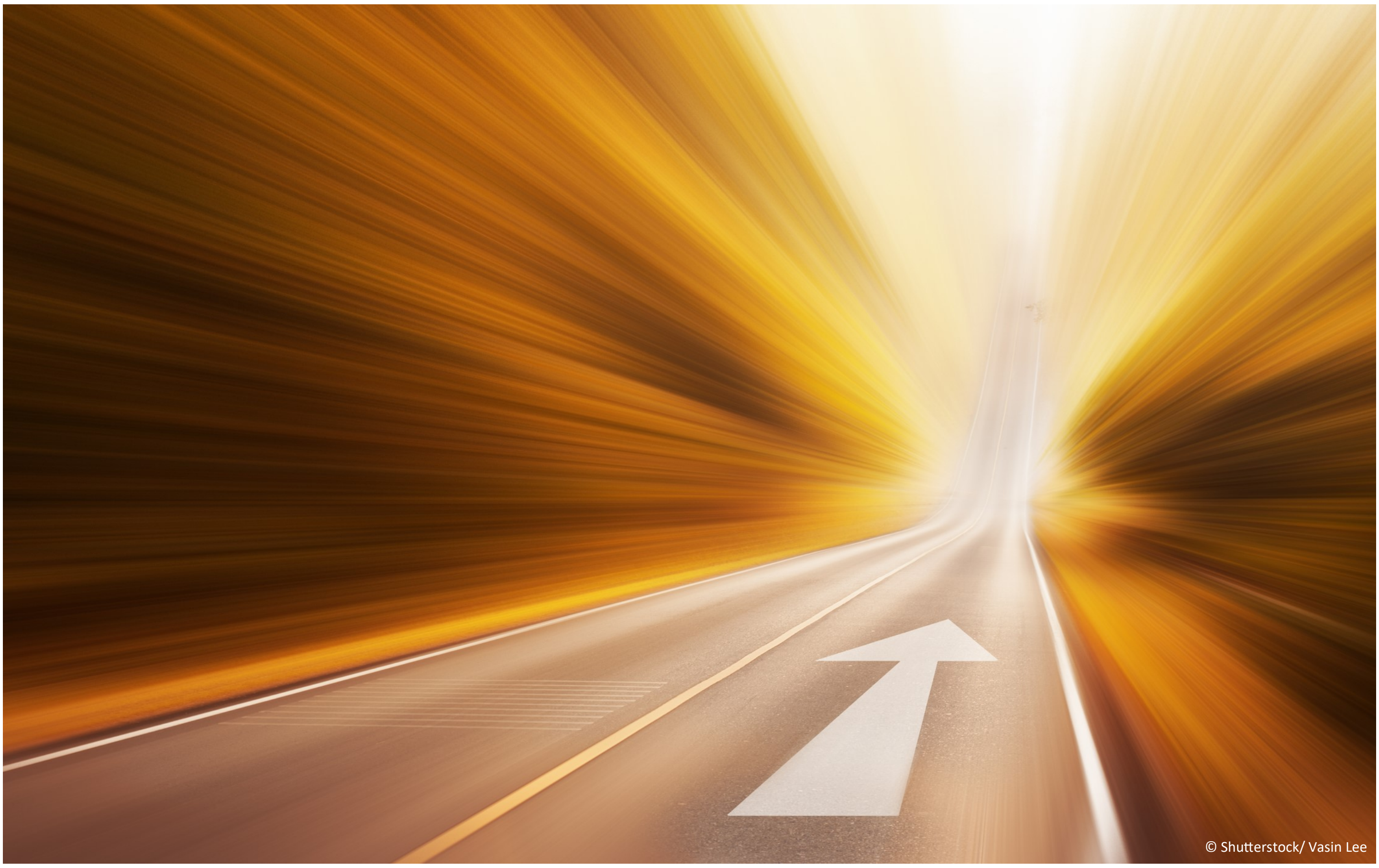
European Economic and Social Committee
Employers' Group

Newsletter

February 2023

Driving prosperity for all:

A COMPETITIVENESS AGENDA FOR THE EU



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The EU and its businesses are in the midst of deep and acute crises and profound long-term transformation. Enterprises – large and small – are struggling with high energy prices, labour and skills shortages, the manifold requirements of the green and digital transitions, and the overall costs and barriers to doing business. This is clearly reflected in the ongoing collapse in business confidence, which brings with it the risk of a contraction and relocation of EU businesses.

