Help Europe Win the Global Race

Priorities of French Large Companies for 2014-2019

afep

Introduction

The European Union is going through the worst economic crisis since its inception. The efforts of the EU and its Member States during the last Parliament and Commission term focused on the restoration of financial stability in Europe, sometimes at the cost of serious macroeconomic adjustments.

AFEP considers that these efforts are justified and that structural adjustments must continue. However, objectives other than stability should guide the actions of the European institutions and the Member States in the next term, so that the Union exits the crisis holding head high.

In our view, the key objective is to help Europe win the global race, that is to say, to restore and enhance its economic competitiveness, so that it can give hope to its people and compete effectively with its main partners, i.e. the United States, China, India, Brazil and Russia.

With this shared goal in mind, policy-makers and business can work together to improve the situation of European citizens by creating jobs and growth.

To enhance its competitiveness, we believe that the European Union must meet the following five challenges:

- **reform and deepen the internal market to support business competitiveness;**
- **integrate the requirements of competitiveness and financing in climate, energy and environment policies;**
- **improve the financing of the economy;**
- **facilitate access to third country markets;**
- **modernise Europe's economic governance.**

Reform and deepen the internal market to support business competitiveness

> Make European enterprises' competitiveness the guiding principle for future reforms of the internal market

> Build an integrated vision of the fundamental policies of the internal market: fundamental freedoms, competition, intellectual property, business environment

> Simplify the regulatory environment for enterprises to promote their development

> Establish a fiscal framework fostering the competitiveness of European enterprises

Too often, European legislators do not measure the impact of new regulations on corporate life. These create in many areas unjustified additional administrative burden and financial charges. The EU, which often wants to be a role model, imposes obligations that are unparalleled elsewhere (e.g. in the field of ETS, IFRS, etc.). In addition, EU regulation often overlaps with national regulations without making them disappear.

One should return to the fundamentals of the internal market by structuring the whole European economic policies around the goal of competitiveness, for the benefit of all European citizens. The internal market should enable the European Union to catch up with major foreign competitors (USA, "BRIC" countries). It should promote the emergence of large European champions. The internal market must be completed by removing remaining barriers to trade and the existing rules must be enforced better.

Our position on the ongoing or future negotiations:

- Data protection (2012/0011 (COD)): reduce the administrative burden by establishing a one-stop-shop responding to business needs; think not only in relation to the issues stemming from the emergence of giant internet enterprises, but take into account the fact that the future regulation on data protection will apply to all enterprises irrespective of their sector.
- Trade Secrets (2013/0402 (COD)): promote rapid adoption of the Commission's proposed measures to fight against the misappropriation of enterprises' know-how that is not protected by intellectual property rights.
- Shareholder Rights (2014/0121 (COD)): avoid creating an imbalance in corporate governance by moving the Board's responsibilities to shareholders.
- Common Consolidated Corporate Tax Base (CCCTB) (2011/0058 (CNS)): ensure that the common tax base and tax rates are attractive and encourage investment, innovation and R&D, taking economic risks and avoid double taxation.

Our proposals for the new term:

In general

- It is essential to better implement the existing rules of the internal market and to measure their cumulative effect before creating new rules.
- The impact of any new measures on the competitiveness of European enterprises should be objectively measured (monetary and non-monetary costs). Similarly, the regulatory burden on competing enterprises from third countries should be analysed. We should renounce to any measure that could weaken the competitiveness of European enterprises. For any new measures taken by the European Union, "zero additional burden" for businesses should be achieved. Finally, we must ensure that for any measures taken at European level, national measures in the same field disappear.
- Re-launch the Single Market Act by removing the last barriers to trade and pointing it towards the competitiveness of European enterprises.

More specifically

- Better take into account the situation of third countries in the EU competition policy, in particular emerging countries. Competition policy should also seek to strike a balance between short-term needs of consumers and long-term constraints of producers. Any reform of merger control should aim at simplifying procedures. In this regard, the extension of the control of the Commission to minority shareholdings would be counter-productive.

- Abstain from introducing a binding legal instrument on collective redress, as its dangerous abuses undermine the competitiveness of enterprises. Their gradual implementation should remain at the discretion of Member States.

- Revise the IAS Regulation to reinforce the role of Europe in the international governance of IFRS by strengthening the conditions for the adoption of IFRS and the possibility for the EU to modify a standard in well-defined cases.

- Avoid any revision of the Accounting Directive and the Transparency Directive that would imply new constraints for enterprises, notably as regards country by country and project by project reporting and in terms of reporting format.

- In the field of taxation, engage in enhanced cooperation with States willing to go ahead when necessary to build a competitive and attractive tax framework.

