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Employers' Group

Newsletter

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Is President von der Leyen's State of the Union aligned with EESC demands?

As Europeans are bracing for a very tough winter, President von der Leyen's State of the Union can be seen as a signal that the EU is working towards preparing to face a growing number of challenges brought about by the never-ending pandemic and now by the war in Ukraine.

As a high-priority topic, the EESC called in its contribution to the 2023 European Commission work programme for "actions successfully mitigating the impact of increased energy prices and preventing energy poverty, including among EU households. Temporary and well-targeted measures for limiting the impact of the spike in energy prices are also necessary to help SMEs and energy-intensive industries to survive the crisis".

The Commission proposes three emergency measures to address high energy prices: the reduction in demand for electricity by at least 10%, a temporary EU revenue cap for the generation of electricity from inframarginal technologies (renewables, nuclear, and lignite) and a solidarity contribution from fossil fuel companies applicable in all Member States. It also announces its intention to create a European Hydrogen bank – considering it a game-changer for Europe as we need to move from a niche to a mass market.

These measures have both positive and negative aspects. On the positive, we would put the quick reaction and joint response that makes it possible to adopt and implement measures swiftly before the winter. On the negative side, there is a risk of disincentivising new investments in renewables capacity due to regulatory uncertainty. Also, redistributing the temporary revenue cap revenues collected by Member States can have limited effects, and some EU countries may receive little revenues, limiting their scope for action. Moreover, the full flexibility granted to Member States on redistributing the revenue creates the danger that this solidarity contribution collected on excess profits in 2022 will not address the high energy prices faced by companies across the EU.

The Commission has understood the risk of losing the backbone of the EU economy through the crisis: "We must remove the obstacles that still hold our small companies back" and proposes a SME Relief Package, which will include a proposal for a single set of tax rules for doing business in Europe and the revision of the Late Payment Directive in commercial transactions. Still, higher ambition in this topic can be expected.

Beyond energy, the EESC called to reduce economic dependencies and accelerate the development of a strategic and technological autonomy to critical raw materials (lithium, cobalt and nickel), which are necessary for the future of Europe's economy.

Mentioning the Chips Act as a success that needs to be replicated for raw materials, President von der Leyen announced that the EU will boost its financial participation in Important Projects of Common European Interest by setting up a new European Sovereignty Fund to "make sure that the future of the industry is made in Europe". This is surely welcome. Industrial alliances are crucial for the recovery and promoting European standards and key technologies, in particular in areas where the market alone cannot deliver or is being distorted.

But the blatant absence from President von der Leyen's speech of food security and the strategic autonomy of food systems must be called into question.

Still on the positive is the focus on Skills for 2023. We are convinced that the EU's recovery and long-term competitiveness should be enhanced in a way that increasingly relies on innovation and skills rather than on state aid or barriers to trade and cooperation. We called for mapping and analysis of the impacts the green transition will have on employment and for continuous development of ways of both increasing high-level talent and enhancing citizens' and workers' skills.

President von der Leyen seems in line with our requests and calls for more professional and higher education investments, announcing that 2023 will be the European year of skills.

Last but not least, the call for a European Convention to reform the EU and reject the Nordic countries opposition to treaty changes at a time of crisis.

Few initiatives proposed by the Conference on the Future of Europe have found a place in President von der Leyen's speech, but she is supporting the revision of Treaties. "The Citizens' Panels that were central to the Conference will now become a regular feature of our democratic life." However, there is no mention of the EESC as the guarantor and facilitator for such an exercise as wanted by the citizens. Maybe the time is ripe to keep promises in order to maintain trust in the EU project.

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Ageing Europe needs more successful business transfers

Compared to start-ups, successfully transferred businesses perform better in terms of survival, turnover, profit, innovativeness and employment. While there is good reason to support Europe's start-up entrepreneurs, business transfers need to be equally promoted on Europe's path to recovery and growth.

Change of ownership is a natural part of the lifecycle of a company and becomes more and more relevant as European entrepreneurs age. Approximately 450 000 firms with 2 million employees are transferred across Europe each year. However, it is estimated that every year, around 150 000 businesses risk not being transferred successfully, endangering around 600 000 jobs.

