30 April 2020

BUSINESSEUROPE PROPOSALS FOR A EUROPEAN ECONOMIC RECOVERY PLAN

EXECUTIVE SUMMARY

Despite the extraordinary efforts of governments and the EU Institutions to support businesses and workers through the crisis, Europe's economic and political environment as we gradually exit from the severe restrictions placed on economic activity is likely to look significantly different to that at the start of the year. In particular, we will see high levels of business bankruptcies, reduced investment plans, high unemployment, weaker government finances, and increased protectionist pressures on both the internal market and external trade. Smart European leadership and efficient forms of solidarity will be needed to recover from this unprecedented crisis and strengthen European sovereignty in the post-COVID-19 world.

Controlling the virus whilst preserving our economies and societies requires, in the first instance, a **co-ordinated EU emergency response and an effective risk-based exit strategy.**

In addition, the EU and its Member States must work with the social partners to immediately define a **clear, ambitious, predictable and co-ordinated EU recovery plan** in order to give businesses the confidence to keep going through this crisis, ensure that we rapidly address the damage to our economies, and start restoring businesses capacity for investment and employment.

BusinessEurope's EU recovery plan sets out detailed proposals under 4 pillars which if implemented together can help create a regulatory and fiscal environment for businesses that enables them to invest, grow and create jobs:

1. **A rapid deployment of EU investment funds as part of an ambitious and co-ordinated EU fiscal stimulus**, including immediate agreement on a new and revised Multi Annual Financial Framework (MFF), and a specific European Recovery Fund to bring new money to the table without mutualising existing debt between Member States[1].
2. **A revitalised and open single market and strengthened single currency**, as part of a greater focus on supporting sustainable investment, growth and employment.
3. **The EU as a leading advocate for rules-based, fair and free trade and investment and a strong supporter of multilateral solutions.**
4. **Strengthened EU governance to ensure EU financial support increases Member States' implementation of growth and employment enhancing structural reforms and upward convergence.**

[1]This paragraph is not supported by the Confederation of German Employers' Associations (BDA)

INTRODUCTION

Despite the extraordinary efforts of governments and the EU Institutions to support businesses and workers through the crisis, Europe's economic and political environment as we gradually exit from the severe restrictions placed on economic activity is likely to look significantly different to that at the start of the year:

- Economic activity will sharply contract in all economies, in most much worse than in the Great Financial Crisis.
- A sustained shutdown is likely to lead to **bankruptcy and closure of many businesses**, particularly SMEs, in both services sectors hit directly by the shutdown as well as in the manufacturing industry.
- In many sectors, **investment plans are likely to be delayed or reduced**, given sharply lower domestic and external demand, lower cash reserves, and increased uncertainty.
- **Unemployment** or short time work will be considerably higher, with March unemployment data from Member States already pointing to huge job losses.
- **Government finances will be in worse condition**, with higher short-term deficits and overall debt levels.
- The functioning of the **single market is likely to be under continued pressure** due to the introduction of temporary intra-EU border controls, export restrictions and diverse approaches to the definition of essential goods and services.
- **Trade restrictions and supply chain disruptions have increased**, with closures and additional checks at the EU's external borders and a number of export restrictions and bans having been introduced especially targeting the healthcare and food sectors. A narrative favouring self-sufficiency could also lead to additional trade and investment restrictions.

Controlling the virus whilst preserving our economies and societies requires both a **coordinated EU emergency response and an effective risk-based exit strategy**. In particular, this means, support to companies, including SMEs, to ensure a safe revitalization of economic activity over time through appropriate health and safety at the workplace followed by the use of flexible formulas to suspend or reduce working time in order to limit as much as possible negative impacts on the recovery phase from COVID-19 crisis.

The EU and its Member States must start immediately to define a clear, ambitious, predictable and co-ordinated EU recovery plan in order to give businesses the confidence to keep going through this crisis, ensure that we rapidly address the damage to our economies, and start restoring businesses capacity for investment and employment. Smart European leadership and efficient forms of solidarity will be needed to recover from this unprecedented crisis and strengthen European sovereignty in the post-COVID-19 world.