- In addition to work on the CCCTB proposal, urgently implement targeted measures aimed at achieving ultimately a CCCTB: effective and rapid elimination of double taxation in transfer pricing, elimination of withholding of tax at source on intra-European trade, establishment of a system taking into account cross-border losses.

- Create a "tax diplomacy" of the European Union: to deal with aggressive tax audits and double taxation which European enterprises are facing, the EU needs to establish itself as an advocate of European enterprises with tax authorities of third countries, particularly in emerging countries.

Integrate the requirements of competitiveness and financing in climate, energy and environment policies

> **Engage work on the "Climate and Energy package for 2030" in a coherent and structured schedule, taking into account the outcome of international negotiations on climate change in 2015**

> **Set targets for air quality that are achievable at reasonable cost**

> **Encourage financing of energy and ecological transition**

In the context of high energy prices, increased competition from foreign partners and more accute energy, climate and environmental challenges, the EU must rebalance its policies on these issues in order to promote the emergence of an offer of innovative technologies produced in Europe, rather than focus on the approach - so far adopted by the Commission - based almost exclusively on constraint borne by economic actors.

Our position on the ongoing or future negotiations:

- Climate and Energy package for 2030 (follow-up to the Communication "2030 Framework for climate and energy policy" and to the other texts published on 22 January 2014, i.e. study on energy prices and costs, Market stability reserve, etc.) and European Energy Secturity Strategy:

  - build a stable, predictable and integrated framework for 2030, based on a single objective of greenhouse gas emissions reduction, up to -40% compared to 1990, provided that climate negotiations lead to a satisfactory international agreement;
  - protect the most exposed sectors to international competition through compensation measures;
  - address all these issues in a consistent and structured work schedule.

- International negotiations on climate change: achieve an international agreement in 2015 in Paris (COP 21) with the major EU competitors and greenhouse gas emitters to create a level playing field between economic actors.

- Taxation of energy (2011/0092 (CNS)): avoid any form of taxation of sectors covered by ETS.

- Legislative package on air quality (Directive on National Emission Ceilings (NEC) - 2013/0443 (COD), Directive on emission limits for medium combustion plants (MCP) - 2013/0442 (COD)) :

  - take into account the levels of uncertainty stemming from the projection models and set ambition levels achievable at reasonable cost;
  - fight against overlap between European legislation that penalise enterprises.

Our proposals for the new term:

- To develop the Climate and Energy package for 2020-2030, an integrated vision among the different DGs concerned (CLIM, ENER, COMP, ENTR, RTD) is required, particularly between energy and climate policies. The appointment of a single Commissioner for both portfolios would be a strong positive signal.

- Improve governance and transparency of techno-economic models used by the Commission for the design of public policies (e.g. GAINS, PRIMES) by allowing at minimum national experts from the Member States and stakeholders to consult them and to participate in their update.

- Include in the EU's priorities for funding projects of energy and ecological transition.

Improve the financing of the economy

> Allocate resources primarily to productive investment, preserve banking maturity transformation and better organise alternative sources of financing

The long-term financing of the economy and the financing of the energy and environmental transition should be identified as a top priority of the EU for the years to come. It would help anchor growth and jobs in Europe. For this purpose, it is necessary to allocate resources primarily to productive investments and adapt regulations to these expectations (prudential and tax rules, reporting requirements and company law), to preserve banking maturity transformation and to better organise alternative sources of financing (refocusing markets on the long term, improvement of regimes relating to certain instruments or financing channels...). This implies restoring public finances and cash flow in enterprises, stabilising the legislative environment, coordinating fiscal and social policies and effectively implementing a European economic and industrial policy.

Our position on the ongoing or future negotiations:

- Communication on the long-term financing of the European economy (COM (2014) 168): the foreseen measures must be implemented as soon as possible.
- Financial transactions tax (2013/0045 (CNS)): the introduction of an FTT and its impact on non-financial enterprises could have disastrous effects on their financing and hedging costs. In particular, enterprises should not be affected by taxation of derivatives and of intra-group transactions.
- Bank Structural Reform (2014/0020 (COD)): the proposed reform should be reconsidered. It does not preserve the banking activities that are helpful in financing the economy and the activities of non-financial enterprises, in the framework of the current universal bank model.
- Institutions for Occupational Retirement Provision (IORP) (2014/0091 (COD)): rightly, the proposal does not require non-financial enterprises sponsoring dedicated pension funds to strengthen their capital requirements in line with Solvency II; the involvement of pension funds in the financing the economy is preserved at this stage.

Our proposals for the new term:

- Develop at European level methods for the identification and monitoring of projects to be financed, and appropriate funding vehicles;
- Facilitate the financing of projects considered risky by investors (long-term or innovative projects);
- Review the taxation of investments to guide them towards long-term productive investments, innovative investments and financing of energy and ecological transition;
- Better focus legislation on markets in financial instruments on the financing of the economy;
- Promote through European company law the establishment of a stable shareholding and long-term involvement of shareholders, including though the development of employee share ownership.