For instance, according to the Finnish Business Transfer Barometer 2021, more than half of Finnish entrepreneurs over the age of 55 are hoping to hand over their company by the end of 2024 and it is likely that the current turmoil and unpredictability in the business environment will speed up entrepreneurs' plans to hand over their business.

Increasing the number of successful business transfers has immediate benefits for the European economy. Well-functioning business transfer ecosystems and support mechanisms not only safeguard European jobs, but also promote economic and social cohesion in rural areas and ensure a variety of products and services as well as livelihoods in these areas. Business transfers can also facilitate and boost the green and digital transition of European MSMEs, as transfer of ownership is often a natural time to renew the company and adopt new ways of doing business. This highlights the need for stronger promotion of business transfers and support both from European and Member State level.

Still too much divergence between EU Member States in the business transfer landscape

Business transfers can be a complex process due to financial, managerial, regulatory, administrative or market challenges. At the same time, most business transfers occur in micro-businesses with limited resources, which also increases the chances of them failing.

Longstanding work has been carried out both at EU and Member State level as well as by business transfer promotion organisations to promote and support business transfers. Business transfers have been part of EU entrepreneurship policy since the early 1990s and the European Commission has been committed to this work through awareness-raising, policy recommendations and consistent efforts in research and data collection. In addition, the EU SME Strategy (2020) included a commitment to work on making business transfers easier and to support Member States in their efforts to establish a transfer-friendly business environment.

Despite this strategic work, a recent study by the Seinäjoki University of Applied Sciences shows that the level of attention, the current overall functionality of the business transfer ecosystem and the extent of promotion measures varies significantly between

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the Member States. The study also highlights the need for research-based policy development which requires increased focus on collection of business transfer data. Furthermore, systematic cooperation among key stakeholders is still needed in many Member States.

Increasing the number of successful business transfers in the EU

Even though the final responsibility of the business transfer lies always with the entrepreneur, there is more to be done at Member State and European level to increase the number of successful business transfers:

- More awareness-raising activities on business transfers, such a establishing a business transfer promotion week, should be developed.
- National business transfer stakeholder forums that represent both public and private stakeholders should be set up as they can ensure a long-term approach to business transfer promotion and ecosystem development.
- A regular review of the situation of business transfers in Europe, for instance in the form of an EU-wide business transfer barometer, would support evidence-based policy-making both at European and national level.
- Know-how on buying a firm and succession should be embedded to entrepreneurship education and incentives developed for the transfer of small firms to young entrepreneurs.
- Initiatives for increasing cross-border MSME transfers should be developed, for instance by establishing interlinkages between business transfer marketplaces across the EU.

A common goal for Europe should be that, one day, acquiring an existing business would be an equally attractive and recognised opportunity as being a start-up entrepreneur. This can only be done if the EU and Member States put business transfer promotion at the heart of their recovery, growth and entrepreneurship policies.

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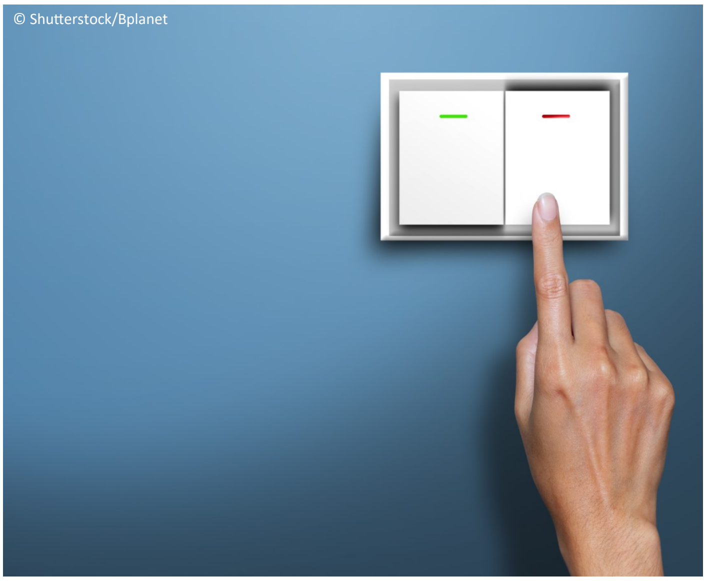
Gas and electricity reduction plans need to become widespread practice