The Russian invasion of Ukraine has ushered in a new economic and geopolitical environment. Consequently, the EU more than its global competitors, is suffering from extremely high energy prices and inflation. At the same time, other global economies subsidise and favour their own industries. These are factors that create the risk of the EU's deindustrialisation. To successfully cope with these problems and other challenges of the present and future, the competitiveness and resilience of the EU economy must be strengthened.

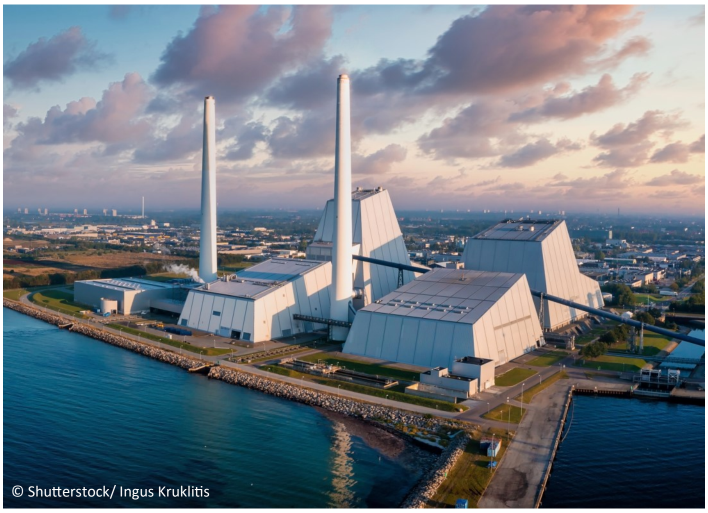
In this context, the Employers' Group has decided to update its priorities for 2023 and call for a Competitiveness Agenda.

Since the end of the Lisbon Agenda in 2010, competitiveness has fallen off the EU map. Nobody argues that that strategy didn't have its flaws, but it also had its goal set in stone: to make the EU "the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion".

Most of the goals were not achieved because we failed to address structural problems which continue to dog us to this very day. What we need is the political will to finally put competitiveness first, because competitiveness matters.

Our priories make a number of recommendations to transform our industries and economies. Based on two pillars, creating common good and focusing on the essentials, the Employers' Group call for three areas of action:

First, access to basic production resources at competitive prices. This applies equally to energy, raw materials, labour, capital, and data. That means improving conditions for energy and raw materials' domestic production and for building resilient ecosystems and diversifying foreign suppliers, but also ensuring the availability of an adequate skilled workforce by facilitating mobility and economic migration, as well as setting up effective life-long learning systems anticipating change.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Second, we must enhance open markets with equal rules. Building on the benefits and progress made over the past 30 years of the Single Market, the EU must persistently and decisively identify and systematically remove market barriers, while avoiding the creation of new ones. Member States must adhere to common rules and avoid gold-plating and new national regulations that conflict with EU rules, helping avoid market fragmentation and loss of economies of scale.

Third, we must ensure business-friendly regulation and taxation. Businesses need a policy framework that fosters entrepreneurship and encourages enterprises to innovate, invest and trade. This requirement applies equally to regulation, taxation, and allocation of public funding. Embedding a "competitiveness check", which we employers have called for over the past two years, is part of the solution. But accelerating permit procedures would also prevent relocation and increase competitiveness more quickly.

The Commission proposal for a Green Industrial Plan provides a path forward which, however, still requires some work. As European employers, we are convinced that, with the right political will and vision, we will succeed in truly building a competitive Europe that will drive prosperity for all.

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Ukraine: one year later

The invasion of Ukraine has profoundly changed the world, and uncertainty reigns. With two certainties: Russia has failed to reach its main objective, while a stronger Europe could make a decisive contribution for peace.

