europe.

A round table was held at which the report "[Making better regulation work better for SMEs](#)" that analyses the application of the SME Test was presented by our partner organisations BusinessEurope, Eurochambres and SMEunited. In order to assess, how successful the SME test was used, the analysis checked twenty-six impact assessments against the European Commission's better regulation guidelines. On the positive side, better regulation principles became more important in the working procedures of the EU over the last twenty years. However, on the negative side, the analysis came to the conclusion that the SME test guidelines are still not being applied consistently by all Commission services.

Another fact to be taken into consideration is that while the assembly focuses on European SMEs the fact remains that



micro-SMEs are not in any focus, these being 93% of SMEs. If we talk about innovation, digitalisation, and sustainability policies, it is easy to understand that a company with 4-6 workers will not be able to establish or follow many of the advice, plans, and activities that have been proposed in this and in many other conferences aimed at SMEs.

What do European micro-SMEs need to continue their activity and be competitive? Organic growth is hardly sustainable. We will have to think about growth through acquisitions and mergers to grow in size and capacity, thereby helping businesses to be more competitive in the globalised market, more attractive to employees by retaining talent, and to have more financial capacity to face future expansionary challenges and unforeseen contingencies.

For this reason, we need regulators to contemplate European legislation that can be extended to the Member States that favours, in a clear, simple and economically acceptable way, acquisitions and mergers of micro and small companies to strengthen our European economy and reinforce the productive fabric.

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