AMCHAM EU
AMERICAN CHAMBER OF COMMERCE TO THE EUROPEAN UNION
SPEAKING FOR AMERICAN BUSINESS IN EUROPE

INFORMATION PAPER

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2012: One year to gear the next Multiannual Financial Framework towards growth and competitiveness

The European Union continues to be deeply affected by the economic crisis that is forcing governments to prioritise their spending and take difficult decisions. The EU should do the same with the next multiannual financial framework (MFF) by **focusing expenditure on areas that will deliver future growth and will bring the greatest added value to national spending.**

The American Chamber of Commerce to the European Union (AmCham EU) welcomes the European Commission's attempts to **align the budget to its Europe 2020 strategy**, to ensure that the funded **projects are truly targeted towards growth** and the intent to **focus spending on key projects** rather than spreading the budget over many smaller ones. But the MFF proposal should focus more clearly on identified priorities, offering European solutions to European challenges.

Although relatively small when compared to national budgets, the EU budget is a powerful tool at the disposal of the EU, capable of triggering private investment and filling the funding gaps in key cross-border infrastructure projects to achieve sustainable growth. Especially in times of crisis, targeted spending of the EU budget, amounting to 1.05% of the EU's GNI, can go a long way in promoting growth and competitiveness.

The Commission proposal is a good starting point, but there is still room for improvement. The Council and the European Parliament should now show leadership and take the necessary tough decisions during the upcoming negotiations to make the aim of the next MFF a reality.

AmCham EU believes that the budget proposal should be further shaped towards **prioritising investment in three key areas where European action delivers the greatest added value and best complements national and regional initiatives**:

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- **Research and development:** The EU invests about a third less in research than the US, and is well behind the US and Japan in terms of innovation. Innovation is key to economic growth and competitiveness and the EU budget should be an open and attractive scheme supporting innovative projects from small or large enterprises as well as from enterprises of European or non-European origin. Research is the most obvious area of application for aligning the EU budget with Europe 2020.
- **Infrastructure:** Further infrastructure investments can no longer be delayed to maintain and expand Europe's transport, energy, information and communication networks at a time when global competitors race ahead to build the growth enablers of tomorrow. The EU budget must be focused on European Value Added, and should complement Member States' responsibilities to maintain a high level of productive public investment. We support the creation of a specific fund, the Connecting Europe Facility, dedicated to priority infrastructure.
- **Human capital:** The EU budget can bring significant added value in this domain by helping to promote mobility among European workers. Workers' mobility is important not only to balance the labour market across the whole EU, it is also essential in making the European workforce more productive by improving their language skills and by helping them learn best practices from different Member States.

Delivery in these three key areas – as with the Europe 2020 strategy more broadly - cannot be achieved through the EU budget alone; the EU needs to demonstrate its commitment to these goals in all aspects of its policy-making.

Public funding has an important part to play at both the national and EU level. We strongly encourage the Council of Ministers and the European Parliament to debate openly in the coming months the appropriate division of existing public spending in Europe between national and EU projects, and to consider whether existing EU funding could be used more effectively. The two biggest spending blocks should be looked at particularly carefully, as their reform could allow for a larger share of the EU budget to be devoted to growth and competitiveness.

- **Common Agricultural Policy:** Although slightly decreasing, the CAP still represents a major part of the European budget in the Commission proposal. On agriculture, the budget proposal is mostly a status quo proposal, whereas AmCham EU feels the need for much deeper reforms to align it with the objectives of the Europe 2020 strategy and to enhance coherence with other EU policy objectives. AmCham EU also feels that there should be a greater emphasis in the Rural Development Fund to help farmers transition out of agriculture.
- **Cohesion Policy:** AmCham EU feels that the Commission proposal goes in the right direction and brings significant reforms in cohesion policy. We hope that the Council and the Parliament will endorse this proposal, recognising that more efficiency in implementation and better absorption of funds are top priorities for the next programming period.

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At the same time it will be crucial to avoid absorption for the sake of it. Cohesion policy needs to help less developed regions meet basic infrastructure needs but it must also support transition to a new economy, based on resource efficiency and innovation. In this perspective it will be important to orientate funds towards meeting EU 2020 objectives.

