European Economic
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Employers' Group

Newsletter

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Is there a way to fix the World Trade Organisation?

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Our seven-member EESC Delegation knew before arriving in Abu Dhabi that prospects for success were not bright, as the situation of the WTO reflects the ongoing crisis of our society – a slow recovery from COVID-19, growing protectionism and the need to integrate new climate, sustainability and industrial challenges in an increasingly challenged and multidimensional world order. This impression was confirmed in the Ministerial Conference's different working sessions and side events that we attended. The organisation is still the basis and the reason for the success of the multilateral rules-based trade order, and it continues to attract new members – we celebrated the accession of Comoros and Timor-Leste. However, it also needs a major fixing – of its dispute settlement system first, which should guarantee the application of its rules – but also of its functioning, in order to be able to prove that international trade contributes to mitigating climate change and that the WTO treats the least developed countries in a fair way, while advancing to meet the challenges of a more digitalised and greener economy.

During all these events, we shared with our interlocutors an assessment of the situation that was unfortunately confirmed by the final outcome: the global state of international politics and its divisions prevented the achievement of most of the declared objectives. As a result, a possible solution to all sensitive issues was postponed to the next Ministerial Conference (Cameroon, 2026).

As a very large, consensus-based multilateral institution, the WTO has always struggled to reconcile the different interests of its members. This time, however, the spirit of cooperation was weakened by a very clear prevalence of domestic interests and considerations over collective needs, ambitions and challenges – to which everybody, on paper, reaffirmed their commitment.

Thus, after the much-hailed success of the 12th Ministerial Conference (Geneva, 2022) with the first agreement on fisheries subsidies, which for the first time officially incorporated sustainability in a WTO binding text, this time, members failed to follow up with a 'second wave' agreement. This was a major disappointment, but talks on the draft agreement will continue in Geneva, with the hope of finding a solution by the next Ministerial Conference.

More predictably, but not less worryingly, no agreement was reached on agriculture, where deep, internally motivated political differences between members proved too wide to be bridged – especially in an electoral year for the main actors involved, primarily India and its politically crucial public stockholding programme.

The same goes for the reform of the dispute settlement mechanism, whose forced inactivity in the past five years is probably the most pressing threat to the legitimacy, functioning and even raison d'être of the WTO: all parties appreciated the work done, but it was clear that further negotiations are necessary for any meaningful result. While the official commitment to reach an agreement by the end of 2024

still stands, this issue is likely to remain at the top of the WTO agenda, at least until the next Ministerial Conference.

The only concrete result was the extension of the moratorium on e-commerce tariffs until 2026, continuing a practice that has been in place since 1998 and which is one of the pillars of global digital trade (and the economy) as we know it. Even this was only conceded by the very few opposing members on the condition that it would be the last renewal, unless a unanimous vote at the next Ministerial reverses this decision. It is a subtle but politically significant difference, and hopefully these two years will bring to light further evidence of how harmful the introduction of e-commerce tariffs would be, especially for those imposing them.

It seems increasingly clear that, faced with geopolitical conditions preventing multilateral progress, the first priority of the EU should be to consolidate and – if possible – expand its network of friends and trusted partners. We hope that the next Commission and Parliament will pursue this fundamental effort.

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President Stefano Mallia in Finland

IMPROVING COMPETITIVENSS IS A MAIN CONCERN

Stefano Mallia, president of the EESC Employers' Group, and Finnish members of the Group Mira-Maria Danisman, Teppo Säkkinen and Päivi Wood met with a number of key stakeholders from business and politics during a two-day visit to Helsinki. This was the latest in a series of visits to Member States to discuss the business situation in the countries. The visits have shown that improving competitiveness is a main concern and this requires for instance reducing administrative burden, and Finland was no exception.

During his mission to Finland, Stefano Mallia exchanged views and ideas with Anders Adlercreutz, Finnish Minister for European Affairs and Ownership Steering, on the Single Market as an EU tool for improving global competitiveness and making the EU more business friendly. He also visited a number of Finnish companies from different sectors, including Helsinki Shipyard, the energy company Helen, the quantum computing and cryogenics companies IQM Quantum Computers and Bluefors, and the largest Nordic bank Nordea. A further meeting took place at the European Centre of Excellence for Countering Hybrid Threats.

His agenda also included meetings with EESC members' organisations, the Confederation of Finnish Industries, the Finland Chamber of Commerce and the Federation of Finnish Enterprises. The first meeting focused on the labour market situation in Finland and urgently needed labour market reforms. The second meeting discussed and identified common business priorities with a view to the EU elections and the next legislative terms.

