"STRENGTHENING THE EUROPEAN MONETARY UNION"

A CALL FROM BDI AND MEDEF TO THE EUROPEAN COUNCIL

19-20 December 2013

After years of crisis, the member states of the EU are currently emerging from the clutches of recession. With the acute bailout measures and the first stages of reforms taking effect in member countries, the opportunity must now be grasped to create a new basis for long-term and sustainable growth in Europe. The current reforms are not yet sufficient and are not being coordinated effectively enough. The lack of competitiveness in many EU member countries poses a long lasting threat to the euro and thus to the European Union.

Our organisations propose three key objectives in order to stabilise the eurozone in the long term:

1. The implementation of national structural reforms should be supported by the consistent use of existing EU instruments and the introduction of new institutional mechanisms.
2. The European Economic and Monetary Union should be supplemented rapidly with a powerful European banking union.
3. A decision of the Council to renounce to any further taxation increase within the EU as well as to taxation projects which could have very detrimental effects on the economy such as the Financial Transaction Tax (FTT) project.

BDI and MEDEF are calling on the German and French governments to pursue these three objectives within the European Council:

Objective 1: The consistent implementation of consolidation and reform measures

- The reforms already agreed aimed at strengthening the coordination of economic and financial policy and monitoring budget policies and debt trends are an important step towards stabilising the eurozone.

- The resulting country-specific recommendations now have to be implemented. The following measures in particular will be necessary to achieve this:

  - broadening of country-specific monitoring;
  - strict application of the agreed regulations and sanction mechanisms to stabilise and reduce national debt with the aim of achieving balanced national budgets;
  - systematic and mandatory use of appropriate instruments already created, particularly the stability and growth pact.

European companies, in particular in our two countries, need a clear policy decisions framework they can rely on. This includes:

- National structural reforms aimed at improving investment conditions. Flexible labour markets, and goods and services markets free from bureaucratic obstacles would help all the member countries of the EU to achieve more, and sustainable growth.

- A stabilisation of public finances with rules of self-commitment and direct responsibility, and ambitious efforts to reduce public spending. Just as countries are tackling the regulation of the banks and the financial markets and "holding them accountable" again, they should also take control of national debt, and implement policies aimed at reducing the debt burden.

- Maintaining a consistent balance between member states' own consolidation and reform efforts and, in direct association with them, joint solidarity mechanisms which are clearly defined in terms of scope and duration. The entitlement to solidarity and the obligation to carry out structural reforms and adherence to the rules are inextricably linked.

- A proper balance must be sought between rigorous public finance discipline and economic-growth oriented policies. Budgetary discipline should not become an excuse for hampering growth-oriented measures which would lower the tax burden on companies and businesses.

- The recent works on tax policy coordination should primarily focus on competitiveness. Fraud and tax evasion are serious issues, but businesses make every effort to be compliant. Tax measures must take into account that double taxation and double non-taxation are two sides of the same medal. Better coordination of tax regimes must result in clearer, less confusing, and modernised rules, advantageous to both, companies and countries. However, we wish to draw governments' attention to the fact that uncoordinated policies will inevitably lead to double taxation.

Objective 2: Securing the financing of the real economy

- The provision of sufficient financing to the real economy by banks and financial markets is crucial for competitiveness and growth. The rapid completion of the banking union is crucial to restoring confidence in the financial sector.

- A European resolution mechanism should be agreed before the end of this year if possible. It must help to re-establish the liability principle. To this end, a mandatory liability cascade must be created and be harmonised between member states. Specifically, it must be ensured that the owners and creditors of a bank bear the losses incurred for restructuring or resolution in the first instance. Such a liability sequence would also be in keeping with the no-bail-out clause enshrined in Art. 125 of the TFEU and would strengthen the market discipline of banks.

Objective 3: Refraining from counterproductive tax measures

- Regulation for banks and the financial markets must take account of the overall and reciprocal impact of the many individual measures, in order to avoid making financing conditions more difficult for the economy. BDI and MEDEF therefore strongly oppose the proposal for a Directive introducing a Financial Transaction Tax (FTT) in some member states. This FTT would deeply affect non-financial players and would undermine the attractiveness of the countries concerned, at a time when Europe needs to attract more capital and investments, and strengthen its competitiveness.

- The FTT would have a considerable detrimental effect on non-financial companies, further damaging their access to finance and putting them in greater difficulty. In the current economic and financial context, any further taxation on financial companies and/or financial transactions would indirectly affect the financing of all companies – especially long term financing –, their hedging as well as their intragroup management activities. Moreover, it would put companies established in the taxation area into a competitive disadvantage vis-à-vis other players.

- The FTT would also affect directly the financial sector of the countries concerned, as well as their position as relevant financial centres: they would be significantly weakened by the deflection and migration of financial transactions. France (and other EU countries) have already had a negative experience with such a tax even though its scope was much narrower.

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