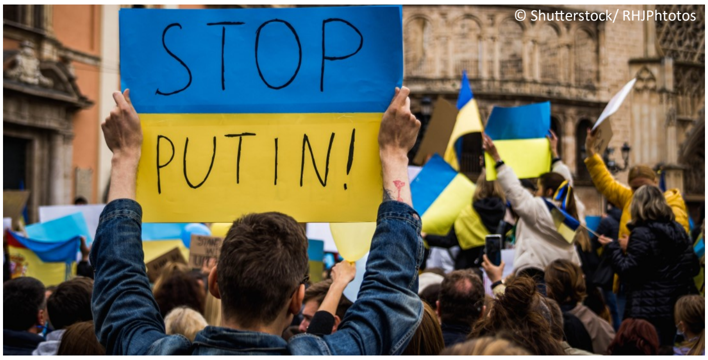
On 24 February 2022, when the war started, in Europe we were immediately conscious of the magnitude of the threat: an autocratic country attacking a democratic neighbour is not only a crime of aggression in itself, it is also a challenge to our values and to our determination to counter this kind of threats. The importance of a strong Union, which can do quick and resolute decision-making, became more evident than ever before. And the European Union delivered.

In front of the tragedy endured by the Ukrainian people, the EU immediately decided to help Ukrainian resistance by mobilising funds from the European Peace Facility, it welcomed refugees by resorting for the first time to the Temporary Protection Directive, took initiatives to reduce our dependency on Russian fossil fuels, granted Ukraine the EU candidate status, started working on the financial relief and reconstruction of the country, and approved various sanction packages to reduce the Russian economy's contribution to the war.

The economic, financial and technological sanctions now imposed on Russia are unprecedentedly harsh, and our example has been followed by many other countries in the world, not just the USA, the UK and other allies: for example, the traditionally neutral Switzerland fully aligned with EU sanctions. In the meantime, within the United Nations, 141 countries out of 193 condemned the aggression, with 35 abstentions (among which China and India) and only 5 votes against (obviously including Russia and Belarus). The overwhelming majority of the countries in the world opposes the invasion of Ukraine.

Of course, all this does not mean that we are not encountering difficulties. The war has caused an energy price crisis and a high inflation rate that are having a direct impact on our citizens and are putting businesses under strong pressure. The EU and its member states must adopt measures to alleviate these effects on the population, thus making sure that the support for the Ukrainian cause is not diminished and our internal stability is preserved despite hard times.

At the same time, the EU must work harder to create more unity and solidarity, and this inevitably means stronger federal structures: we should come out of the current geopolitical crisis as a significant geopolitical player, with its strategic autonomy and the ability to better influence decision-making at global level.



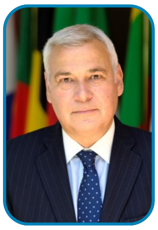
We should not forget that the Kremlin has a powerful propaganda machine constantly trying to interfere in our democratic processes, to polarise our societies and to undermine the reputation of the EU and the West in the rest of the world: while the Russian army was shelling grain silos in Ukraine, Russian disinformation channels were telling people in the Global South that they were risking starvation because of Western sanctions. The fight against disinformation and foreign interference has to rank high among our preoccupations, as modern war is also made by this kind of hybrid threats.

The war has changed the way we imagine the international order, with a new confrontation between the US and its allies on the one hand and Russia on the other hand, as well as a return to non-alignment in the Global South: we should not forget the role of India, the rising giant which has just overtaken China as the world's most populous nation this year.

The European Union makes for a shrinking proportion of the world's population and GDP, but we are still the first trading block in the world and one of the few regions in the planet where values such as human rights, the rule of state, freedom of thought and the rights of minorities are granted.

It is up to us to leverage on these strengths, consolidating consensus for the European project in our population and reinforcing our reputation and attractiveness in the rest of the world. The EU has just launched the idea of a Peace formula summit with the goal to make the peace agreement proposed by Ukraine ready for implementation, while ensuring the widest international participation, starting from the United Nations.

We must continue our work in solidarity with Ukraine and need to work harder to explain to the whole world the differences between our values and Russian aggression and revisionism. I hope this year will not pass in vain.



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Skills are key for a successful twin transition

2023 is the European Year of Skills, and it couldn't be more relevant. According to the European Investment Bank, 77% of firms report the limited availability of skills to be an impediment to investment. What can Europe do to provide the European economy with the right skills for future labour market developments?


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There is no doubt that skills are key for successful green and digital transitions, however the list of challenges is long. If we do not manage to implement modern, comprehensive skill strategies at national and sectoral level, the skills mismatch we are already experiencing today will be exponentially greater in the future.