During the visit, Mr Mallia was interviewed by the online journal of the Federation of Finnish Enterprises' Yrittäjä. An extract is reproduced below.

Interview with Stefano Mallia in Yrittäjä

'THE GREEN TRANSITION MUST BE CARRIED OUT IN SUCH A WAY THAT ALLOWS BUSINESSES TO BE SET UP AND GROW AT THE SAME TIME'

Stefano Mallia, president of the Employers' Group of the European Economic and Social Committee, champions the position of EU entrepreneurs and businesses in various ways.

The European elections are knocking at the door. In June, the citizens of the EU Member States will elect their representatives to the European Parliament, who will be in power for the next five years. When Stefano Mallia, a key EU actor and player, is asked what is the biggest challenge facing European entrepreneurs over the next five years, the response is quick.

- The green transition, he says.

According to Mallia, it is important for the transition towards a more environmentally sustainable economy and growth to ensure that businesses can thrive.

- The green transition must be carried out in such a way that allows businesses to be set up and grow at the same time. When businesses do well, then the whole of society does well too. Businesses create jobs and generate tax revenue for society.

Cutting red tape

One of the key tasks of the EESC's Employers' Group in recent years has been to help reduce the administrative burden significantly for businesses.

- Over the last five years, the Commission has put forward new legislation on issues such as social policy and the environment. While there is nothing wrong with this, the Commission seemed to take for granted that the new rules would not affect businesses and that they would continue to operate normally – including in the midst of the COVID-19 pandemic and inflation.

Mallia notes that it was important for the Commission to understand, among other things, that the extensive reporting obligations for SMEs should be lifted.

According to Mallia, the Commission's approach has since changed and boosting competitiveness is now a key theme.

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- Whenever new legislation is being drawn up, it is essential to take account of business competitiveness. Care must be taken to ensure that business can grow.

As a specific example of recent challenges facing European businesses, Mallia mentions that, compared to China and the US, Europe is lagging behind in developing and bringing to market technological innovations such as artificial intelligence.

- Moreover, our education systems are not able to respond quickly enough to the skills needs of new technologies.

The importance of voting in the European elections

While acknowledging that the European Union faces its own challenges and problems, Mallia believes that the EU as a whole has accomplished a lot.

In his view, the EU plays a leading role in the fight against climate change, for example. What is more, the EU has created a common growth market for businesses that aims to enhance European competitiveness and prosperity.

- Entrepreneurs should vote so that there are people in the Parliament who look out for businesses and entrepreneurs. If you don't vote, you will hand the decision-making power to others. Voting in the European elections can also prevent extremists from gaining power.

Read the full interview by Milla Rautiainen here: https://www.yrittajat.fi/uutiset/eu-vaikuttaja-stefano-mallia-vihrea-siirtyma-toteutettava-niin-etta-samaan-aikaan-yrityksia-voidaan-perustaa-ja-ne-voivat-kasvaa/

EU Employers' organisations launch multiple calls to reduce barriers to the single market

The new EU legislative cycle 2024-2029 is decisive for Europe's future competitiveness. The European institutions face the challenge and responsibility of setting the region back on the path of competitiveness. This shift is key to Europe's economic security and relevance in the new global order. Today, 30 years after the launch of the European single market, European companies face mounting compliance costs, reporting requirements and increasing fragmentation in the single market.

This is why the European Round Table for Industry gathered together a coalition of European associations to underline the need for a renewed focus on deepening the single market based on a compendium of over 100 obstacles identified by associations and companies, with a view to influencing the next European Commission and European Parliament.

So far, the Commission's *Upgrading the Single Market strategy: more opportunities for people and business* in 2015, the 2020 *Identifying and addressing barriers to the Single Market* as well as the *Annual Single Market Reports* in recent years have all fallen short of effectively improving the environment for doing business within the EU. The main reason? There is insufficient political commitment and administrative capacity to achieve significant progress in the Commission and within EU Member States. ERT underlines that galvanising support for a structural approach should be the main objective of the high-level report by Enrico Letta on the future of the single market and of Mario Draghi's report on the EU's competitiveness.

The compendium produced by ERT showcases the extent of the fragmentation in the single market by listing numerous regulatory, political and administrative barriers and burdens across multiple economic sectors and proposes concrete solutions.

Just like that critical juncture in 1985, it is essential that the European Commission now spearhead a comprehensive programme to remove barriers in the single market within an ambitious and clearly defined timeframe. The goal should be to move towards a more efficient, simplified and harmonised regulatory framework across the 27 EU Member States which will allow companies to reduce unnecessary costs and free up capital needed to invest more in innovation and the roll-out of new technologies and infrastructures needed to complete the twin transitions. This is the most sensible approach to sustainably reinforcing Europe's competitiveness.