In these testing times, the resolve and responsibility of all public authorities on EU and national level as well as **social partners** at all levels will be key to ensure the healthy functioning of our economies and preserve the European social model.

In line with the proposed 'Roadmap for Recovery', welcomed by **EU leaders on April 23rd, the EU recovery plan should be based on 4 pillars which together create a regulatory and fiscal environment for businesses that enables them to invest, grow and create jobs:**

1. **A rapid deployment of EU investment funds as part of an ambitious and co-ordinated EU fiscal stimulus,** including immediate agreement on a new and revised Multi Annual Financial Framework (MFF), and a specific European Recovery Fund to bring new money to the table without mutualising existing debt between Member States[2].
2. **A revitalised and open single market and strengthened single currency**, as part of a greater focus on supporting sustainable investment, growth and employment.
3. **The EU as a leading advocate for rules-based, fair and free trade and investment and a strong supporter of multilateral solutions.**
4. **Strengthened EU governance to ensure EU financial support increases Member States' implementation of growth and employment enhancing structural reforms and upward convergence.**

[2]This paragraph is not supported by the Confederation of German Employers' Associations (BDA)

PILLAR 1: A RAPID DEPLOYMENT OF EU INVESTMENT FUNDS AS PART OF AN AMBITIOUS AND CO-ORDINATED EU FISCAL STIMULUS.

Kick-starting the EU economy will require **an ambitious and coordinated fiscal stimulus** to support demand, and in particular, private consumption and investment. This can best be delivered through:

- national measures **supporting disposable incomes** of private households,
- **safeguarding public investment at both national and EU level**, particularly in education and health care,
- **rapidly channelling investment into key strategic areas that can reinforce Europe's long-term competitiveness, growth and employment creation potential.**

This stimulus needs to be underpinned by a European Union able to streamline resources and investment to support Member States deploy targeted instruments, reflecting the extraordinary nature of the crisis. **Where new instruments are developed (for example SURE), they should be temporary** and directly connected to the COVID-19 crisis.

The Commission's Corona Response Investment Initiative (CRII) is a good starting point to provide immediate support to businesses in need through the crisis, maintain employment and ensure the supply of essential goods and services. Future instruments similarly designed to the CRII should build on more flexible criteria to better channel support to countries and sectors most hit by COVID-19, particularly those sectors with limited access to market-based support. All unused structural funds should be rapidly deployed, including by **reducing national co-financing rates** for both public and private investment, as well as temporarily easing application, monitoring and reporting requirements. At the same time, we need to develop accompanying instruments to ensure that the money is well spent and improves Europe's global position.

It is essential to reach **rapid agreement on an ambitious new multi-annual financial framework (MFF) focusing on growth and structural reforms**, including the possibility of a specific **European Recovery Fund**, as discussed at the video conference of the members of the European Council on 23rd April 2020, to bring new money to the table. This new fund should be ambitious enough to relaunch the European economy and to give a clear signal to markets about Member States' commitment to the EU, without mutualising existing debt between Member States[3].

Solidarity during the crisis is crucial in **helping maintain convergence between Member States**, stimulating overdue reforms, and thus helping to enhance the level playing field of the single market.

In order to address the extraordinary challenges we face, **the EU budget must play a greater counter-cyclical role**, with measures taken to increase the amount of expenditure at the start of the programming period. The EU budget must rapidly channel investment into the following key areas:

- **Investment to support an industrial and growth strategy for all branches of industry**. A successful manufacturing industry and its services component will continue to be the foundation for our economic prosperity given the fundamental role this sector plays in driving innovation, productivity and employment, and its spill-overs and linkages across the whole economy. Investing in clean and digital technologies and enhancing strategic value chains will play a central role in relaunching and modernising Europe's economy. The crisis has also reminded us of the importance of companies to the resilience of our economies and broader societies, with a need to build a more resilient industry and to strengthen our ability to face and manage future crisis.