AmCham EU believes that the proposals on EU own resources should be pursued as a general objective. However, the financial transaction tax (FTT) is not an appropriate avenue because of the negative impact it could have on the European economy and its competitiveness. However, other avenues, for instance the one proposed on VAT should be explored.

Research and Development

AmCham EU members companies are committed to Europe and they are keen to invest in a Europe that produces cutting edge technologies and innovation breakthroughs, improving the quality of life of its citizens.

Innovation has the potential to drive economic growth and deliver new solutions to existing challenges. For example, innovation in the healthcare industry can help meet the demands of an ageing population in Europe and it has been estimated that a 0.1% increase in R&D boosts output per capita growth by 0.3-0.4%. The EU budget should also support the development of low carbon technologies, an essential element of the Europe 2020 strategy. Effective implementation of the Strategic Energy Technology (SET) Plan which was endorsed by the EU Council on 4 June 2011 will also help the EU to position itself as a low carbon technology leader

However**, the EU often lags behind other regions on measures of R&D and fostering a culture of entrepreneurship, risk-taking and innovation.** The EU has failed to increase R&D investment as a share of GDP to catch up with the US. In addition, EU innovators are relatively less effective than Americans at taking their ideas to market, demonstrating a definite need for research to find practical models that can be replicated.

Innovation is essential to Europe's ability to recover from the economic crisis and to prosper in today's highly competitive and connected global economy. The EU is home to some of the most competitive knowledge-based economies in the world, yet there are **great discrepancies within the Union**, both among countries and sub-regions within countries. This calls for **a more collaborative approach to research and innovation among Member States.**

AmCham EU welcomes the introduction of Horizon 2020, in particular a **single entry point for access to funding**. A simpler and more efficient structure and a streamlined set of funding instruments would increase participation of all industries, big and small.

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By pooling together research and innovation however, it will be important not to forget that in order **to make Europe more competitive, research efforts will have to be translated into market and economic opportunities**. This should be more prominent within Horizon 2020 and should be taken into consideration when allocating funds.

Particular attention should also be focused on building upon the success of those sectors where the EU has a competitive advantage, such as intelligent manufacturing systems, aerospace, digital/electronics and biopharmaceuticals.

The success of EU innovation and research funding should be measured by its ability to increase competitiveness, create jobs, improve quality of life and promote environmental sustainability. To ensure that measures lead to concrete results, regular and independent evaluation of the effectiveness of EU innovation and research funding should be conducted and be based on more than just the number of patents registered.

Infrastructure Projects

AmCham EU welcomes the recognition of energy, transport and communication infrastructures as a core enabler of the competitiveness of the European economy and looks forward to the implementation of the right tools and frameworks to nurture sustainable growth and jobs. To address the massive needs identified by the European Commission, **the dedicated elements proposed within the MFF** (such as the Connecting Europe Facility and the European Project Bonds initiative) **must be delivered and well-supported by significant efforts at the national level, an efficient cohesion policy, an ambitious lending policy from the European Investment Bank, as well as well-functioning markets.**

We are convinced that **further infrastructure investments in well-functioning energy, transport and telecommunication networks can no longer be delayed.** Investments that provide adequate connections, reduce congestion and enable innovation should be accelerated, since they can spearhead recovery efforts and deliver growth, open markets, create jobs, bring cohesion, build lasting assets, enhance global competitiveness and improve the EU's attractiveness for industrial investment as well as overall quality of life.

Public investments, notably in the Eurozone, have already been affected by a systematic decline during the last decades, in conjunction with a slowdown in productivity and a decline in economic growth. **During the crisis, several major infrastructure projects were cancelled or delayed**, risking any existing comparative advantage in this area. As a result of the crisis, fiscal consolidation is necessary more than ever while many Member States face unsustainable sovereign debt levels and unprecedented budget pressures. We are **concerned that this legacy may further influence the 2014-2020 MFF discussions**, at a time when all efforts should focus on seeding growth to avoid a 'lost decade' scenario. We believe that the smart consolidation of public finances must preserve productive public investment in infrastructure and focus instead on improving public sector efficiency, cutting wasteful expenditures, and launching far-reaching structural reforms to deliver the right balance between fiscal sustainability and growth.

The European Commission has rightly assessed the **massive infrastructure funding needs over the next decade** for Europe's transport, energy, information and communication networks, with estimates ranging between €1.5 trillion and €2 trillion from now until 2020. European ambitions must now be backed with the right budget prioritisation at all levels.