Member States need to include skill development in their national growth plans. They must be constantly up to date with industrial research and economic development to make sure their skills plans match up with the innovations happening in the technological, digital and green fields. Skills anticipation has an enormous role to play in this regard.

In order to keep up with labour market dynamics, we need to create the opportunities for people to learn and further develop their skills. To make this work, sufficient investments need to be allocated to financing education and training needs. Only then will we be able to keep up with the growing demands for digital, green and cognitive abilities, but also those related to soft skills. The key word here is "meta-skills", which means being able to adapt to fast-changing working environments, and rapidly acquiring new skills.

In fact, one of the most important challenges in the future will be ensuring equal access for all age groups to lifelong learning. Individuals must keep up to date with new technologies in order to guarantee their employability at all stages of life.

Similar to the digital transition, the green transition will also have a vast impact on the labour market. The cultural development that the green transition will entail will also require skills to be adapted, as mentioned before. In short, to manage the green transition well, we need workplaces with the right environment, and people with the right skills.

For SMEs, these challenges are disproportionately bigger, as they do not have the same resources to invest in staff training as other larger companies, and might lack expertise to attract talent. This is why SMEs need more financing opportunities when it comes to skills. Furthermore, it would be beneficial to encourage networking, cost-sharing for skills research, and cooperation in skills development.

The context that local communities offer to SMEs is equally important. Regional employment systems, local administration and access to new technologies, innovation and services of centres of vocational excellence can vastly affect how well SMEs can adapt to changing labour market needs.

Social partners also play an important role in providing support so that SMEs can access skill development mechanisms. For example, their expertise is needed for tailoring dual training schemes and work-based learning to SME needs.

The skills we have will determine Europe's future. We have to get it right for all of us – for our businesses and for our workers of all ages.

Read more in the EESC opinion SOC/722 "Supporting labour market developments: how to maintain employability, boost productivity and develop skills, especially in SMEs" (to be discussed at EESC plenary of February 2023) : https://europa.eu/!3hT6BN

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The multiannual financial framework

THE STAKES ARE HIGH FOR THE UPCOMING MIDTERM REVIEW

Growth happens where the money goes. The multiannual financial framework (MFF) sets the programme for policies, procedures and regulations in the coming years. It ensures that spending remains both predictable and stays within agreed limits, allowing the EU to plan over the medium term rather than from year to year, but also defines flexibility mechanisms for exceptional circumstances. All reason enough to closely monitor what will be impacted by this year's MFF mid-term review.

To start with, a short background: The current MFF, also called the financial perspective, covers the period from 2021-2027. It is laid down by the Commission and unanimously adopted by the Council with the consent of the European Parliament. It is both an expression of the EU's political priorities and a budgetary planning tool. There have been six multiannual financial frameworks (MFFs) to date, including 2021-27.

The current MFF entails a comprehensive financial package of EUR 1.8 trillion (in 2018 prices) to tackle the socio-economic consequences of the COVID-19 pandemic and address the EU's long-term priorities. Included in these EUR 1.8 trillion are an extraordinary EUR 750 billion that were added through the Next Generation EU (NGEU) recovery instrument.

Despite this sounding like an enormous amount of money, it still only represents 1% of wealth produced by the 27 EU Member States and equals less than 2.5% of public spending in the US. If we look across the Atlantic, the US federal budget represents in comparison no less than 21% of US GDP.

European budget negotiations for the year 2020 were both historic and ambivalent. Historic, because the massive recovery fund paves the way for unprecedented borrowing at European level. Ambivalent, because the MFF raises new concerns about the governance of the Recovery and Resilience Facility, the ability to ensure that spending will be in line with policy objectives of the Union as a whole and will bring significant European added value, and the resolution of long-standing budgetary debates such as those regarding own resources.

In its 2023 work programme, the Commission announced it would conduct a review in the second quarter of 2023, to "re-assess if the current EU budget continues to provide the means for common responses to common challenges".

On 14 December 2022, the European Parliament adopted a resolution, in an own-initiative report, that expresses concerns about cohesion policy, migration, and border management as well as external action, not to mention new priorities in defence cooperation. It calls for an urgent and ambitious revision of the MFF to increase the EU budget and make it more flexible and ensure greater transparency and democratic accountability.