  Achieving this ambition should go hand in hand with the Green Deal ambitions, by ensuring that the recovery plan provides **a new impetus for investment in energy, environment and climate programmes**.

[3]This paragraph is not supported by the Confederation of German Employers' Associations (BDA)

BusinessEurope supports the objective to transform the European society to climate-neutrality and circularity, but more than ever these ambitions will need to be accompanied by a strong business plan. There needs to be significant public support to help deploy key low-carbon technologies such as batteries, hydrogen, low carbon liquid fuels, off-shore wind and carbon capture and storage, in order to reach the scale where they become increasingly competitive. In addition, **state aid rules should act as an accelerator of transformation**, supporting investments that drive the deployment of low-carbon and circular solutions, products and technologies, and thus aim for a sustainable recovery. Investments must strengthen European competitiveness and mitigate risks of carbon and investment leakage.

Such impetus needs to be accompanied by investment to **improve energy efficiency in industry and of buildings (i.e. the "renovation wave")**, as well as measures to **support consumer demand** for more low-carbon products such as clean vehicles (in combination with the roll out of investments in infrastructure for zero-emission vehicles such as charging infrastructures).

- **Strengthen collaborative R&D and innovation**: Increasing R&D in environmental areas needs to be part of a wider focus within the revised MFF on R&D, technology and innovation. Resilience and flexibility to production systems cannot be reached without R&D and industrial innovation. Public support will become key for businesses in such a recovery phase: private investment readiness will likely reduce but companies' need to innovate will remain crucial. Cooperation will be vital, and industry, technology centres and universities must join forces in this innovation-driven reactivation.

- **Enhanced support for entrepreneurship and SMEs**: There must be an increase in the EU's support for SMEs, start-ups and mid-caps. Every measure announced, especially those providing financial support, should be accompanied by clear, business-friendly information on what type of support is provided, how an SME can effectively access the different EU financial instruments that exist, who to contact at EU level if they have questions, who are the national bodies involved in channeling the funds, who are the national players SMEs can turn to, what is the role of national banks and what are their obligations, etc.

    - **Public Procurement** should be used as an effective tool to support SMEs in particular. In addition to supporting new entrepreneurs, EU funds should help entrepreneurs and workers whose businesses have had to close as well as their workers, to quickly re-start. We support in particular, the creation of **a pan-European Guarantee Fund**, managed by the EIB, to generate up to €200bn of additional targeted financing for SMEs, midcaps and corporates impacted by the COVID-19 crisis. EU projects such as **VentureEU** (Europe-wide venture capital fund program) must also be expanded to attract more private investment.

    - Ensuring effective support for SMEs will be an important means of helping sectors such as tourism and hospitality which have been particularly impacted by the shutdown, regain their financial health. But the EU will need to consider what further broader sectoral support can be provided to businesses in those sectors particularly hit by the crisis.

- **A step change in EU investment to take advantage of digital opportunities**: including support for the next phase of digitalization of industry and digital services provision, and to maintain a high degree of quality and capacity of digital infrastructure. This means in particular:

    - increased public funding to support the widespread roll-out of a high quality, cyber-secure digital infrastructure, including investment in European data spaces,
    - improving the rollout of 5G in order to allow digitalisation of industry, the application of innovative business models and the use of digital technologies along the supply chains throughout European Member States,

- incentives to promote digital skills training and helping companies and workers, including through support for Social Partners, benefit from the distance learning and training,
- improvements in the IT infrastructure and digital fitness of the EU institutions, in order to ensure continuity in the legislative procedures.

- **A significant boost to trans-European infrastructure, going well beyond the Commission's previous MFF proposals**: As well as building the EU's digital capacity, significantly higher investment is needed to urgently boost transport infrastructure, including through promoting co-modality between different type of transport and inter-connectivity of logistics systems. A similar boost is required for energy infrastructure, particularly in relation to trans-European energy grids and interconnections to finally achieve an Energy Union.