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Other employers' organisations have also delivered similar reports. A new Eurochambres survey of over 1000 business owners and entrepreneurs across the EU highlights a range of barriers that continue to undermine free movement within the single market. Key business barriers identified in the survey – the third that Eurochambres has published, following the 2015 and 2019 editions – include disparate contractual and legal practices, varying national service rules and limited accessibility to information on differing rules/requirements.

Together with ERT, BusinessEurope, Eurochambres, Eurocommerce, SMEUnited and DigitalEurope have issued a joint call for a comprehensive long-term single market integration agenda *Harnessing the Treaty freedoms to reshape the EU into an economic powerhouse*. The failure to embody a true single market hampers competitiveness, digitalisation and the resilience of businesses and the EU. It undermines the green transition and fails to deliver opportunities and growth for the benefit of consumers and workers. As they stressed in the call, this makes the 2022 joint statement more relevant than ever.

Numbers quoted come from the European Parliament Research Service, which estimates that removing barriers could generate EUR 2.8 trillion in additional GDP by 2032. In addition, in a model of innovation and multinational offshore production, the IMF finds that at least lowering internal barriers within the EU would have a large welfare impact – roughly 7% of GDP – and accrue to both innovating and manufacturing countries in the EU.

When public finances are constrained, this is all the more important: removing barriers is budget-neutral – it does not require new funds or subsidies.

Therefore, deepening the single market and addressing fragmentation should become a strategic, cross-departmental priority of the incoming Commission in 2024, particularly in the face of ever sharper global competition. Renewing the dynamic of European integration through deepening our single market is the most practical way to boost the EU's competitiveness, improve living standards and raise people's income.

Uneven progress in the twin transition of SMEs jeopardises the success of EU flagship policies

The Green, Digital, and Competitive SME Index, recently published by the Lisbon Council, is founded on two simple statements. First, if Europe wants to achieve the ambitious goals of the twin transitions, it needs to ensure that its companies are competitive. The success of Europe's ambitious environmental and digital goals depends on the active participation of SMEs. Second, for the twin transitions to move from policy statements to the real world, they need to be closely monitored. This is what the index delivers, with the 2023 edition continuing the work of the previous year's index by incorporating fresh data and methodological improvements.

The index tracks SME progress in the digital and green transitions and in competitiveness on 22 indicators across 27 Member States. It is based on official statistics and accompanied by qualitative insights and interviews with SMEs.

Broadly speaking, Europe's performance on critical targets is at a standstill. The digital sector stands out as a clear exception, showing marked, double-digit improvement in all 27 countries in the areas of SME digitalisation and e-commerce. Meanwhile, the progress on both the green transition and SME competitiveness seems to be holding steady, with modest improvements counterbalanced by slight declines.

This overview leads to a clear verdict: Europe must intensify its efforts across all sectors to achieve its ambition of carbon neutrality by 2050. While SME digitalisation is in line with the goals of the digital decade, there is no substantial correlation between performances in competitiveness and the green transition, which often comes at a significant cost to SMEs. Policymakers carry the significant duty of reducing this 'green premium' through investments, market liberalisation, smarter regulations and fostering innovation. The ideal scenario – where green technology becomes mainstream and economically viable – has not yet been attained, due in part to the European approach of mandatory targets and penalties not being complemented by strong incentives and supportive market strategies as seen in other places.

Sweden has maintained its top position in 2023, leading in green initiatives and showing substantial progress in SME competitiveness and the digital transition. Moving forward, Sweden aims to solidify its achievements and make significant strides in areas like SME exports, where it is currently ranked 11th.

Denmark, now ranked 2nd, has seen its most notable progress in the reduction of SME greenhouse gas emissions, indicating a genuine and sustained reduction rather than a temporary fluctuation.

The Netherlands stands 3rd, and while it has seen a slight dip in SME competitiveness, it remains a robust economy with a strong SME export sector. Both the Netherlands and Sweden exemplify the principle that dedication to green policies does not have to compromise economic performance; rather, economic success can propagate environmentally responsible values globally.

Germany, moving up to 10th place, has shown improvement in digital adoption and SME competitiveness, which is significant for a country criticised for its slow reform pace.

Italy, displaying the most improvement, has progressed five places despite challenges in digital skills and emission reductions.

Conversely, France, now 19th, lags in the digital transition and in competitiveness, particularly in SME exports.

Economies like those in Slovenia, Estonia and Latvia excel in exports due to their smaller economic scale, underscoring the importance of reaching beyond domestic markets.