Under the MFF, EU funding will be geared towards new and reinforced priorities across the EU's policy areas, including the green and digital transitions. Cohesion policy and the common agricultural policy will continue to receive significant funding and undergo modernisation to ensure that they best contribute to Europe's economic recovery and the EU's green and digital objectives.

The challenges and expectations are high. If Next Generation EU fails to guide European recovery towards a new path of economic development, the historic breakthrough of 2020 will bring frustration, confusion and disbelief. But, if the mechanisms in place prove to manage a sustainable recovery that brings attractive levels of competitiveness to Europe, that helps to reinforce European values, the European Union will not only have proved its resilience and the relevance of coordinated public action but will also have paved the way for far-reaching institutional and political changes. To emerge stronger from today's challenges we need all hands on deck: governments, businesses, stakeholders, civil society and citizens. The EESC should play an active role in this important topic that will shape the economic and political landscape of the EU.

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Money alone will not solve the EU's competitiveness challenges

Money will not solve the EU's underlying competitiveness problems. These relate to the labour market, availability of skilled labour, financial market bottlenecks and business red tape

Recently the European Commission unveiled the first version of the EU's response to the US climate package to support industry (IRA). Last year, the US support package got the EU hot under the collar. The Union is concerned about its discriminatory impact on European industry, especially the renewable energy, battery and automotive sectors. Major industrialised countries such as France have called for a common European equivalent. While challenges remain, the package can, at its best, offer growth opportunities to Finnish SMEs, especially in the value chains of clean technology and carbon neutral industries.

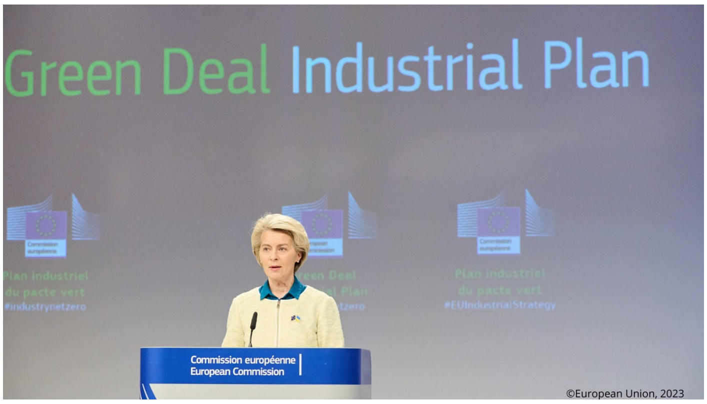
The EU package offers something for everyone

The EU's Green Deal Industrial Plan focuses on four pillars: a predictable regulatory environment, access to funding, enhanced skills and strong international trade partnerships.

In recent months, the Commission has tried to tread a fine line between the competing demands of the Member States. Large industrialised countries are calling for EU State aid rules to be relaxed so that they can offer stronger support to their industries in the face of global competition, including when it comes to mastery of green technology. As a consolation prize, a joint fund would be put together to support the industries of smaller countries, whose economies are not suited to large-scale business and industry subsidies.

Smaller EU countries such as Finland have opposed large-scale State aid as it is a barrier to fair competition in the EU's single market. Several countries have proposed making the EU more competitive via other means, such as cutting red tape for businesses and improving how the single market works.

That is why the plan published by the Commission on Wednesday would appear to offer something for everyone. It includes a proposal for a new temporary State aid framework, proposals to facilitate investment by reducing the administrative burden, and redirecting EU funding towards investments in green technologies and clean energy. For the time being, however, the Commission is sidestepping the issue of the common EU fund currently in the pipeline, an issue that divides the Member States. The Commission will continue to make preparations for the fund.



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Need for streamlined regulation for businesses and industry

The Commission is also putting forward measures to simplify the business environment for manufacturing. Simplified and fast-track permit procedures are likely to hasten clean energy investment in the EU. In addition, the development of common standards can support the uptake of clean technologies in the single market.

Making it easier to get a permit is the right way to make European businesses more competitive. But there is also a need to streamline permit and administrative procedures beyond clean energy industrial investment. Businesses and entrepreneurs, regardless of their sector of activity, have to meet a number of permitting and administrative requirements, which chips away at the resources they have to develop products and services.

