PUBLIC CONSULTATION ON THE EUROPE 2020 STRATEGY – VIEWS OF THE CONFEDERATION OF FINNISH INDUSTRIES (EK)

EK'S KEY MESSAGES:

- **New impetus must be given to Europe's competitiveness. The Europe 2020 strategy must be re-shaped and re-directed to be clearly focused on improving EU's competitiveness by ensuring a competitive, predictable and well-functioning business environment as well as a favourable investment climate. Such business environment allows companies to succeed and to create jobs, which is a pre-requisite for growth, positive development of employment and well-being in the EU and in the Member States.**

- **Europe needs a long-term perspective, coherence and consistency in all its policies, including its energy and climate policies, where also the impact of those policies on employment and competitiveness has to be taken into full consideration.**

- **The EU must create favourable environment for growth by strengthening the internal market, increasing openness and competition and targeting a bigger proportion of the EU budget towards research and innovation.**

- **Member States must be committed to carrying out structural reforms determinedly. At the national level, the Europe 2020 strategy must inspire the Member States towards implementing growth-friendly structural reforms e.g. in the labour markets and in the social protection systems as a part of the European Semester.**

- **The principle of better regulation and its efficient implementation by all EU institutions is necessary for creating the right conditions for growth. Thus better regulation should be an essential element in the Europe 2020 strategy, its flagship initiatives and any measures linked to them. Better regulation must be embedded in the decision-making of all the EU institutions. Excessively burdensome legislation should be dismantled. New regulation should not be introduced without assessing its impact on competitiveness and measures having a negative effect on competitiveness should not be adopted. The effects of any measure proposed on SMEs should be carefully appraised.**

The Confederation of Finnish Industries (hereinafter EK) welcomes the Commission's public consultation on the Europe 2020 strategy. We also support the messages included in the BUSINESSEUROPE'S contribution to the Europe 2020 mid-term review, included in its position of 17 October 2014.

Confederation of Finnish Industries EK
Eteläranta 10, PL 30
00131 Helsinki, Finland
Telephone +358 (0)9 42020
ek@ek.fi www.ek.fi
European Commission Transparency Register identification number 1274604847-34

I) EK’s views on the EU’s priorities

The Europe 2020 strategy was launched in 2010 to promote smart, sustainable and inclusive growth. The ongoing mid-term evaluation of the strategy is an opportunity to the EU to redefine and clarify its priorities in the light of the current situation in Europe and to define the ways to ensure their delivery.

Improving EU’s global competitiveness must become the key priority of the Europe 2020 strategy

According to the President-elect’s, Jean-Claude Juncker’s Political Guidelines for the next Commission, his first priority as Commission President will be to strengthen Europe’s competitiveness and to stimulate investment for the purpose of job creation. The EK fully shares this vision of the crucial importance of Europe’s global competitiveness.

An overarching, long-term growth strategy for improving EU’s competitiveness is urgently needed and justified. However, the current Europe 2020 strategy has not delivered on its expectations in terms of growth. It has had a low visibility and negligible direct impact at national level.

Most regrettably, it is evident that the current strategy has not sufficiently concentrated on improving EU’s global competitiveness. To the contrary, in the recent years, the EU’s actions, even those linked to the Europe 2020 strategy, e.g. the climate change/energy 20-20-20 targets, have frequently, from the companies’ point of view resulted in increased costs, regulatory and administrative burdens and weakening of global competitiveness.

It is imperative that he Europe 2020 strategy is re-shaped and re-directed to be clearly focused on improving EU’s global competitiveness by ensuring a competitive, predictable and well-functioning business environment. Such business environment allows companies to succeed and to create jobs, which is a pre-requisite for growth and well-being in the EU and in the Member States. At the same time, the Member States must implement growth-friendly structural reforms e.g. in the labour markets and in the social protection systems as a part of the European Semester.

EU must also tap all the opportunities in the internal market. Regarding the internal market for services, it is essential to concentrate on the implementation of the Services Directive. Furthermore, public service markets need to be opened to genuine competition and the competitive neutrality between public and private entities has to be secured.

Better regulation should be recognised as a key component for creating growth

The principle of better regulation and its efficient implementation by all EU institutions is necessary for creating the right conditions for growth. Thus better regulation should be an essential element in the Europe 2020 strategy, its flagship initiatives and any measures linked to them.