- **A new EU e-learning fund to support EU providers and users**: Employment gaps caused by COVID-19 related reduced work intensity, and increased unemployment rates require to rapidly respond to up-skilling and re-skilling needs of workers in order to allow them to re-enter or stay fit for changing labour markets. A fund financed by the EU should be developed to support European e-learning providers, including private providers, and to support both workers and the unemployed who want to engage in e-learning. To ensure that the content of the e-learning provision responds to labour market needs, the social partners and employment services should be closely involved.

- **Greater focus on accessible, affordable, and high-quality childcare infrastructure across Europe**: Greater childcare infrastructure investment is needed to support working parents to remain in employment and increase their working hours, as well as attract inactive parents into the labour market. Increased EU funding, including through InvestEU, the European Social Fund and the European Regional Development Fund can allow us to go beyond the 2002 Barcelona target of 33% of EU children under 3 years old benefiting from formal care arrangements.

- **Improved support for capacity building of social dialogue in all EU member states where this is needed**, with a view to ensure a sustainable recovery of the European labour markets across Europe. The EU and Member States should respond in priority to the specific needs of social partners organisations particularly in some Central and Eastern European Countries.

PILLAR 2: A REVITALISED SINGLE MARKET AND STRENGTHENED SINGLE CURRENCY, AS PART OF A GREATER FOCUS ON SUPPORTING SUSTAINABLE INVESTMENT, GROWTH AND EMPLOYMENT.

Providing new EU funds for investment will not be enough to drive a sustained recovery. Public investment needs to be accompanied by ambitious policy measures which will generate trust, and increase the attractiveness of the EU as a location for long-term private investment. At EU level this means a renewed focus on **further integration of the single market and strengthening the single currency**, based on **regulation that is balanced and risk-based**.

We believe the EU can foster a renewed drive to increase investment in the EU through the development of policy in the following key areas:

- **Short-term actions to restore the normal functioning of the single market, whilst avoiding placing additional burdens on business**: Addressing the introduction of temporary intra-EU border controls and export restrictions, as well ensuring that extraordinary measures such as the temporary state aid framework remain in place only as long as the crisis requires, must be a priority. In particular:

- **Border controls, particularly regarding the free movement of workers** and inconsistent action by Member States across the EU have created legal uncertainty for businesses and workers as well as threatening on of the core pillars of the single market. Although the Commission called on the Member States to ensure that workers in international transport, as well as frontier workers, posted workers and seasonal workers in critical occupations, border management was often dominated by unilateral action. The EU must ensure that Member States respect the principles of free movement notably to allow frontier and seasonal workers to continue to work by establishing green corridors for them, as part of a broader and stronger coordination of border management strategies. Consideration also needs to be given to an EU-wide certificate to ease essential worker mobility in such crises in future.

- As governments may still take additional steps by re-nationalising some businesses in reaction to the present crisis, a strict framework to adhere to the **single market** rules will be necessary.

- More broadly, **the EU must avoid placing additional costs on businesses during a period when many are fighting to survive**, and therefore avoid a 'business as usual' regulatory and legislative approach. Businesses need room to breathe and recover, hence the need to postpone non-essential public consultations and allowing temporary flexibilities around implementation deadlines of existing regulations at EU level.

- A more comprehensive picture of the newly emerging situation and its consequences is also required to determine how the key **new initiatives** the Commission launched prior to the crisis, or planned to launch in the coming months, can be implemented and combined in synergy with the broader recovery strategy. **Without questioning the overall objectives, we urge the EU not to press on with these pre-crisis initiatives as if nothing has happened**.

- **Better regulation principles need to be fully applied** with a strong focus on the reduction of unnecessary burdens.