The European Gas Demand Reduction Plan wants to tackle challenges in balancing the energy system this winter with foresight and coordination. To be successful, the principle of energy saving has to be thoroughly implemented among European consumers, businesses and countries.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Work is already under way to reduce Europe's gas consumption by 15% by next spring and we are witnessing a spontaneous market response. Principles and criteria for coordinated demand reduction are helping the EU to manage the energy crisis we are facing and to guarantee the provision of essential products and services to safeguard the economy, as well as EU supply chains and competitiveness. Moreover, public awareness of what the reduction measures will mean for the EU economy is crucial for a smoother transition to a green economy, as well as to avoid chaos in multiple industrial sectors suffering from shortages in electricity or gas distribution.

We cannot simply stop at replacing existing sources of energy and gas with other sources. There needs to be a change of mindset all around Europe to optimise our consumption. Throughout my travels in Europe, I have seen that seemingly trivial things that were implemented in a time when gas and energy were still very cheap still dominate our energy consumption, like gas boilers working around the clock despite soaring summer temperatures. Furthermore, when the energy and gas crisis ends, there are many examples of where this nonchalant habit of resource consumption needs to stop.

Gas consumption in some European countries has already decreased to a much greater degree than during the COVID-19 pandemic, including lockdowns. However, this does not mean that we can give up our efforts. European countries should move towards complete energy and resource independence. Europe is now facing countless challenges, including the need to:

- develop and implement a system for saving energy resources;
- draw up a balance sheet of existing resources in Europe, such as oil, gas, coal, biomass, renewables and nuclear power;
- develop a balance between potential resources – determine mining and harvesting costs, potential availability and the time needed for project implementation;
- outline a roadmap for the development of individual EU energy sources;
- set up a European transmission grid development programme, verify national high, medium and low-voltage grid development programmes;
- determine responsibilities for ensuring complete energy independence in individual European countries, including verifying the declared national energy saving plans;
- implement a financing system for Europe's energy independence programme;
- understand the "weak points" – individual EU Member States have vastly different needs in terms of gas demand;
- trust Member States with regard to their estimations; a declarative system consisting of obliging individual countries to save at a level appropriate to their consumption and potential is a better solution than imposing obligatory savings;
- implement a benefit system for Member States that meet their obligations in terms of saving gas and other energy resources.

A European Energy Platform to aggregate energy demand at regional level and facilitate joint purchasing of both gas and green hydrogen in the future is a good step forward in meeting the above-mentioned recommendations, as it will ensure the best use of available infrastructure.

Energy resources were the source of wars for decades. Increasing the share of domestically produced renewable energy, while phasing out imported fossil fuels, coordinating our common actions and ensuring solidarity between Member States can be our way of ensuring peace and freedom.

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Crypto assets:
THE DO'S AND DON'TS MOVING FORWARD

Authorities worldwide are taking steps to regulate the crypto assets sector, which has been labelled a "Wild West" by EU lawmakers.


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Cryptocurrencies, such as Bitcoin, surged in price in 2020 and 2021 but have fallen sharply this year, as investors worried about rising interest rates. Bitcoin, the biggest token, has slumped some 70% since its November record, dragging down the overall market, with a fall of more than USD 1.2 tn.

At the same time, Solana crypto wallets and start-up Nomad, which runs bridges between blockchains, have been targeted by hackers. These attacks may have reached 8 000 wallets, stealing bitcoin worth some USD 5.2 million.

Representatives of the European Parliament and EU Member States, trying to bring some order to this "Wild West", thrashed out a deal late on 30 June on the Markets in Crypto-Assets (MiCA) law. Under the ground-breaking new rules, cryptocurrency companies will need a licence and customer safeguards to issue and sell digital tokens in the European Union.