The principle of better regulation must be embedded in the decision-making of all EU institutions. All EU policies and legislation must be subject to systematic *ex ante* as well as *ex post* impact assessment. New regulation should not be introduced without assessing its impact on competitiveness. Initiatives that risk harming EU's competitiveness must be avoided. The effects of any measure proposed on SMEs should be carefully appraised. Finally, excessively burdensome EU legislation should be dismantled as it stalls European companies' competitiveness.

It is crucial that the scope and the quality of impact assessments are improved. An effective and systematic involvement of the representatives of business in the early stages of the preparation of EU policies and/or legislation would contribute to verifying whether EU action is justified, and when so, whether it can have real value-added.

EK considers the Commission's REFIT initiative as an important step to the right direction, but it must be ensured that administrative and regulatory burdens are in practice diminished in all regulatory fields having an impact on business. The main aim of REFIT should be improving the competitiveness of the EU and the Member States.

Finally, EU must refrain from any action that would have a counter-productive impact on creating employment. It is of utmost importance that the impact assessments carried out in the context of proposing new EU legislation always include the assessment of not only the positive employment effects, but also the potential negative effects of employment.

Economic growth is the precondition for the positive development of employment and welfare in Europe

Economic growth enables faster renewal of companies and provides political stability. The EU must create favourable environment for growth by strengthening the internal market, increasing openness and competition and targeting a bigger proportion of the EU budget towards research and innovation. Furthermore, guaranteeing the stability of Eurozone and market confidence are fundamental prerequisites for growth and employment.

The financial markets have faced an avalanche of regulation after the financial crisis. Unfortunately, there have been cases of excessive regulation, which unreasonably restrain corporate access to finance. The new Commission will have to shift the focus from handling crises to enhancing growth.

II) More detailed comments on the Europe 2020 strategy

With regard to the Europe 2020 targets in general, we would like to underline i.a. the following:

- ✓ **Competitiveness aspect has to be mainstreamed in all Europe 2020 targets. Creating a target on growth could contribute to that.**

- ✓ **When considering the creation of new targets or indicators, their impact on competitiveness must be analysed.**

- ✓ **National targets are generally speaking justified as they take into account the different situations in Member States. National targets should contribute to the implementation of reforms in the Member States.**

- ✓ **As for the 2030 framework for the EU energy and climate policy, there should be only one main target for greenhouse gas emissions by 2030, leading to the 2050 target path. After Paris climate negotiations 2015, this target should be reassessed if other key countries' targets are not as ambitious in order to prevent carbon, investment and job leakage outside from the EU.**

- ✓ **The current 75% employment rate target is still fully relevant and adequate.**

- ✓ **Education target should better recognize the importance of vocational education for increasing growth potential.**

- ✓ **The best way to fight poverty is to focus on increasing employment and growth in Europe.**

- ✓ **Attention should be paid not only to increasing public R&D investments, but particularly to maximizing the benefits and results brought forth by such investments, as well as speeding up the process from an idea to delivering the results.**

1. Targets and indicators

Some of the targets of the Europe 2020 strategy are justified (e.g. employment target, education target) and appear useful as they can be helpful in increasing focus and making the strategy more concrete. National targets are generally speaking justified as they allow taking into consideration country specific circumstances.

It is clear that economic fluctuations have had an effect on the possibilities to reach a particular target. The economic crisis partly explains why some targets are within a reach while, at the same time, some others are currently further away from being realized.

There are, however, faults in the design of the current Europe 2020 strategy. Some of the targets failed to contribute to delivering growth and jobs.

1.1 Climate change and energy sustainability – 20/20/20 targets: inconsistencies harmed growth

In energy policy the EU must take care of secure access to competitively priced energy

In particular the climate/energy 20-20-20 targets are highly problematic: they include parallel and overlapping objectives and steering mechanisms which undermine each other and increase costs. Climate change is a global problem that can only be solved globally. Other parts of the world have not followed EU's example. This entails that the EU action does not lead to the desired results. Finally, the 20-20-20 target failed to take into consideration the competitiveness concerns.

The climate/energy 20-20-20 targets are problematic

Strong economic growth took place for several years before the initial formulation and adoption of 20-20-20 targets. In the good economic situation mitigation of climate change, increase of renewable energy and energy efficiency were taken strongly into account. EU's competitiveness and economic growth received less attention. Despite the fact that the global environment is changing, EU's energy and climate policy has responded to the challenges weakly.

Since 2008 the situation has changed dramatically: The economic output of the EU reached its peak in early 2008. Since then there has been an economic downturn. The competitiveness of business in Europe is still poor. The future development is also uncertain. Shale gas has strengthened the competitiveness of the USA and simultaneously deteriorated EU's position in the global competition. Currently the average price of gas in Europe is triple and the average price of electricity for industry double compared to the prices in the USA.