- **Removing longer-term bottlenecks in the single market**, focussing on enforcement and strengthening its freedoms of movement of capital, goods, services, and people as well as data. In particular:

  - New impetus to the **Services Single Market**, the potential of which had been underused for years. The EU has a chance to take further steps through a review of authorization and licensing regimes in Member States and a further opening of markets where job creation potential is greatest, like in business services, transport and logistics, retail, and lifting conditions for all mobile workers on an equal foot.

  - To support a relaunch of the industry sector, companies need tools facilitating compliance efficiently, such as **harmonised European standards**. Companies currently face significant and unnecessary costs and burdens because of bureaucratic bottlenecks in the process of harmonised standardisation, therefore the Commission should fundamentally revise processes for technical harmonisation of products and reduce intervention of public EU authorities in this traditionally stakeholder-driven process.

  - Additional measures to **ensure the level-playing field** are necessary to reinforce cooperation within the market surveillance system, significantly supporting it with the EU financing under the new MFF.

  - **Proportionality test criteria**, as spelled out in the rules for Member States before regulating a profession, should be applied to all legislative proposals.

  - **Strengthening connectivity and supply chains** as well as individual mobility by ensuring much needed liquidity and thus functioning logistics and mobility in the long run. It is imperative to examine temporary adjustments to applicable legislation on common rules for compensation in case of travel cancellations by passenger transport operators which could allow them to provide appropriate alternative solutions, that could help soften the massive economic damage in the sector and keep also cargo carrying capacities as much as possible. This way a drain of liquidity can be halted and transport operators can regain footing needed for the business survival and investments in efficient technologies.

- **Greater cross-border public procurement** including when used in a sustainability context (green public procurement) can help support demand for European products, reduce import dependency of key materials for manufacturing industries and assist the transition to a climate neutral Europe,

- **Ensuring the regulatory framework allows the EU to be a leader in the implementation of the next phase of services digitalization:**

  - Full Member State implementation of the **EU 5G Toolbox with emphasis on securing a robust infrastructure**, to enable risk assessments of suppliers and service providers and future proof use of spectrum allocation to roll-out 5G as a priority.

  - Strengthening the capacities of the European Union Agency for **Cyber Security** (ENISA) to protect recovery through digitalization.

  - Ensuring basic **cybersecurity literacy**, thanks to initiatives like "cyber-security training for all" to keep everyone educated on cyber-threats would benefit businesses and citizens alike.

  - **Making sure that all regulatory measures function as stimuli for innovative (digital) business models** rather than red tape. Bearing this in mind, legislative initiatives, such as the Digital Services Act, should promote the development and up-take of fair digital solutions in both society and industry in order to increase their resilience, while at the same time foster competition.

  - **Digital learning** should become an everyday reality. In addition to providing equipment and developing skills of educators, it is important to implement comprehensive educational concepts in a way that meets the technological, social and personal skills requirements of a digitized world. An initiative like **"e-commerce available to all"**, could help ensure that all businesses, SMEs, and citizens can fully benefit from e-commerce without any barriers.

- **Ensuring the regulatory framework supports business innovation**

  - **Fast-track the 'industrial ecosystems'** as a mean to restore investment in sectors heavily impacted by COVID-19 crisis, as well as in strategic value chains. This is key to strengthening our industrial location and autonomy over time. Particular attention should be given to technology neutral approaches as we need to use the full potential of diverse contributions for in support of the EU's Green Deal and Digital agenda – from all areas of technology and economic sectors.

  - Establish the design of an **innovation-friendly regulatory environment**. For instance, establish regulatory sandboxes at EU level. This would encourage a risk-taking approach, by easing the testing of potential breakthrough technologies.

  - **Speed up planning, permit and approval procedures** for projects of particular public interest, including trans-European large-scale infrastructures and network projects in order to make them start as early as possible. Designing specific authorization proceedings for TEN-T projects, as well as a more efficient coordination among managing authorities, shall be of essence in order to avoid delays by Member States.