These efforts are welcome, as they provide regulatory certainty for the market, and are raising industry standards. A harmonised single set of rules for the entire EU will enable us to invest and to accelerate and scale our growth efforts across the entire bloc.

These rules are not sufficient, however, as we need fully-fledged international regulations, which will allow the market to be supervised in a coordinated manner across continents. International rules would provide guaranteed protection for small investors, who are always the most fragile link in this type of phenomenon.

I would also argue that leading international firms such as Block, Coinbase, Tesla and other technology companies that chose to invest in cryptocurrencies, should behave responsibly and avoid holding reserves in volatile assets. Diversification is a poor justification for heavy losses. The folly of stashing company cash in unstable digital assets should not be repeated.

There is also a societal element in this. With the lure of making easy money with cryptocurrencies, organisations have been created in order to scam young people. They assure them of big profits, with little effort.

The money that is promised, however, is not earned as a result of investment in cryptocurrencies, but rather by attracting new members and creating a sort of Ponzi scheme.

The interest shown by young people in financial investments is in principle positive, but we need to provide them with adequate training. In this sense, it has been proposed for some time that financial education should be compulsory in secondary and higher education. Knowing how to administer and manage one's own resources and knowing how and where to invest them, is an important skill for life.

This is perhaps even more advisable for young people today, who should start saving from an early age so that they can have more capital to supplement their future pensions. Combating the financial cheating of young people, therefore, is not only the task of the police. Financial education should be the first building block.

Business communities should welcome new developments in the market. They must also, however, be vigilant about upcoming potential risks that need to be carefully understood.

One of these is what a Central Bank Digital Currency (CBDC) - digital money issued by the ECB - would mean for the role of banks in our society, particularly as a source of lending to households and businesses.

Another is how a CBDC might affect the work of the central banks, and hence the ECB, in keeping the rate of inflation low and stable.

A further source of concern is how private or secure a CBDC would be. Any CBDC issued will protect the privacy of users in line with current EU data protection regulations.

Consumers, in particular those investing in these instruments, should understand that the value of a crypto asset is volatile. It can go up or down quickly in a very short space of time. They are extremely unpredictable. This is not ideal when making payments.

Some issuers of crypto assets peg them to a country's currency or a commodity such as gold. These are known as 'stablecoins'. This might not be enough, however.

To sum up, the regulatory approach to stable value crypto assets must go beyond the requirements of consumer protection, anti-money laundering and the prevention of terrorist financing and must address the need to ensure financial stability, because of the existing interconnections between the traditional financial system and the universe of crypto assets with stable value.

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The REPowerEU plan
A WAY OUT OF THE EU'S ENERGY DEPENDENCY?

The EU's energy policy is stuck between a rock and a hard place. While importing Russian gas and oil means fuelling Russia's inexcusable war in Ukraine, cutting off Europe's energy from Russia altogether would create an even worse energy situation for European society and businesses. The REPowerEU plan tries to find a way out of the EU's dependency on Russian oil and gas by improving energy efficiency, finding new sources of supply including through a common voluntary EU platform and increasing the share of renewables in the EU energy mix. The plan also addresses the vast financing needs, soliciting existing funds and looking for private investment.


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To address the immediate and urgent energy needs, the plan agrees to a temporary flexibility on the sustainability of energy sources. For example, it points out that during a transition period, flexibility may be necessary when it comes to scaling down fossil fuels in order to manage the current urgent supply crisis, including through the use of coal and the prolonged use of nuclear plants. Yet it does not specify the duration of this flexibility and on the long-term use of nuclear energy, and stops at stating that the latter is a national competence.

The opinion on REPowerEU (TEN/778) agrees that, only with a sufficient amount of investment can the EU increase the share of renewables in its energy mix to a necessary level. This also means that the EU has to promote the production of renewable energy equipment, including battery storages, in Europe.

Likewise, it is pointed out that the share of public investment in R&D of decarbonisation technologies is lower in the EU than in any other major economy. If the EU wants to be a green frontrunner, major investments need to be done now.