Growing levels of State aid pose a challenge to the EU single market

The Commission is proposing a new framework for EU State aid rules, which have already been significantly relaxed in previous crises. The new framework would include, among other things, simpler calculation models and faster procedures. In particular, these would be geared towards the uptake of renewable energy and support measures for low-carbon industrial processes. Member States could continue to direct more investment support to developing carbon-neutral technologies.

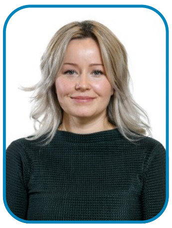
Rolling out large-scale support for EU industry and businesses through national subsidies is a challenge and risks upsetting the level playing field among European businesses operating in different countries. In recent years, State aid in the EU has been split mainly among two big EU countries, France and Germany.

Before setting up a new fund, existing EU funds should be used

As expected, the Commission has yet to come up with a proposal to strengthen common EU funding. It said that it would focus on channelling existing EU funds towards green investments. These funds are accessible via the EU Recovery Fund and the Innovation Fund.

This is the line to take before setting up a new common fund. EU Member States will discuss the Commission's proposals at the EU summit in March. The discussions will be led by the Swedish Presidency of the EU, which is seeking to make EU competitiveness a political priority this spring.

Article was first published by Federation of Finnish enterprises: https://www.yrittajat.fi/blogit/



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Skilled women drive Europe's economy

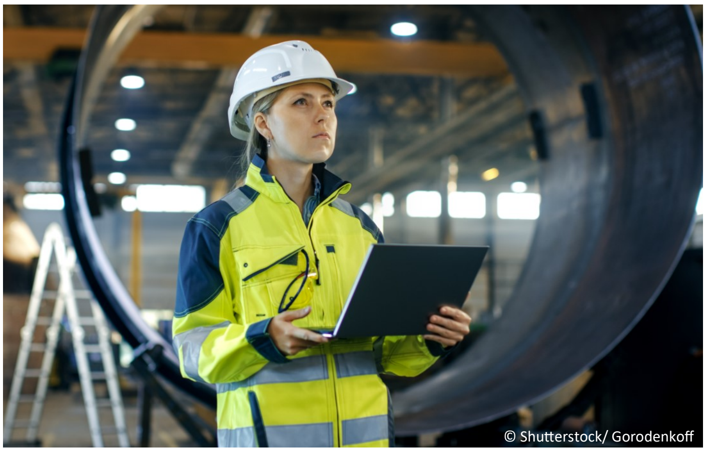
A competitive Europe needs to be a gender equal Europe, as the untapped potential that lies in Europe's female workforce is immense. In order to boost Europe's GDP growth, enhance the employment level and productivity and respond to challenges related to the ageing population, the European Year of Skills has to place special focus on equipping women with the right skills.

The numbers are impressive. A recent study by the European Institute for Gender Equality (EIGE) has proven that gender equality policies have a much stronger impact on GDP than labour market and education policies. According to the study, improving gender equality in the EU by 2050 would increase the EU GDP per capita between by 6.1 to 9.6%, which equals €1.95 to €3.15 trillion.

Especially in the fields of Science, Technology, Engineering and Mathematics (STEM) there is currently a low proportion of female students, despite excellent career opportunities. The lack of women in STEM is also due to stereotyping in education, gender differences in educational and training choices and a lack of female role models, EIGE states.

However, closing the gender gap in STEM would contribute to an increase in EU GDP per capita by 2.2 to 3.0% in 2050, according to EIGE. In monetary terms, closing the STEM gap leads to an improvement in GDP by €610 - €820 billion in 2050, total EU employment would rise by 850,000 to 1,200,000 by 2050. The new jobs filled by women would furthermore be highly productive, as EIGE states that women with a background in STEM often work in high-added-value positions.

A main factor holding back girls from going into STEM or other "untypical" female professions is that in education sexist stereotypes are still passed on to students. School staff often reproduce these gender stereotypes, as sufficient training on gender-related topics is missing and as educational support material is outdated, confirms EIGE.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However, a positive trend on tackling gender stereotypes in school education can be seen in many EU countries. To give two examples: Gender roles, stereotypes and equality are discussed in social studies or history subjects in the Danish Folkeskole and in Croatia, the standards for textbooks prescribe that "textbooks must prepare both sexes for effective and equal participation in all areas of life" and "promote gender equality".

