

Ways out of the crisis – strengthen growth now!
Proposals for the European Councils in January and March 2012

For years, growth has been more modest in Europe than in other major economic areas. On top of this, the drop-off in confidence in Europe's economic strength caused by the sovereign debt crisis is hampering growth and employment development. The Commission and the ECB have cut its growth forecast for 2012 accordingly. We are aware that growth and jobs as well as financial stability are vital if we want to overcome the crisis.

Against this background, the extraordinary European Council scheduled for the end of January and the Spring Summit will be particularly important. The Spring Summit should consider how the Europe 2020 goals can be attained more rapidly and how to speed up the implementation of the Euro Plus Pact including by asking the participants to present few, but particularly growth-relevant and effective measures for 2012. For this purpose, the Commission should prepare a detailed analysis, based on objective indicators, how competitiveness has developed in Member States and the extent to which the Euro Plus Pact participants have fulfilled their 2011 commitments.

The innovation agenda is of utmost importance in this context. Designing the best framework conditions for enterprises to increase their competitiveness - including respecting the excellence criterion - are crucial. This will be our guideline for Horizon 2020 as well.

Germany and France take the view that the European Council should send strong signals for more growth and employment. In doing so we should clearly expose the Member States' responsibility for improving the conditions for investment and employment. France and Germany propose to concentrate efforts on six main priorities.

1. A renewed European effort to tackle unemployment, in particular for youth

Youth unemployment is one of the most pressing problems in a number of Member States. Other Member States could share their experiences with labour market

reforms and, if necessary, offer advice. We should have a debate on the proper functioning of labour markets (including labour law) in member states. The debate should be conducted on the basis of a detailed analysis by the Commission, which identifies the weaknesses and contains concrete reform proposals. A comparison, comprising vocational training systems and short-time working use when facing temporary economic slowdown could highlight where action is needed.

Building on the work already carried on by the Commission and the EPSCO Council, the following measures should in either case be envisaged:

- The member states should direct their national employment agencies to make a concrete offer to every unemployed within a certain period through a job offer, apprentice contracts or further training.
- Apprenticeship should be encouraged: to this end, the European Council could decide that a “European plan for apprenticeship” should be adopted.
- In addition, ways of improving cross-border job placement should be sought, which the member states could undertake to pursue (e.g. greater use of EURES, experimentation of shared job placement agencies in boarder areas). The proposal by the Commission of a European professional card should be supported.

In order to ensure more adaptable labour markets, the Commission and the Member States should seek ways to strengthen the social partnership and to avoid social dumping which threatens the integrity of the internal market.

- Member States should also explore ways to reduce tax burden on labour in order to stimulate demand for labour and create jobs.
- The January European Council should decide on the organisation of a social forum during the first semester.

2. Development of adequate tools for the financing of companies in Europe

The European companies are the backbone of Europe's economic success. This is particularly true for the small and medium sized companies. Since we cannot afford serious funding shortfalls in this area, France and Germany propose the adoption of the following measures:

- Specific measures should target SMEs:
 - The European Council should call on the swift implementation of the Commission's proposals on venture capital: national instruments designed to support venture capital should be enhanced and further supported by the EIF, in particular in the sectors regarded as strategic at European level. In 2012 Member States should adopt a new regulation on "European Venture Capital Fund".
 - New initiatives in the field of accounting, in particular the reform of the 4th and 7th directives, should allow for true simplification of accounting requirements applicable to SMEs; requirements on listed SMEs could also be simplified.
 - The European Council should also support the Commission's proposal on better access of SMEs to public procurement.
- Member States should swiftly adopt the revised Markets in Financial Instruments Directive (MiFID) and Regulation, which includes measures with the aim of directing investments to companies and facilitating companies' access to financial markets.

3. A better use of European funds

The establishment of a fund for growth and competitiveness in programme countries and other countries facing serious structural challenges should be considered. At this stage, this fund should pool a certain amount [25%] of the 2011 automatic commitments of these Member States from the Structural and Cohesion Funds, and would be managed by the Commission in liaison with EIB. Fund activities should be limited to projects which have clear targets and can be identified and implemented in 2012 should be funded. The impact on payments should be strictly funded through redeployments inside the 2012 initial budget. The EIB and business development

banks in these states could be provided with monies from the fund so that loans could be granted to SMEs and investors on favourable terms (possibly via intermediary commercial banks). Funding for research institutes, applied research and development projects in these countries should also be enhanced: the support should be focused on viable projects which, according to the Commission, will help achieve the Europe 2020 goals and are likely to have a positive impact on the economic reform process.

Beyond the use of monies from the fund, combined use of EIB expertise and direct financing instruments (or guarantees) from existing EU funds could also be used to finance projects in priority sectors (such as innovation projects in industry or infrastructure) identified by the Commission as most beneficial to growth and competitiveness. A proposal for a regulation of the European parliament and of the council amending Council Regulation n°1083/2006 should be drawn up by the Commission in early February (especially regarding automatic decommitment).

The existing structural funds operational programmes should be assessed and if needed revised in order to improve their impact on growth and competitiveness.

Late payments to the beneficiaries of EU funding should be reduced by lowering the ceiling to 1 month.

4. The completion of our efforts to reinforce the framework of financial market regulation

- European institutions should agree on achieving the EU financial market regulation agenda while taking due consideration of its impact on the financing of the real economy, of SMEs and households, as a complement to central banks' action. In particular, we stick to the agreed time frame of new regulatory provisions that may have a negative effect on the lending capacity of banks and fully respect transitional periods that have been devised to avoid negative effect on the lending capacity of banks. In this regard, the Capital Requirements Directive IV should not introduce new liquidity ratios before 2014 and mandatory disclosure of the leverage ratio should not occur before 2018. Furthermore, new regulations on capital requirements should take into

account the specificities of European banking systems and the predominant role of European banks for financing the economy, for instance as regards loans to SMEs' prudential weighting or insurance participations' treatment.

- European institutions and Members States should accelerate the process of tax coordination in order to foster growth, removing obstacles to the functioning of the single market and preventing tax abuse and harmful tax practices. In particular, the negotiation of the European Commission proposals on energy tax directive, Common consolidated Corporate tax base and Common system of Financial Transaction tax should be accelerated.
- In order to set the stage for enhanced tax coordination, France and Germany express their support for the European Commission's proposal on a Common system of Financial Transaction tax and will by the end of February present proposals on the convergence of their corporate tax.

5. A European effort to modernise public administrations

We should have a best practice exchange on the efficiency of our public structures.

Efficient public administration is the basic prerequisite for carrying out the needed structural reforms. The Commission should submit an analysis on how well the public administrations of the member states work and draw up country-specific recommendations, in particular for the Euro area Member states. The aim should be to increase the efficiency of the public sector, to enhance the quality of public services and to reduce red tape.

6. Improving access to third markets

Free trade based on the principle of reciprocity and mutual benefit is a key prerequisite for growth and employment in Europe and for strengthening the global economy. We need to widen access to third countries markets for European companies. The European Council should express its political will to strive for intensified transatlantic trade relations through an EU-US free trade agreement. The

agreement should tackle tariff dismantling, services, investment, public procurement and regulatory convergence.