In summary, fast progress in digitalisation suggests that even highly ambitious policy goals can be achieved, given the right market conditions. The key to a fast adoption of green technology is making them cheaper, less uncertain and easy to adopt, just as digital technology has become. Growing a cohort of exporting and fast-growing SMEs by removing barriers to the single market is the main way to achieve the necessary maturity and scale.

The full report and the interactive data are available at: https://gdc.lisboncouncil.net/en/.

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Agriculture and food in Europe
AN UNSUSTAINABLE GAME

If any one economic sector knew with certainty that the number of its current 7 billion consumers would jump to 10 billion by 2050, and that these consumers would use its products three times per day, it would be investing in growth scenarios to meet this demand!

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The agri-food sector must prepare itself to cover this demand and, above all, be aware of how consumption is evolving and provide quick responses to complex situations. It can and must be done. Through agencies such as the FAO, the United Nations is paving the way and the results are evident. Despite the impact of COVID-19 and the climate crises, the number of people suffering absolute poverty and malnutrition is decreasing. This is an objective that we must pursue in order to reduce the alarmingly high number of people in this situation today – 800 million.

There are, of course, factors that limit our ability to meet this goal, such as scarcity of agricultural land and water for irrigation, as well as logistical constraints. However there is one particular aspect that needs to be taken into account as an absolute priority: this growth must be based on solutions that are efficient and sustainable in the medium to long term.

In terms of production and consumption, the European system is a peculiar one. It is both an interconnected and a very open, appealing and stable market, with purchasing power and consumption capacity. It is an exporting economy that boasts global leadership in agri-food products, large companies with very important brands, and small and medium-sized enterprises that have an impressive global presence and prestige through collective trademarks, such as protected designations of origin and protected geographical indications.

This sector is so powerful and has such bright prospects that it is the top manufacturing industry in many EU countries, with a leading distribution system and significant production potential in agriculture and fisheries. So why does it feel like everything is going wrong?

As in other sectors, it probably has to do with obsessive regulation and, in this case, misguided protection measures that work against the sector. Many of the current rules, and in particular the evolution of the CAP, have led to a loss of competitiveness, which is a far cry from supporting professionals and entrepreneurs, and has made their lives impossible.

Implementing the Green Deal and achieving the Paris Agreement's climate objectives should never have been an issue. These are commitments accepted and shared by the sector - provided that their development and implementation are indeed a deal and not a set of supposed rules without consensus. It is essential to consider aspects such as transience and to look for feasible alternatives.

Association agreements are always necessary. Europe needs major trade agreements to generate wealth and development. We know that we mostly have offensive positions with trade balances that are favourable to our interests, but which need to be considered with the necessary reciprocity and compensatory measures for the European sectors affected.

Today, the burdens of meeting ideological expectations are too great. There is too much ignorance and demagogy, no support for entrepreneurs, no improvements in competitiveness, no new markets and no measures to safeguard existing ones.

We need strong support for investigation. We need more science and less ideology in all areas in order to be able to work in a complex environment. Climate change and Europe's position in a geopolitical environment that is shifting towards the south and the Pacific is putting us at a disadvantage and engendering a clear loss of prominence. This need to maintain a leading position means that decisions need to be made quickly. This is what we need from the incoming Commission and Parliament in 2024.

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Can more social investment still be business-friendly?

The Belgian Presidency asked the EESC to express its views on how economic and inclusive reforms together with (social) investments can contribute to growth and, at the same time, help to future-proof social protection systems. This is a huge challenge, as the standards for public finance governance (Stability and Growth Pact, European Semester) are currently being redefined, with debt sustainability still the ultimate, and in some cases most urgent, goal. However, the aim of Belgian Minister of Social Affairs, Frank Vandenbroucke is to shape an "active welfare state".


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To what extent can more and better social housing, healthcare infrastructure, childcare and upskilling be supported by investments while respecting the European principle of subsidiarity and without increasing the tax burden on citizens and businesses, which are already under pressure to implement the green and digital transitions requiring billions of euros? Opinion ECO 630 respects the principle that welfare relies on healthy economic fundamentals and that evidence should be provided of the contribution of the proposed measures to productivity and sustainable competitiveness on top of their contribution to the quality of life of European people and communities.

The EESC opinion elaborates on the case for productive social investments, which has been proposed in social policy literature for several years and as is now being discussed in an informal working group of the Council involving all Member States, to which the three rapporteurs have been invited, allowing them to hear experts. In my opinion, the latter shared rather idealistic views, but at the same time based on reliable data, even while financial constraints and sceptics call the feasibility of a policy that would be partly coordinated at the EU level in question. It is certain that the design of the existing social security schemes across Europe is very different, as shown by the OECD's monitoring of the replacement rates of pension systems or Eurostat's figures on the share of health expenses that are to be paid out of pocket by patients.

