

THE CHAIRMANSHIP OF

The chairmanship of Gerhard Cromme

December 2001

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GERHARD CROMME

Key Messages and Publications

COMPETITIVENESS / LISBON AGENDA

- **Will European Governments in Barcelona keep their Lisbon Promises? – Message to the Barcelona European Council, March 2002** | February 2002
- **In the light of the Barcelona Summit: What does European Business expect from Politics** – Speech by Gerhard Cromme delivered in Barcelona at Palacio de Generalitat de Catalunya | April 2002.
- **Entrepreneurship and Sustainable Development in an Enlarged Europe: Future Challenges for the Business World** – Speech by Gerhard Cromme to the European Business Summit in Brussels | June 2002
- **Is the 3% R&D for 2010 objective unrealistic? Can the dramatic reappraisal it implies be achieved?** – ERT Message to the European Commission | October 2002
- **The European Challenge – Message to the Spring European Council in Brussels, March 2003** | February 2003

EUROPEAN GOVERNANCE

- **A stronger Europe: the View from ERT - ERT Message to the 2001 Laeken Summit** | December 2001
- **ERT Discussion Paper on EU Governance** | May 2002
- **European Governance for Greater Competitiveness** | November 2002

COMPETITION POLICY

- **ERT Response to the "Green Paper on the Review of Council Regulation (EEC) No 4064/89"** (The Merger Regulation) | April 2002
- **Making European Merger Policy More Predictable** (ERT-sponsored research study by Prof. Dr Stefan Voigt and Dr André Schmidt) | June 2003
- **ERT Response to the European Commission Proposals for Reform of EU Merger Control** | June 2003

FOREIGN ECONOMIC RELATIONS

- **Leadership and the WTO** - speech by Morris Tabaksblat to the Evian Group Meeting | April 2002.

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Getting real

Gerhard Cromme's chairmanship began as the European economy found itself virtually becalmed – not in a recession but struggling to establish a GDP growth rate above 1%. This sustained ERT in its long-held view that governments were doing far too little, far too slowly to set a framework in which companies could raise their competitiveness. During this period, ERT found itself frequently lamenting the Union's slow progress in achieving the Lisbon Agenda (with its ambition for Europe to become "the most competitive and dynamic knowledge-based economy in the world" by 2010) and underlining Europe's growing competitiveness gap with the United States, by now the dominant global power in all domains, political, economic and military.

On the policy front, ERT focused on the EU's urgent need to allocate more resources to research and development by surveying its Members on the policy measures needed to encourage them to invest in R&D in Europe rather than elsewhere.

In a number of powerful speeches, Gerhard Cromme asserted ERT's belief that the Union was suffering a failure of governance, that had damaging repercussions for business. For this reason, it supported the efforts of the Convention on the Future of Europe to agree a new constitutional treaty while insisting that the EU needed reforms that would guarantee accelerated, predictable and transparent decision-making in all areas related to business.

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The times

By the end of 2001, the optimism of the late 1990s, buoyed by upbeat economic growth and what proved to be overheated financial markets, was rapidly deflating. Towards the end of 2002, governments were failing to meet their growth targets, unemployment began to rise again, especially in Germany, and falling revenues caused France, Germany and Portugal to breach the 3% of GDP limit on budget deficits fixed by Economic and Monetary Union rules. The successful introduction of euro notes and coins in January 2002 could not hide the fact that some governments were threatening the credibility of EMU by failing to honour their budgetary policy commitments.

Some had hoped that the adoption of the euro in 1999 would deliver a growth bonus for the 11 (soon to be 12, when Greece entered in 2001) members of the euro zone. But this was unlikely in view of the fall in world demand in 2002 and the structural obstacles to growth within the EU, including inflexible labour markets and the slow pace of privatisation of energy utilities.

The threat of a war against Iraq nearly doubled the price of oil in the first quarter of 2003, severely depressed financial markets and increased levels of uncertainty about the medium-term business outlook. This was not altogether a cheerful time in which to be chairman of ERT.

The good news was that the European Union finally reached one of the most significant decisions since its foundation, namely to expand from 15 to 25 Member States, growing to a population of 450

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million. The signing of the Accession Treaty at the Athens European Council on 16 April 2003 represented a further significant step in the process leading to the biggest ever enlargement of the EU. This underlined the crucial nature of the work carried out in the Convention on the Future of Europe and the subsequent IGC to reform the EU institutions and their decision-making processes so that they would be able to manage effectively an enlarged EU of 25 countries.