First, it is clear that the main source of funding for infrastructure remains **proper public intervention from national and local budgets** as a core responsibility of governments towards their citizens. As such, the **earmarking of revenues** generated from the usage of infrastructure must become a core and stable funding channel for the financing of new infrastructure and network upgrades. In addition, to leverage the full potential of the single market and deliver European value added, we believe that national and local infrastructure funding capabilities must be **backed by an ambitious regional policy** to improve European cohesion through well-managed structural funds. AmCham EU therefore welcomes the level of commitment proposed by the European Commission and calls on the Council and the Parliament to endorse the ambitious proposal. We also call for an ambitious lending policy from the **European Investment Bank** to support infrastructure investment, especially as a gradual return to pre-crisis lending levels is currently considered despite the demonstration of what can be achieved when national resources are pooled to obtain as a strong entity the best lending possibilities on the markets.

Second, we support the introduction of **well-designed European Project Bonds** and the further development of **public-private partnerships**. We hope that well managed pilot programmes under the current financial framework can demonstrate the vast European potential and leverage factor. This could significantly contribute to reversing the decline in European investment over the last 30 years. AmCham EU member companies also suggest that many environment-related infrastructure investment could be considered as good candidates for these types of financial instruments. At the same time, however, AmCham EU feels that new sources of financing cannot replace the Member States' responsibilities to maintain a high level of productive public investment. New sources of financing should come with a level of additionality if they are to help bridge the infrastructure-financing gap. The market alone cannot deliver the whole remaining funding requirements for the needed infrastructure through private investments and pricing mechanisms.

Third, we very much welcome the creation of an infrastructure fund using several financing instruments. **We support the proposed Connecting Europe Facility for transport, energy and ICT infrastructure**, included in the 2014-

2020 MFF. It is a significant step towards delivering common projects with European value added and supporting the completion of the single market. We call on the Council and the Parliament to endorse the ambitious proposal and supporting guidelines, and deliver a high-level of financial commitment in line with and focussed on the agreed priority projects. We also suggest that all efforts should be made to facilitate the permitting processes on priority infrastructure projects and interconnections, to deliver the best valued added for European funds.

Lastly, **AmCham EU cautions against any risk of market distortion**. We believe the discussions on the 2014-2020 MFF should not lead to financial market distortions or market access restrictions, when introducing European Project Bonds or new financing techniques, or to the introduction of forced shifts between telecommunication tools, energy sources or transport modes in the single market. Clear and transparent eligibility criteria must be agreed and enforced. AmCham EU strongly believes that infrastructure investments should allow all telecommunication tools, transport modes and energy sources to be developed fairly and compete on the basis of their own advantages and challenges, while innovation is promoted by ensuring technology neutrality.

Human Capital

Persistent and high unemployment remains a key challenge for the EU. In addition, European societies face a multitude of challenges in the 21st century, such as ageing societies, rapid technological changes and a globalised world economy. Labour market reform needs to be tackled if Europe wants to cope with these challenges and prevent further social exclusion.

It is for this reason that **AmCham EU welcomed the ambitious initiative to reach the Europe 2020 objective of achieving a 75%** employment rate in Europe by 2020. **AmCham EU, supporting 4.8 million direct jobs in Europe, has an interest in making sure the workforce in Europe has the right skills to succeed in the labour market.**

The **EU budget can bring significant added value in this domain by helping to promote mobility among European workers**. Workers mobility is important not only to balance out labour demand and supply across the whole EU, it is also essential in making the European workforce more productive by improving their language skills and by helping them learn best practices from different Member States.

AmCham EU therefore **supports projects such as Erasmus, Erasmus for Young Entrepreneurs and the European Industrial Doctorates** as part of the Marie Curie Action Programme and believes that more **EU budget funds should be targeted to further promoting the mobility of workers, students and researchers.**

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Common Agricultural Policy

Although slightly decreasing, the CAP still represents a major part of the European budget in the Commission proposal. On agriculture, the budget proposal is mostly a status quo proposal, whereas we feel the need for much deeper reforms to align it with the objectives of the Europe 2020 strategy and to enhance coherence with other EU policy objectives. AmCham EU also feels that there should be a greater emphasis in the Rural Development Fund to help farmers transition out of agriculture.