  - **EU competition rules on horizontal cooperation** should encourage companies to collaborate to carry out joint technology development and achieve the objectives of other EU policies such as environmental and sustainability objectives. EU state aid rules for the **funding of Important Projects of Common European Interest**, should be adapted to facilitate and speed-up decision-making, be more flexible in order to accelerate implementation of concrete projects and reduce administrative burdens.

- **Innovators and businesses in Europe must rely on a solid IP system**. A stable and reliable IP legislative framework is key to facilitating investment and ensuring that companies continue to innovate and grow and are ready to face global challenges. The already announced EU Action Plan on IP should be adopted without delay.

  Ensure that the Unitary Patent system, including the Agreement on a Unified Patent Court and the EU Regulations on the Unitary Patent, **enters into operation as soon as possible** to boost competitiveness and economic growth in Europe, which would certainly be needed for an economic recovery after the current COVID-19 crisis[4].

- **Strengthening Economic and Monetary Union (EMU):**

  - We must do everything it takes to protect our single currency, including **ensuring all Member States have market access to funds needed for their recovery plans**. Building on the strong action taken by the ECB to launch a new Pandemic Emergency Purchase Programme representing over 7% of EU GDP, we welcome the agreement amongst finance ministers to ensure existing tools, in particular the ESM, can be rapidly adapted to meet the needs of the present crisis. Discussions should also progress on further possible instruments.

- **Completing the banking and capital markets unions to revitalise access to finance for the benefit of all:**

  - Strengthening the EMU also means putting in place a **Banking Union and reinforcing and implementing the Capital Markets Union** to ensure a genuine single market in financial services alongside the development of **complementary sources of finance to bank lending**, specifically enhancing long-term debt financing and equity investments, including **venture capital**.

  - Actions to support **sustainable finance** must be proportionate, practicable and accommodate the needs of both the financial markets as well as the real economy. They should help companies to finance their transition and funnel investments to support the transition towards a climate-neutral economy, without imposing excessive burdens to companies.

  - It will be key to **incentivise greening activities** and to make sure that European financing instruments include transition and enabling activities that demonstrate credible pathways towards, or contribute to reaching, long-term sustainability goals. It is important to ensure sufficient financing of all market players and avoid that companies struggle to get sufficient financing because of unproportionate rules or business models that are unduly regarded as non-sustainable.

  - We welcome the postponement of the implementation of the final **Basel III** requirements. **New prudential rules for financial institutions must** not increase capital requirements overall to support companies' need for capital for investment and trade (bank loans, bonds, equity investment, venture capital and trade finance) and must ensure access to risk management products at competitive terms.

[4]This paragraph is not supported by the Spanish Confederation of Employers and Industries (CEOE), the Confederation of Industry of the Czech Republic (SPCR) and the Confederation of Portuguese Business (CIP).

PILLAR 3: THE EU AS A LEADING ADVOCATE FOR RULES-BASED, FAIR AND FREE TRADE AND INVESTMENT AND A STRONG SUPPORTER OF MULTILATERAL SOLUTIONS.

We are experiencing a global crisis that requires strong international coordination both in the exit as well as in the recovery phase, with a key role for multilateral institutions like the International Monetary Fund (IMF), the WHO (World Health Organisation) and the WTO (World Trade Organisation). Trade will be key to promoting a sustainable economic recovery and allowing companies to rebuild and re-organise value chains that have been disrupted by the COVID-19 emergency. For a successful uptake of trade and investment flows we recommend to:

- Eliminate restrictions at intra-EU and external borders for international **transport**, in particular air and water freight but also road transport and international rail freight.

- Ensure common and uniform approach across all Member States in opening air transport to avoid distortions and hindering procedures at the restart of air traffic (passenger and cargo).

- Ensure through working with the G20 that **export restrictions or bans** are lifted, minimizing the disruption of value chains and allowing production lines to gradually resume their operations throughout the EU.