Regarding diversification of energy supplies the opinion calls attention to the fact that new energy partnerships can be implemented right away and calls on the Commission to develop a geopolitical energy import strategy bearing in mind both the energy and climate urgencies at hand and the political structure and stability of prospective partnership countries.

Time is of the essence, hence the Europe Commission has asked for an early adoption of the proposals and, where possible, early implementation before formal adoption. The higher ambitions regarding energy efficiency and renewables should be included as extensively as possible in pending Fit for 55 proposals.

While the Fit for 55 package is set to be adopted in autumn 2022, the REPowerEU plan is unlikely to be adopted before spring 2023. This basically leaves a void for the winter of 2022-2023, when energy supply problems will become urgent. Meanwhile, there have been a number of other initiatives, such as a collective gas use reduction in the winter of 2022-2023 of 15% of the average use over the last five years, a gas storage obligation and an energy saving campaign started by the Commission.

On 9 September the Council of Ministers discussed long- and short-term policy options regarding the energy supply situation and energy pricing urgencies. There was agreement on the need for immediate urgent measures to maintain the internal energy market, alleviate pressure on consumers and industry and reduce gas demand, while not losing sight of the Green Deal objectives.

The Commission was asked to propose revenue and price-capping measures by mid-September to preserve both competitiveness and decarbonisation. Furthermore, the Commission should also suggest incentives to coordinated electricity demand reduction to relieve market pressure and to address energy scarcity and high prices. Work on a long-term market structure review should continue. On 14 September the Commission presented a proposal for a Council Regulation foreseeing emergency interventions addressing the issues raised by the Council and limited in time with an ultimate limit for part of the measures of one year from acceptance.

The plan's ability to play a significant role in facing current urgent needs will depend on when the legal proposals are adopted, and the extent to which non-legal suggestions, such as flexibility regarding the use of fossil fuels to resolve urgent supply problems, will be followed. But the most significant building blocks to deal with the current supply and pricing urgencies will probably be in the recent Proposal for a Council Regulation on an emergency intervention to address high energy prices, likely to be discussed at an Energy Council of Ministers foreseen for the end of September. We will in any case continue to make our arguments on what is important in the EU's energy policy heard.

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MSMEs are an essential part of the solution to achieving climate sustainability

Tackling climate change is the greatest challenge that mankind faces today. It is the task of our generation to find solutions that achieve swift, effective and profitable solutions to help our economy and society on their path towards climate neutrality, circularity and overall sustainability.


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The war in Ukraine has further highlighted the need to reduce our fossil-fuel dependency on Russia even more quickly. Replacing coal, oil and gas in industrial processes will help cut this dependency, as will transitioning to cleaner energy sources, strengthening industrial competitiveness and supporting international technology leadership.

Disruptive or radical innovations tend to be pioneered by smaller firms, or new entrants to a market, which often exploit technological or market opportunities that have been neglected by more established firms. As they account for 99.8% of all non-financial companies, MSMEs can lead incremental changes and serve as catalysts for radical eco-innovation. Green innovation can open up access to new and emerging markets, increase profitability along the value chain, help firms keep on top of standards and regulation, help attract investment, and increase productivity and technical capacity.

… provided that the right conditions are created and maintained

Climate- and environment-related issues are also an essential part of the competitiveness, profitability and overall economic performance of businesses. The transition towards sustainability is driven by many factors, such as consumer demand, efficiency gains and cost reductions, reputation and external pressure, policy and regulation. To make the green transition a success, companies need to be supported in facing these changing contexts and in using the transition as an opportunity.

Nowadays, policy and regulation play an increasing role, as many initiatives in the field of corporate social responsibility (CSR), responsible business conduct (RBC) and environmental and social governance (ESG) are gaining traction. At the same time, it is important to prevent MSMEs from being unfairly exposed to indirect effects. Rather than burdening them with the same reporting obligations as large companies, MSMEs should be offered simplified voluntary tools and measures that allow them comfortably to demonstrate their commitment to sustainability, as well as positive stimuli and incentives – such as green prizes and certification for MSMEs to tap into green markets through innovative products and services.