Failing competitiveness :

situation “urgent”

Competitiveness is a relative phenomenon and, by the start of the new millennium, the performance of US companies was the main benchmark for ERT Members whose businesses were operating in global markets.

In a speech by Gerhard Cromme at the European Business Summit (June 2002), ERT pointed to the EU's poor growth performance throughout the 1990s – managing just one year above 3% while the US had only one year below it. ERT noted the widening productivity gap between the EU and the US and a growth potential of just 2.5% a year in the EU versus 3.5% in America. The gap in per capita income was also increasing: from 42% to 54% between 1991 and 2001. Finally, ERT lamented that all of the largest continental European economies – Germany, France, Italy and Spain – had higher unemployment rates than the US.

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Implementing the Lisbon Agenda

ERT made no secret of its frustration at the EU's slow progress in moving towards the admirable objectives of the Lisbon Agenda. ERT sent a message to the European Council before their meeting in Barcelona in March 2002, describing the achievement after two years of effort as "disappointing". It warned that the 2010 deadline could not be met at such a slow pace and set out ten immediate priorities for action.

Inspired by the original Lisbon declaration, ERT's top ten were: adopt the Community patent; raise spending and performance on research and development; bring in a Single Market for financial services as quickly as possible and modernise EU accounting and reporting; liberalise public services and utilities; fight over-regulation; eliminate tax obstacles to cross-border business; reform public pensions; devise a new e-Europe action plan; reform labour markets and reform education and lifelong learning systems.

Despite valuable progress in some areas, such as liberalisation, the Financial Services Action Plan, and the e-Europe Action Plan, by the time the European Council came to conduct its annual review of the Lisbon Agenda in Brussels in March 2003, ERT concluded that "three years on, many of the Lisbon targets have not been met on time, putting the overall programme in peril".

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Boosting innovation : the European challenge

The Barcelona European Council added a new target to the Lisbon Agenda: that European investment in R&D should be increased from the current level of 1.9% of GDP to approaching 3% in 2010. The ERT Competitiveness Working Group, chaired by Daniel Janssen (Solvay) examined this target closely and concluded that it was unrealistic to expect business to play its role in achieving this goal in the time available, without dramatic changes in Europe's approach to innovation and its framework conditions for business.

In its message to the March 2003 European Council, ERT called on the Union to invest in centres of excellence and to raise the status and supply of scientists; to increase public spending on innovation while encouraging more private R&D spending and to give better legislative protection to intellectual property and cut the red tape holding back new products and technologies. Members warned that without such new initiatives, there was a serious risk that R&D investment would increasingly favour other regions at Europe's expense.

It was against this background that ERT warmly welcomed the political agreement on a Community patent, which was finally achieved shortly before the European Council Meeting.

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European Governance

ERT drew a firm link between declining economic competitiveness and the unsatisfactory ways in which the EU took its decisions. The launch of the Convention on the Future of Europe in 2002, with its mandate to recommend possible Treaty changes that would improve the quality and democratic functioning of the EU institutions, stimulated ERT to propose its own views on what needed to be done in those areas relevant to business.

ERT regarded the Convention as a promising route towards remedying deficiencies in the system of EU governance. This view was confirmed when the Convention developed into a wider and more ambitious project than was envisaged at its start, by aiming to draft a fully fledged new Constitutional Treaty. Such a new Treaty would lay down the basic rules for EU governance and, thus, the institutional framework within which business must operate during the next few decades.

The ERT Working Group on European Governance chaired by Morris Tabaksblat (Reed Elsevier) elaborated a *"Discussion Paper on European Governance"* in May 2002, which was presented to leading members of the Convention. In November 2002 the ERT Plenary Session approved a short follow-up paper entitled *"European Governance for Greater Competitiveness"*, which summarised ERT's position and reiterated its call to enhance European competitiveness "through fast and effective decision-making". This paper was circulated to all members of the Convention.