- **Extend the tariff suspension** on goods that are critical to fight COVID-19 to the private sector. This is absolutely essential to allow companies to resume economic activity while ensuring the protection of workers. We support all efforts on the international level for a broad, ambitious and unbureaucratic tariff liberalization agreement on pharmaceutical and medical products and their inputs, that is permanent in order to facilitate trade, economic recovery and the fight against future health crises.

- **Simplify and adjust customs procedures**, for instance by promoting the use and acceptance of electronic documents, reducing non-essential physical inspections, being flexible on payments and delays and ensuring there are enough human resources to perform the tasks.

- Keep **foreign direct investment** afloat, as Europe's growth and productivity benefit particularly from the technology transfer and innovation that such investment from third countries brings. Screening of FDI must be effective, proportional and directed to what is necessary for the protection of strategic assets and the prevention of risks to national security and public order but must not curtail Europe's openness. The COVID-19 crises emphasized criticality of some sectors, technologies and supplies and this experience can be utilized while forming the FDI screening mechanisms setup in order to keep EU open for investments, while securing diversified and reliable value chains.

- Continue to lead and support the **WTO reform process**, including adjusting its rule-book to the new post-crisis trade reality, to ensure it is a strong and effective organisation that can act against protectionism and unilateralism.

- **Enhance plurilateral and multilateral trade negotiations** within the WTO. The COVID-19 crisis has shown the importance of global cooperation and that national and unilateral solutions are not an answer. This should give a new impetus to plurilateral and multilateral trade negotiations in critical sectors like digital trade and e-commerce, healthcare and environmental goods.

- **Negotiate an agreement with the US** that leads to the elimination of existing additional duties, finds a solution for the Airbus/Boeing dispute and looks for ways of regulatory cooperation especially in the healthcare sector. A bilateral reduction of industrial tariffs could give a positive impulse to businesses on both sides of the Atlantic and strengthen transatlantic value chain resilience. Reaching a consensus on the recognition of conformity assessments would also lead to a stronger momentum in economic recovery and business opportunities.

- Resume an ambitious **bilateral trade agenda**, especially with countries that were less hard hit or that more quickly recovered from the COVID-19 crisis.

- Modernisation of the **EU-Turkey Customs Union Agreement**, while ensuring Turkey maintains the process of alignment with EU legislation in key areas, would support the supply chains' recovery as well as single market operations and regulations in foreign trade in parallel with EU's upcoming ambitious bilateral trade agenda.

- Strive for an ambitious and comprehensive investment agreement with China that effectively allows European companies the same level of access that Chinese companies already benefit from now in Europe.

- Conclude the negotiations for an ambitious free trade agreement between the EU and Mercosur also technically and ratify it swiftly. For both sides, this agreement can lead to new approaches to cooperation in many areas, also with regard to the digital economy. Furthermore, free trade with Mercosur would significantly increase EU exports to the region, while at the same time favouring market diversification.

- To support a diversification of value chains via the EU trade policy rather than discuss efforts for wide self-sufficiency.

- Ensure that the existing **Free Trade Agreements** (FTAs) are effectively used by European companies, especially SMEs, and more companies benefit from the trade and investment opportunities created by these agreements while ensuring that our trading partners fully respect their commitments.

- Ensure that any new EU FTA will be equipped with effective **"Digital Chapter"** to allow businesses to fully benefit from those agreements. The COVID-19 crisis is showing even more clearly the importance of the digital economy and digital trade. Where this chapter is missing (EU-Japan), it needs to be finalized as soon as possible.

- **Pave the way for a close economic relationship between the EU and the UK** by negotiating an ambitious agreement governing their future relations. Considering the short time ahead of us and the disruptions caused by COVID-19, we ask both sides to do their utmost to achieve progress in the negotiations in the coming weeks and be open to practical solutions in case an agreement is not achievable by the end of the transition period.

