

The vision for the future of the EU German – Italian industry priorities

The European integration project has entered a difficult period. Internal challenges to the political order such as Brexit or the rise of populist movements, as well as external challenges to the global economic order in which the EU is embedded, are threatening Europe as we know it. In many policy areas, ranging from internal and external security to environmental protection and economic growth, deeper integration and better policies are required. Strengthening Europe's autonomy can only be achieved by deep, persistent and balanced cooperation between EU Member States and societal actors.

Of course, the European Union is far from perfect. During the great economic crisis of the last decade and the ensuing slow-motion recovery, many mistakes have been made in national and EU policies. Further pressure emerged from international migration as a consequence of insecurity in Europe's immediate neighbourhood. The EU is still struggling to respond with a more comprehensive defence, foreign and security policy, and to provide a joint response to terrorism and economic reforms both at EU and Member States level.

This is why a reflection on how to make the EU deliver better on peace, living standards and freedom is constantly ongoing. EU leaders launched a great debate on the future of Europe, and many contributions came from Member States and the European Parliament. This debate will culminate next spring with the Sibiu Summit on May 9, 2019, immediately after Brexit. European elections that will take place at the end of May next year will constitute a crucial test to understand which direction EU policies will take. The next few months will therefore be crucial to define the future of the European project.

We cannot afford to stop or fail in these efforts. This is not an abstract issue. The political and economic future of the European project is absolutely essential for citizens and companies in Italy and Germany alike, among other nations. BDI and Confindustria intend to be part of the solution and to contribute to the debate on the future of Europe, both directly and within BusinessEurope which is working on a document to be presented at the end of November.

In this context, making the EU stronger on the global stage by fostering its strategic autonomy in areas like defence, energy supply and new technologies is of utmost importance. The EU will also have to become more inclusive and to provide better answers to the needs of citizens and businesses, especially small and medium ones.

To relaunch the European project, the EU and its Member States will have to shift their priorities towards economic growth, economic convergence, improvements on key social indicators such as employment and poverty reduction, and towards strengthening their joint competitiveness in an increasingly digitised world economy.

Today BDI and Confindustria have jointly adopted the document "*The vision for the future of the EU: German – Italian industry priorities*". Its key recommendations are outlined below.

Recommendations

- 1. Orientate the EU budget on competitiveness and cohesion** - *The post-2020 Multiannual Financial Framework should be orientated to strengthen competitiveness and investments in research, innovation, education and infrastructures. Cohesion policy, as part of the EU industrial strategy, should continue to strengthen economic convergence among European regions.*
- 2. Complete the Single Market and launch a new industrial policy** - *The completion of the Single Market should be based on a better implementation of current legislation and on a broader harmonization of existing rules. An ambitious long-term industrial policy needs to be linked to other competitiveness-focused policies, including energy and climate policies. The main objective should be to create a competitive, innovative and sustainable industrial base. Strategic value chains should be the cornerstone of such a policy. Supporting SMEs through lighter regulation and adequate funding instruments remains key to this strategy.*
- 3. Strengthen the innovation and digital capacity of Europe** - *In order to reduce the innovation gap and to make knowledge quickly marketable, Horizon Europe must help to scale-up public and private investments in research and innovation. This program must give industry a central role by establishing funding instruments for innovative enterprises. In order to support the digital transformation of the European economy, policies on cybersecurity, artificial intelligence and digital infrastructures must be reinforced. This can be achieved by scaling-up investments and using the Digital Innovation Hubs network as an access point to new technologies.*
- 4. Build a sustainable Europe for industry** - *When defining climate, energy, and environmental policies, the EU should take into account all aspects of sustainability. The EU should adopt stringent policies on reducing carbon emissions, on promoting the Energy Union and on the circular economy. Reducing carbon emissions will require very ambitious policies to meet the Paris Agreement goals that must be balanced by considerations of carbon leakage and international competition. Regarding energy market integration, greater coordination of national energy regulation, a flexible implementation of efficiency policies and consistent renewable policies are required. Advancing the circular economy must be based on thorough implementation by Member States.*
- 5. Modernize the EU competition law and State aid rules** - *The existing European framework on free and fair competition and State aids should be revised, in order to guarantee a level-playing field among Member States and between the EU and third countries. This should come along with a general rethinking of EU policies, so as to strategically allocate resources to specific programs and to encourage investments.*

- 6. Invest in skilled people for more jobs and social cohesion** - In order to prepare human capital for the digital revolution, more attention and resources must be devoted to higher education, to professionalized learning processes – including tertiary education – and to enhance competences, particularly in the digital area. A strong bond between vocational training and the private sector should be established, as this is the gateway to developing skilled human capital.
- 7. Deepen the EMU and complete Banking and Capital Markets Union** - The reform of the EMU should be completed. A European instrument for stabilizing the economic cycle should be established. The European Stability Mechanism should be turned into a European Monetary Fund. Banking Union should be completed by deciding on a backstop for bank resolution and by introducing a European system for deposits insurance. Encouraging the market-based financing of businesses and completing the Capital Markets Union will be equally important.
- 8. Improve the conditions for investments and access to credit** - In order to strike a balance between the funding needs of businesses and overall financial stability, it is necessary to improve the regulatory environment for bank lending, particularly for SMEs, and to facilitate direct access to financial markets for enterprises. In this context, keeping and further strengthening the SME Supporting Factor will be extremely important.
- 9. Accelerate fiscal reforms** - Modernizing and adjusting current fiscal legislation – both at national and international level – will be a precondition for a fair and business-oriented framework. This modernization will have to take into account new technologies such as digitalization; it will have to tackle international tax evasion, eliminate fiscal burdens to internationalization of businesses, and reduce the economic distortions stemming from fiscal competition among states.
- 10. Strengthen the external dimension of the EU** - The EU should push for a substantial reform of the WTO and for the development and enforcement of stronger international rules to tackle anti-competitive practices. While continuing to pursue its ambitious bilateral agenda, the future EU trade strategy needs also to focus more on implementation and enforcement of existing FTAs.
- 11. Enhance the cooperation with third countries** - The EU shall deepen relations with Africa, by acting on economic diplomacy, as well as on immigration and security. The investment climate should be reinforced, in order to boost collaboration among European and African companies, allowing the private sector to contribute to the development of the African continent.
- 12. Brexit** - The main priority shall be to avoid a chaotic withdrawal of the UK from the EU, while maintaining legal certainty for businesses; as regards the future relationship, the integrity of Single Market should be preserved and a new level-playing-field with the U.K. as a third country should be established.