International climate negotiations have not proceeded as expected. It is unlikely that comprehensive climate agreement would exist in 2015. And even if an agreement would be negotiated, it would affect only from 2020 onwards and would probably not offer a level playing field between EU and its competitors at least before 2030.

Renewable energy subsidy systems have disturbed the operation of markets

Binding national goals on RES-shares and too generous national subsidies, that have caused massive investments in intermittent energy sources such as wind and solar power, have disturbed the operation of energy market and lowered the price of emission allowances in the EU ETS. These have also caused problems in power grids and endangered the security of energy supply.

The wholesale market price of electricity has decreased while the increased total costs have been collected outside of the market. Hence the profitability of other than subsidized production methods have decreased and also harmed the investment conditions. Likewise the conditions for developing new technologies have deteriorated.

Intermittent production of renewable energy increases the volatility of market. This shortens the usage time of conventional production methods leading to lower profitability. Increasing volatility increases the risk level of business. It increases the demand of profit levels for new investments and increases the cost of external financing.

The result is that the total costs of energy for end-users are rising all the time (even if the market/spot prices are not). This leads to necessity to compensate energy-intensive industries against the increasing energy costs, as has already happened in some Member States causing unfair competitiveness differences also inside the EU.

There should be only a target for greenhouse gas emissions by 2030, leading to the 2050 target path

Reducing greenhouse gas (GHG) emissions needs to be the only binding target for Member States and its level of ambition has to be linked to the climate commitments made by other countries i.e. it is to be revised (also downwards if necessary) after Climate Summit 2015 in Paris. The GHG emissions reduction has to be done by a market based emission trading scheme without using other overlapping instruments. Targets and the ways of achieving them have to be kept separate. Renewable energy and energy efficiency are means to achieve emission reduction and, therefore, there should not be separate binding targets for them. This will make market based development possible and increase cost efficiency leaving also more room for technology development and changes in the cost order.

Sectors outside the Emission Trading System (EU ETS) could have EU-wide sub-targets of their own, e.g. the transport sector where continuation of renewable energy policies would be needed in order not to stop evolving market and throw away huge investments already made by companies. However, it is important to strive for technology and raw material neutrality as well as cost efficiency also for non-ETS sectors.

The non-ETS sectors' burden sharing is a significant issue for the Member States. All the Member States, including Eastern European countries are going to have to participate in full to achieve the EU's energy and climate goals for 2030. GDP should not be a factor in the future burden sharing, but the focus should be on where the real cost-efficient potential to decrease emissions exists.

In climate policy global commitments are needed and until these are achieved, full compensation for carbon leakage sectors has to be offered at the EU level, including against indirect costs from EU ETS

Until a balanced and fair global climate agreement has been reached, it is in the interest of the EU to give free emission allowances for carbon leakage sectors and require Member States to offer full compensation against increasing electricity prices (indirect compensation of EU Emission Trading System) nationally at the first stage. However, the EU should aim to develop an EU-wide compensation system in order to avoid unfair competition distortions between Member States when some Member States are granting compensations against indirect effects and others are not. The calculation criteria for the list of carbon leakage sectors have to be maintained stable giving predictability for these companies.

1.2 Employment, education and poverty targets

Growth and job creation should be the most essential objectives. Improving companies' competitiveness is the key to creating employment.

As such the Europe 2020 employment target and the national targets are justified. However, employment target is quite "broad" and success in reaching it depends on a number of variables (companies' competitiveness, export demand, economic growth, flexility in labour law and other regulation of labour markets, labour market policies, social security, unemployment benefits). Thus the key issue is the correct operationalization of the target. The target should in principle be defined so that it captures the policy effects and eliminates all the others factors that can have an effect on employment.

Member States must be committed to implementing determinedly structural reforms needed to ensure well-functioning and flexible labour markets

The economic crisis has demonstrated that there are major problems in the labour market in many EU countries. Member States should seriously embark upon carrying out the structural reforms on the basis of the flexicurity principle in order to guarantee competitiveness of European companies and creation of new jobs. This would also suppress long-term unemployment and attract more people to the labour market.

The already strengthened European Semester is the appropriate framework for the follow-up and monitoring of the structural reforms in the Member States.

Stronger emphasis should be put on recognizing the importance of different forms of work for creating employment

A crucial element contributing towards reaching the Europe 2020 employment target is the availability of different forms of work and working (e.g. part-time, temporary agency work, fixed-term employment, flexible working time).