Efficiency gains and cost reductions are primary motivators for resource efficiency actions for MSMEs. These cost reductions may be achieved in various areas, including making processes more efficient through smart product design that reduces the inputs required or by reducing waste and reusing already-generated waste. High energy prices are a strong driver of eco-innovation, but they have a smaller effect on MSMEs than on larger businesses.

One company's waste might be another's resource. Industrial symbiosis can help companies speed up their green transition, by limiting resource use, by improving the exchange of by-products and by enabling infrastructure sharing and joint purchasing. These forms of cooperation can for example be boosted by strengthening trust and transparency between potential partners or by facilitating the exchange of good practices.

Consumer demand is another important driver of the sustainable transition, as two-thirds of consumers are willing to pay more for green products. Further motivation comes from reputation and external pressure – from employees, investors, legislators, environmental groups, suppliers, financial institutions, customers in the supply chain and the local communities in which MSMEs operate.

However, the transition to climate neutrality can only work if MSMEs receive the right financial and advisory support. Without easier access to financial resources, public subsidies and financial support for technical assistance MSMEs will not have the means to shift their business towards a greener approach.

The challenge is considerable and time is running out. What is needed is a European business environment that can provide MSMEs with opportunities, rather than burdens and that allows MSMEs to play their essential role in climate sustainability.

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Croatia joins the eurozone

As of 1 January 2023, Croatia will become part of the eurozone. Joining the eurozone family will offer many opportunities for Croatian businesses and people.

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Switching to the euro will reduce the cost of doing business, facilitate trade and give entrepreneurs better and more favourable access to loans. In a nutshell, the economic benefits from the introduction of the euro are significantly higher than the conversion costs for all sectors.

During the drafting of the Act, the Croatian Chamber of Trades and Crafts was actively involved in the work of the coordinating committees, gathering information from the field related to the cost of adjustment and assisting companies as they prepared for the transition. Many proposals, intended to reduce the burden on craftworkers, were accepted and will make life easier for businesses. For instance, exceptions have been obtained for dual price displays for taxi, machines and self-service devices, pre-frontloading for micro enterprise operators has been simplified and payees have the option of repaying the kuna during the period of dual circulation. While these measures might sound small, they will have a big impact, especially on SMEs.

Since the Croatian kuna is essentially tied to the euro, with a very narrow range of exchange rate fluctuations, introducing the euro will not significantly alter exchange rate factors affecting the trade in and volume of exports. The growth rate for exports is not expected to increase, but certain positive effects on the business of export-oriented enterprises and economic benefits from tourism will certainly be visible. In fact, indirect effects will be greater than direct effects.

Conversion costs will be reduced. The currency risk for most international trade and companies' sources of financing, typically linked to the euro, will disappear. This will certainly facilitate financial planning and reduce companies' operating costs.

The disappearance of currency risk should reduce the interest rate borrowing costs for Croatian companies. Reduced costs of financing will make Croatian exporters more competitive. Financial integration with eurozone institutions and financial markets will be deepened, and it is likely that the costs of both credit and non-credit financing and export insurance instruments will be somewhat lower.

The switch to the euro brings a number of benefits for individuals, as well as for companies and the state. However, much of Croatia's population still seems not to be ready for this transition, due to personal economic reasons, because they are concerned about being able to cope with the new banknotes and prices, or due to a purely irrational opposition to anything new and different. In order to bolster confidence, a voluntary Code of Ethics for consumers has been introduced. This Code of Ethics, which is intended for all business entities operating in a direct relationship with consumers, guarantees that there will be no price hikes when switching to the euro.

Of course, at a time of skyrocketing energy prices, some increases in the price of goods and services are inevitable. However today, people can trust that this inflation is linked to energy prices and not only from the adoption of the euro.

The current rating of the euro does not support Croatia, but ultimately this would have been reflected on the kuna anyway. Being part of the eurozone family means sticking together in good times and bad, and we will have to face this crisis together.

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