Facilitate access to third country markets

> Pursue an aggressive policy for third countries' market access

The European Union is open to the world and has embarked on ambitious bilateral trade negotiations. Unfortunately, the access of European enterprises to the third countries' markets, notably in emerging countries, is still often too limited. Moreover, the EU devotes too many resources to negotiations, but not enough to enforce the signed agreements.

Our position on the ongoing or future negotiation :

- The European Union must conclude ambitious agreements with the US (TTIP) and with China (investment agreement).

Our proposals for the new term:

Trade policy must be redesigned around four principles:

- It should lead to a better access to third country markets, based on reciprocity;
- It must be at the service of the European industry, in particular by promoting European standards and defending the intellectual property rights of European enterprises;
- Trade negotiations should be more focused on emerging markets;
- An effective enforcement of trade agreements is essential.

Modernise Europe's economic governance

> **Encourage Member States to reform and to conform to the rules of the eurozone**

> **Transform the economic governance of the Eurozone**

The crisis has recalled how the economies of the EU Member States are interdependent. Enhanced coordination of economic policies across the EU is a necessary condition to ensure the credibility of the common currency, overcome economic difficulties and boost potential growth and job creation in our economies. In a context marked by a slowdown in economic growth and the amplification of major demographic trends (lower birth rates, longer life expectancy...), states are required to carry out structural reforms. These concern both the public sphere, for which the requirement of spending efficiency has become stronger, but also the functioning of markets (goods, work...), which should allow for a strengthening of production so as to secure the future of our economies. Given the heterogeneous level of advancement in this process among Member States, the most delayed countries (notably France) should be encouraged to reform.

Moreover, it is urgent to strengthen the economic governance of the Eurozone, by going beyond the current framework, which has shown its limitations: lack of a common budgetary policy (about 1% of GDP of pooled spending at EU level against an average of 50% of GDP of public expenditure in the Member States) despite a fully integrated monetary policy, insufficient coordination at the level of national parliaments to comply with EU objectives. In view of these difficulties, it is necessary to consider a more integrated and less intergovernmental model of economic governance of the euro area. Such a model could also be a powerful way to re-launch European integration.

Our position on the ongoing or future negotiations:

- Implement and enforce rigorously the economic governance rules of the Eurozone, particularly in terms of deficit and debt;

- Maintain pressure on France so as to help it develop its structural reforms and reduce public spending in priority.

Our proposals for the new term:

- Build a more integrated economic governance model of the Eurozone;

- Consider pooling a portion of the Member States' debt via Eurobonds, provided that their economic policies are coordinated upstream to limit moral hazard.

About AFEP

(French Association of Large Companies)

Since 1982, AFEP is the association which brings together larger companies operating in France. The Association is based in Paris and Brussels.

AFEP aims to foster a business-friendly environment and to present the company members' vision to French public authorities, European institutions and international organisations. Restoring business competitiveness to achieve growth and sustainable employment in Europe and tackle the challenges of globalisation is AFEP's core priority.

AFEP's work relies on:
- the direct participation of business leaders and their teams in defining economic and social policy directions, as well as in determining the actions to be taken for growth and employment;
- direct and sound exchanges with public authorities, which are based on analyses and well-founded proposals;
- active and constructive contributions to French and European public consultations.

AFEP is involved in drafting cross-sectoral legislation, at French and European level, in the following areas: economy, taxation, company law and corporate governance, corporate finance and financial markets, competition, intellectual property and consumer affairs, labour law and social protection, environment and energy, corporate social responsibility.

AFEP has 110 members. More than 8 million people are employed by AFEP companies; their annual combined turnover amounts to €2,000 billion.

The Association's website (www.afep.com) provides more information on how it operates and its recent work, as well as on the role of the large companies in the French economy.

The Chairman of AFEP is Pierre Pringuet, CEO of Pernod Ricard. François Soulmagnon is Director General of the Association and Stéphanie Robert is Director.

Headquarters in Paris
11, avenue Delcassé – 75008 Paris
Tél. : +33 1 43 59 65 35

Transparency Register identification number: 953933297-85

Brussels Office
4-6, rue Belliard – 1040 Brussels
Tél. : +32 2 219 90 20

Contacts
Jérémie Pélerin
European Affairs Director
Head of the Brussels Office
E-mail: jeremie.pelerin@afep.be
Tél. : +32 2 227 57 23

Justine Richard
European Affairs Deputy Director
E-mail: justine.richard@afep.be
Tél. : +32 2 227 57 25