PILLAR 4: STRENGTHENED EU GOVERNANCE TO ENSURE EU FINANCIAL SUPPORT INCREASES MEMBER STATES' IMPLEMENTATION OF GROWTH AND EMPLOYMENT ENHANCING STRUCTURAL REFORMS.

Action at EU level needs to be accompanied by reforms by Member States if we are to rapidly return the EU economy to pre-COVID-19 output and employment levels and ensure long-term, sustainable growth.

BusinessEurope's Annual Reform Barometer has consistently shown that whilst EU country-specific reform recommendations focus on the right reform objectives, levels of reform implementation in Member States have been unsatisfactory. Our 2020 Reform Barometer shows that only 13% of the recommendations have been implemented appropriately according to our members.

Now, more than ever is the time to deliver on our long-held aspiration to ensure the EU really is the best place in the world to start and expand a business which is able to deliver high quality job opportunities for all, whilst simultaneously decreasing carbon emissions.

We need to relaunch the European Semester, with a new focus on implementation, including ensuring that all EU support for Member States' public borrowing is accompanied by a commitment by Member States to implement sustainable growth and employment enhancing structural reforms that will be essential to delivering long-term fiscal sustainability.

The EU's review of economic governance can help Member States put their finances on a sustainable footing by improving the clarity of the Stability and Growth Pact, by simplifying the fiscal rules and reducing their pro-cyclicality. The review should consider how the framework can best support growth-enhancing public investment, recognising the flexibility in the current rules, for example, as shown by the use of the general escape clause during the current crisis.

Key areas of reform at Member State level include:

- **Tax:** To address the likely significant reduction in tax revenue, which could last for several years, Member States should ensure that their tax systems are adapted to become more supportive of growth by reducing taxation on both labour (including social contributions) and capital, including corporate tax, which are particularly damaging to employment. In addition, removing double taxation, and digitalising and simplifying tax systems (in particular in the area of VAT) would make investment and trade more economically viable. This would be particularly helpful for SMEs whose tax compliance cost is particularly acute as they work with more limited resources. Moreover, measures to support businesses re-capitalization and companies at risk of insolvency should be sustained. In this regard, fiscal incentives (like tax credit) for companies or physical persons investing in companies capital should be encouraged.

- **Labour market reform:** It is essential to make our labour markets more resilient, to be better prepared when crises like this hit. Therefore, the EU should support Member States' efforts to reform their labour markets during the recovery phase. In many countries, Member States and social partners' cooperation is already helping ensure short-time working schemes help to mitigate the effects on employment and to provide planning security for employees and companies for mastering the recovery phase. In the long run, the EU can support Member States and Social Partners to design, implement and evaluate policies tailored to address the structural labour market challenges they face, such as long-term unemployment, whilst providing an adequate regulatory framework to diverse forms of work.

- Better cooperation between the Commission, national governments, employers and trade unions can also help social protection systems adapt to the changing economic and social context in Europe. In the context of the EPSCO Council, the existing 'Open Method of Coordination' should be further improved to support Member States in benchmarking progress toward reform, involving the national social partners more closely in the work.

- **Skills:** We must safeguard the necessary financial support to training systems and create stronger ties between labour markets and education and training systems by putting more emphasis on learning outcomes and employability in order to foster education to work transitions, to guide up-skilling and re-skilling and to overcome skills mismatches and labour shortages. This means pro-actively involving companies in defining the skills base that needs to be developed via education and training, as well in providing concrete support to their development. In addition, Investment in skills should ensure that also people in diverse forms of work have access to re- and upskilling opportunities.

- EU-level benchmarks could play a positive role in supporting Member States' reform agendas, around the key areas of:

    - timeliness and effectiveness of education and training systems in terms of updating qualifications to changing jobs demands;
    - effectiveness of training provided by governments to inactive and unemployed people to support transitions back to the labour markets, including the extent of collaboration between public and private employment services;
    - effects of public financial incentives on encouraging enterprises and workers to invest and participate in skills training opportunities;
    - governance and responsiveness of training markets and actors to changing labour market needs.