Cohesion Policy

Over the last decade, cohesion policy has proven to be a source of growth and investment especially in Central and Eastern Europe. In the next EU budget, **cohesion policy should not only finance basic infrastructure needs** (which are still important in some Member States), **but also help European economies move toward a more resource-efficient and knowledge-based economy**, as envisaged by Europe 2020. This is why we consider that the proposals of the Commission go in the right direction: alignment with Europe 2020, thematic concentration of objectives, setting up of a conditionality based on the implementation of sectoral reforms.

Another challenge for cohesion policy is to **improve the absorptive capacity of recipient Member States**, especially in Central and Eastern and Southern Europe, as a significant part of the 2007-2013 budget might not be used at the end of the budget period. **A special focus should be made on technical assistance for the preparation of projects** (cooperation with local administrations, 'JASPERS' financing). Lastly, the use of innovative financial instruments needs to be strengthened: the 'J' instruments (Jeremie and Jessica), run jointly with the EIB, and also public-private partnerships, which remain very difficult to use in projects financed through structural funds.

We regret and **oppose the fact that the Commission intends to exclude large companies from support through ERDF on 'productive investment'**. We believe that projects should be evaluated on their quality in terms of local economic impact, contribution to growth and job creation rather than on the size of the company.

Own resources

According to Article 311 of the Treaty on the functioning of the European Union, the EU should be financed by its own resources. Contrary to this, contributions from Member States represent today a predominant part (85%) of the EU budget. This leads to complex discussions for each policy between 'recipient' and 'contributing' countries and to the creation of complex correction mechanisms (rebates). As a result, a balanced agreement among Member States is always more complex to reach at each new MFF discussion.

As a general objective, the introduction of own EU resources should be pursued. In our view, financial transaction tax is not an appropriate avenue, because of the negative impact it could have on the European economy and its competitiveness. However other avenues, for instance the one proposed on VAT by the Commission, should be explored so long as they do not result in making the current system even more complex.

Financial Transaction Tax

AmCham EU supports the EU's leadership in reforming financial services while seeking to learn the lessons of the crisis and strengthen the European marketplace. However, we believe **the European Commission proposal on the FTT fundamentally fails to achieve any of the perceived objectives or benefits and will have a harmful effect on the economies of EU Member States.**

Although some results of the proposed FTT can be anticipated, we are concerned by a number of unintended consequences which will arise. As the Commission's Impact Assessment demonstrates, an EU FTT would:

- **Damage the economies of the EU**;
- Be **borne by all users of financial products** i.e. not only financial institutions, but all other sectors of the 'real' economy; and
- **Risk undermining regulatory reform**, encouraging risky behaviour.

Furthermore, we disagree that an EU FTT is justified for the proper functioning of the single market and to avoid distortions of competition.

The estimates of the revenues to be raised are less than its expected economic cost, and this raises particular concern given the current economic context.

The dangers suggested from its introduction are real and their consequences would be severe for the EU. There is a view that the EU should take the lead in introducing a FTT and others will then follow. This is a risky strategy that could undermine Europe's competitiveness at a very critical time. If others follow, global consistency may lessen the dangers of relocation from the EU. It will not however protect the economies of the EU from the damage and cost of the FTT itself.

VAT own resource

AmCham EU supports the proposed reshape of the VAT-own resources mechanism. AmCham EU shares the Commission's views that the current financing system is complex, and that compared to the own resource based on Gross National Income (GNI), **the current VAT-based own resource has little added value**. It results from a complex mathematical calculation thus contributing to the opacity of Member States' contributions to the budget.

According to the proposal, ending the VAT-based own resource in its current form as of 1 January 2014 should simplify the system of contributions and might even reinforce the harmonisation of national VAT systems, and consequently of the single market. AmCham EU shares these policy objectives but the likelihood for such measures to lead to the level of harmonisation of VAT systems required by the business community remains to be seen. **The introduction of transitional period should not result in higher burden on taxpayers**. By the same token, the contemplated revision of the VAT system in the wake of the Green Paper on the future of VAT raises a number of issues. These were highlighted by the AmCham EU in its reply to the Green Paper.

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AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate U.S. investment in Europe totalled €1.4 trillion in 2009 and currently supports more than 4.5 million jobs in Europe.

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