Furthermore, social protection systems must be sustainable and employment-friendly. The importance of lengthening working careers must be recognized. The flagship "an agenda for new skills and jobs" was a disappointment, as it failed to address e.g. companies' need for external flexibility.

With regard to matters concerning labour markets and social security, EU must respect strictly the division of competences between the EU and the Member States and to fully comply with the principle of subsidiarity. When acting within its competences, EU must refrain on introducing policies or legislation that would in any way prevent the objectives of increasing the flexibility and improving the functioning of the labour markets in Member States.

A well-functioning labour market requires a sufficiently skilled workforce

Also the EU level and national education targets of the Europe 2020 strategy, which have a clear link with the employment target, served an important purpose. The shortcoming of the current Europe 2020 education target is that it put too much emphasis on higher education and failed to recognize the importance of vocational education for increasing growth potential.

The expertise and professional skills of employees must correspond to the needs of the labour market.

Education must provide everyone at least with the basic professional skills. Similarly, everyone should acquire such skills. Promoting an entrepreneurial attitude and entrepreneurial skills are also important, as well as better anticipation of changing skills needs at workplaces e.g. by increasing the contacts between companies and schools and between companies and teachers. Information and communication technology should be a natural and integral part of learning at all levels of education.

Both the Member States and the EU need to invest in education and training in order to increase labour market participation and prevent social exclusion.

The most efficient and sustainable manner to prevent poverty is to create conditions promoting growth and employment

As for the poverty target, EK notes that measuring poverty as a certain percentage of the median household income entails measuring how evenly income is distributed, not poverty as such.

Having growth and employment targets and implementing at the national level growth-enhancing structural reforms contributing towards reaching those targets are the best way to decrease poverty.

1.3 R&D investment target 3%

It is unlikely that the Europe 2020 R&D investment target is reached. At the very least, it is going to be extremely challenging.

We are in a situation where savings in public sector expenditure are necessary. It is, however, crucial to increase the level of the public sector R&D investments. Public sector R&D investments must be a priority.

Attention should be paid not only to increasing public R&D investments, but particularly to maximizing the benefits and results brought forth by such investments. Quality and efficiency of spending need more attention.

Currently, from the perspective of industry, the preparation of work programmes and research themes in Horizon 2020 takes too much time. The time needed from the beginning of the process - deciding the research themes, publishing the calls, evaluating the proposals - until delivering the results can take 8 to 10 years. Often the business opportunity is already gone at that stage. Therefore not only the evaluation of the proposals should be faster, but the Commission should speed up the whole preparation process from theme selection to delivering the results.

The European Research Area (ERA) should be developed with excellence in mind. Europe needs actions to attract the best brains and the most innovative companies.

Europe needs private sector R&D investments. Public sector investments have an important role as a catalyst for, or a facilitator of private investments. It is crucial that R&D investments are directed towards stimulating innovation in companies.

Finally, it would be important to develop the methods for measuring innovation investments and their results and effectiveness.

2. Flagships

Flagships should have prioritised growth and job creation and should have avoided contradictions between the different flagship initiatives

It is of utmost importance that any EU action, and in particular that based on e.g. the Europe 2020 flagship initiatives, is geared and in practice contributes towards creating growth. Unfortunately there are examples demonstrating that this is not always the case. Quite the contrary, some proposed EU measures risk seriously hampering the competitiveness of European companies. One example of a concrete legislative initiative, where this risk is evident, is the proposed new Data Protection Regulation linked to the EU Digital Agenda flagship.

EU data protection rules must support the utilization of data in addition to ensuring the appropriate use of data and safety of data processing

Data is a central driver for economic growth, productivity and innovation. Possibilities to utilize data do not affect just one or a few sectors but they cover the whole economy. In both the public and private sector, it is possible to increase productivity and add value by a sensible, well-planned and efficient processing of data. This requires also an appropriate protection of personal data.

Use of data, e.g. rules on lawfulness on processing, must not be restricted when revising the EU data protection rules. In addition, EU rules on data protection must not create businesses unnecessary administrative burdens or costs.

Industrial policy cannot be about picking the winners

As far as industrial policy and the Industrial Policy flagship are concerned, to be successful we need a more horizontal approach, where decision-making is breaking down barriers between different policy areas and administration structures. If we are not able to do this, the costs and the damage to our competitiveness will be too great. Industrial policy cannot be about picking the winners, whether it is among sectors, technologies or companies. Industrial policy based on production subsidies, picking winning technologies and regulation has to be avoided. In short, the future of Europe is in a versatile network of services and manufacturing.