It is also clear that any EU funding of qualifying programmes alone will not be sufficient to close the gap of underinvestment in social services. Nor will a significant number of Member States have enough financial leeway for such support. It is important to develop a market of appropriate financial instruments that can be traded on private markets and to encourage synergies through well-thought-out public-private partnerships, such as the State guarantee that France offers, allowing long-term private investors like insurance companies to finance new social housing where not only the rent but also energy consumption is low. The EESC opinion includes other examples of best practices like day-care facilities to help parents find employment, enabling parents to raise the number of children they would wish to have, ways to increase the contribution levels of current generations to second-pillar pension schemes or a blueprint for nudging companies with a poor workplace health and safety record to improve their prevention policies effectively. The policy pursued by the Belgian Presidency and the EESC's current opinion certainly pave the way for many more concrete measures in the field of structural reforms and targeted investments.

But it is not only a matter for governments and businesses – with respect for social dialogue in this field, too – that will fix all gaps: citizens should also be aware of their risks and opportunities. Special attention should be paid to the inclusion of people currently missing from the labour market in valuable employment and to how to get them to prepare their financial future and protect themselves against loss of income through efforts they can afford now, rather than having them rely on public support later, when the number of social contributors, namely the working population, is expected to be lower.

The gist of this opinion will not surprise those who monitor the evolution of the European Semester framework of assessment and guidance of the economic governance of Member States, the effectiveness of the instruments put in place in times of EU -wide crisis and the concrete follow-up of the European Pillar of Social Rights. At an early stage of the next legislative cycle, the EU will have to make choices to better prepare for future disruptions and to restore trust in a (hopefully) future-proof social contract that with a viable economic foundation.

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European Economic Security Strategy
AFFIRMING EUROPE AS A GLOBAL CHAMPION

In our current challenging geopolitical context, it was a right step of the European Commission to address economic security measures in a comprehensive and holistic manner in its Communication on "European Economic Security Strategy". Employers welcome that the document not only assess threats, risks and vulnerabilities, but also calls for analysing and making use of opportunities provided by these global challenges. What is clear is that we can only build on the EU's strengths, if we prioritise our competitiveness.

The EU's overall economic security depends on many factors. Energy and raw material security is key, as it is crucial for all industries. Secure digital systems and strong digital capacity also play an increasingly important role, given that digitalisation affects the whole economy and society.

Another urgent factor is to complete the Capital Markets Union and the Banking Union, as the EU is still lagging behind its main competitors. The EU has to ensure stable access to finance and avoid excessive foreign dependencies and needs to remove existing obstacles while refraining from any new measures that jeopardise access to private finance. The EU also needs to ensure adequate public funding, giving priority to investment in infrastructure, research and innovation, and education and training.

To improve the possibilities for diversifying supply chains and expanding product markets, full use should be made of trade and investment agreements. In addition, the ongoing trade negotiations should be rapidly concluded, together with the start of new negotiations with new potential partners. A competitiveness check should be applied when particular business provisions are laid down. Boosting rules-based multilateral trade systems and global agreements, bilateral and plurilateral thematic partnerships, and partnerships with developing countries should also be priorities for the EU. Through international cooperation, the EU won't just reduce confrontation and its own critical dependencies, but could also increase mutual benefits and the commitment of other economies to partnerships with the EU.

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While proactive partnering should be seen as the primary way to strengthen the EU's economic security in international relations, there is a need for decisive countering and protecting measures in case third countries pose a risk to the economic security of the EU through measures related to trade, investment or technology cooperation. EU policymakers should enhance – through domestic policies and active diplomacy – conditions that enable, encourage, and support EU businesses, including MSMEs, to manage the geoeconomic risks in their operations and to ensure that policy measures do not incur disproportionate costs or hindrances for them. It is vital to involve EU businesses closely in the identification and assessment of economic security risks, opportunities and measures.

Last but not least, it is necessary to strengthen synergies between Member States and create benefits throughout the EU, thus contributing to the EU's unity, global strength, and overall economic security.

To conclude, the Commission's focus on a comprehensive and holistic economic security strategy is an important step on the path to affirming Europe as a global champion. To achieve this, investment in innovation, skills development, and industrial capacities are indispensable means of both strengthening productivity and competitiveness and decreasing critical dependencies. At the same time, EU businesses should be involved as pioneers in implementing the economic security strategy.

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