While Europe seems to be more and more aware of the problems caused by gender inequality, it is still part of our all reality. Europe needs to empower its women and equip them with the right skills – not only during the European Year of Skills and not only on Women's Day but always. Everyone, no matter if male or female, will profit from gender equality, and so will our economy.

All data and findings on gender equality in this article are from the EIGE studies: "Economic benefits of Gender Equality in the European Union" and "Gender in Education and Training".

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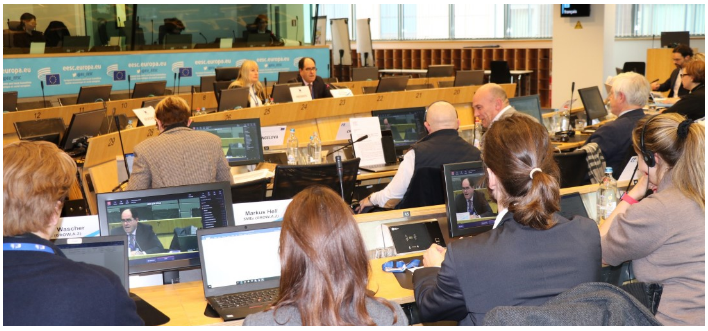
Discussion on SME Relief Package and Late Payment Directive

IT'S TIME TO IMPLEMENT

SME stakeholders sat up and took notice when Commission President von der Leyen announced in last year's State of the Union speech the introduction of the "SME Relief Package" as well as the revision of the Late Payment Directive. With both Commission proposals expected for summer 2023, the EESC MSME, Crafts and Family Business Category met with Bonifacio García Porras, Head of DG GROW's SME unit to discuss how to enhance Europe's business landscape for SMEs.



President von der Leyen introduced the "SME Relief Package" with the following words: "We must remove the obstacles that still hold our small companies back. They must be at the centre of this transformation – because they are the backbone of Europe's long history of industrial prowess." This is a big promise for SMEs that have suffered exponentially high under the uncertain economic situation of the last years.

MSME Category members emphasized that if the SME Relief Package should really be a step up from existing initiatives such as the Small Business Act, Europe needs to go beyond mere words and create a business environment that simplifies SMEs day to day business, as SMEs do not want to live of public money. EESC MSME, Crafts and Family Business Spokesperson Ms María Helena de Felipe Lehtonen added that a special focus needs to be placed on micro companies, as many weren't able to overcome the crisis.

A main concern voiced by the Category members was that regulatory burden is suffocating Europe's SMEs. Policy-making needs to be rethought and has to be more realistic what added bureaucracy actually means for small companies. For this to happen, the SME test needs to be taken seriously and not just be a tick-the-box exercise (as the recent SME Test Benchmark report by Eurochambres, BusinessEurope and SMEunited indicates).

An example on how overregulation is stopping SMEs from using opportunities are the funds available under the current recovery and resilience facility. The observation of EESC MSME members was that national governments are passing on the responsibility they take when receiving the RRF funds from the European level to companies. The excessive administrative and documentation burden set on companies is often a factor that stops SMEs from applying to RRF funded programmes.

The Late Payment Directive is one of the parts that should be revised as part of the SME Relief package. High cashflow and certainty of payment is important especially for small companies and the numbers are striking: Less than 40% of payments in commercial transaction are made within the agreed deadline. A consequence of this is that 1 out of 4 bankruptcies are due to invoices not being paid on time.

Bonifacio García Porras explained that chasing debtors costs businesses between 5 and 10% of all administrative work and each day of reduction in payment delays results in estimated savings of €158 million in costs for financing to EU businesses. Therefore, SMEs need to be supported even more when it comes to their right of receiving payments on time. On the other side, it was also voiced that the contractual autonomy of concerned parties should remain as much as possible.

"We need to evolve the SME narrative. They are not only the backbone, but are a fundamental driver of competitiveness", stated Mr García Porras during the discussion.

Europe needs to go beyond words and start to truly implement a SME friendly business landscape. To stay competitive, we cannot continue to discuss the same SME-related issues for another decade.

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