EU's resource efficiency policy must not lead to percentage targets as in climate and energy policy

Resource Efficiency Flagship Initiative: Resource efficiency can be used to reduce costs, but wrongly selected instruments may increase costs and therefore undermine competitiveness.

EK does not see a numeric resource efficiency target (even an indicative one) as a possible or realistic objective due to the shortcomings in statistics and indicators, as well as missing impact analyses and knowledge of the cost-efficient savings potential.

Self-improving resource efficiency is the most effective way forward in companies, because resource efficiency is inside the business logic (minimizing input to get the most cost-efficient output). This could and should be promoted or incentivized by governments.

Resource intensity does not tell anything about real efficiency and the same holds true with the proposed resource productivity target/indicator by EREP/Commission. Intensity does not reflect the real efficiency of resource use, but depends largely on the country's natural resources and on its economic structure developed on that basis. The focus should be precisely on the effectiveness, and "specific efficiency" type of examination would be the fairest one and the level of comparisons should be primarily global. Instead of mass-based indicators there is a need for better and more diverse metrics that take into account the environmental impacts and scarcity of used resources. In the global context, high resource and/or energy intensity in some country or region is even environmentally beneficial when the production (including energy) is more efficient and less emission-intensive than elsewhere.

Confederation of Finnish Industries EK
Eteläranta 10, PL 30
00131 Helsinki, Finland
Telephone +358 (0)9 42020
ek@ek.fi www.ek.fi
European Commission Transparency Register identification number 1274604847-34

3. Governance

The Europe 2020 strategy has a clear link to the already strengthened European Semester. The European Semester is the appropriate framework for the follow-up and monitoring of the implementation of national structural reforms needed to progress towards the revised and more focused priorities of the Europe 2020 strategy.

Through the Country Specific Recommendations the Commission should, also in the future, encourage Member States to stabilize public finances and carry out structural reforms.

As the EU's global competitiveness needs to be placed at the centre of the Europe 2020 strategy, the competitiveness component of the National Reform Programmes and Country Specific Recommendations (CSRs) must similarly be strengthened. At the same time, it is important that the European Semester has a strong focus on supervising the macroeconomic performance of the Member States.

Consultation of the EU level and/or national social partners at the appropriate stages of the European Semester is important

EK supports the principles included in the EU level social partners' joint declaration concerning European social partner involvement in the economic governance (e.g. in the preparation of the AGS, the national reform programmes and during the adoption process of the CSRs). It is also important that the social partners' views on the implementation of CSRs – or lack thereof – are adequately taken into account. The consultation of social partners must not, however, result in delays in the adoption and implementation of the necessary structural reforms in the Member States.

Tight deadlines are a challenge

The extremely tight timetables for preparing Member States' positions on the CSRs proposed by the Commission have meant that a meaningful consultation of the social partners is challenging. The risk is that a proper consultation of social partners is not possible, which would mean that in some cases social partners are only informed *ex post* on the views of the Government on the Commission Proposal for the CSRs.

In so far as putting into effect the measures linked to the implementation of the Europe 2020 strategy at the national level are concerned, there are certain challenges. In Finland there are practical examples of shortcomings in governance and co-ordination at national level, which have slowed down progress. For instance, the responsibility for matters concerning Digital Agenda or Digital Single Market has been divided between three different ministries (Ministry of Employment and of the Economy, Ministry of Education and Culture and Ministry of Transport and Communications). This entails that forming the Government position is a complex process with competing priorities and without proper political leadership. Furthermore, there might be differences in the willingness of ministries involved to consider the issues from the business perspective. This lack of focus has probably contributed at the national level to the low visibility and effectiveness of the goals of Europe 2020 strategy.

An important aspect of governance in general, where there is room for improvement, is the process of preparing and drafting Commission initiatives. In many fields (for instance in the field of energy and climate policy) the Commission formally consults different stakeholders, but the practical impact of businesses' and industries' views may be minimal. It would be extremely important that the Commission, for instance when analysing results of a particular public consultation, does not put more emphasis or give more visibility to the arguments supporting Commission's plans than to those speaking against the initiative. Thus, the evidence base of a particular policy choice should be unbiased.

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The Confederation of Finnish Industries EK represents all sectors of business and companies of all sizes. We have 27 member associations, 16 000 member companies, 96% of which are SMEs. Our member companies employ approximately 980,000 persons, account for over 70% of the Finnish GDP and over 95% of the Finnish exports. EK's mission is to foster an internationally competitive and attractive business environment for Finnish companies.

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00131 Helsinki, Finland
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