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In both messages, ERT spelled out its belief in the need for a strong and more effective European Commission. ERT also saw a need for a more effective Council of Ministers, *inter alia* through the extension of qualified majority voting to all areas related to cross-border business. Furthermore, the ERT position demanded distinct roles for the national and European parliaments, a flexible distribution of powers between the EU and its Member States and stronger economic management. ERT's main messages were discussed during 2002 and 2003 with many leading members of the Convention and with high level politicians in Member States. The members of the ERT Working Group on European Governance played a key role in these activities.

EU Enlargement :

towards a successful conclusion

On 13 December 2002, the European Union successfully concluded the accession negotiations with ten candidate countries with a view to accepting them as full EU Members on 1 May 2004. On 16 April 2003, the Accession Treaty was formally signed in Athens.

ERT warmly welcomed these historic decisions, having been strongly in favour of opening the European Union to its Eastern neighbours from the early 1990s and having become, after the Copenhagen European Council in 1993, a strong supporter of the enlargement process.

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At the same time, ERT continued to keep a close watch on the long list of tasks and commitments to be fulfilled by both future and current Member States in order to make EU enlargement a success.

In January 2003, Antony Burgmans (Unilever), the new chairman of the ERT Enlargement Working Group, held a meeting with the Ambassadors of the acceding countries to discuss key issues related to the competitiveness of Europe and the achievement of the Lisbon Agenda.

The ERT Working Group also continued to support actively Bulgaria and Romania in their efforts targeted at joining the EU in 2007, and to give special attention to the candidacy of Turkey and also Croatia.

Foreign Economic Relations

Gerhard Cromme and Wim Philippa visited in US business organisations in Washington in February 2003. Since then, ERT has started to cooperate closely with the US Business Round Table (BRT) on matters affecting both European and American business. This collaboration focuses in particular on supporting the Transatlantic Business Dialogue (TABD) and encouraging governments on both sides of the Atlantic to work together on making a success of the Doha Development Agenda trade negotiations.

This issue had already been raised by Morris Tabaksblat, who in his speech to the Evian Group in April 2002 entitled "Leadership and WTO", voiced disappointment at the growing number of

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bilateral trade disputes which somewhat clouded the transatlantic relationship. He called for WTO members to adhere to a culture of negotiation rather than litigation. He also underlined the need for developing countries to make their voices heard in the negotiations. Equally, ERT feels Europe needs to secure its ability to influence global economic issues, through a more united position in international economic and business affairs and a more flexible response to economic shocks.

Competition Policy

Throughout 2002 and 2003, ERT has maintained its dialogue with Mario Monti, the European Commissioner for Competition, on reform of EU Competition Policy. The particular focus has been on how to improve predictability and accountability in merger cases. The ERT Plenary in Istanbul in May 2002 endorsed a proposal for ERT-sponsored academic research on predictability to test and deepen the arguments in the ERT's original paper to the European Commission (December 2000). The subsequent study, entitled *"Making European Merger Policy More Predictable"* was published in May 2003.

Starting from practical cases studies and information provided by ERT Members on company experience of predictability in EU merger cases, the study analysed current practice from an economic perspective and developed concrete proposals for improvements.

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The Competition Policy Working Group, under Alain Joly (Air Liquide), continued to take a close interest in the process of EU merger reform, focused on how such reform might contribute to the competitiveness of European business and the achievement of the Lisbon goal. Comments were sent to the European Commission in 2002 on the initial Commission Green Paper on the review of the Merger Regulation and subsequently in 2003 to the Commission Proposals for the reform of EU merger control. While welcoming the Commission's initiative, ERT expressed concern regarding the direction of some of the proposals and their impact on predictability. ERT also continued to argue for greater accountability by stressing the need for an effective review of Commission decisions in merger cases that would be faster than the current appeals process and apply to the grounds of the decision, not just the process.

Taxation

In ERT's view, the elimination of tax obstacles to cross-border business activities within the EU is indispensable for achieving the Lisbon "most dynamic economy" objective. For these reasons ERT supported the main conclusion of the Commission's October 2001 communication, *"Towards an Internal Market without tax obstacles, a strategy for providing companies with a consolidated corporate tax base for EU-wide activities"*. ERT strongly favours an optional consolidation of corporate tax bases in the EU, whilst maintaining the Member States' discretion to choose the rate applied to the share of the base allocated to each of them.

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During 2002-2003, the Taxation Working Group, chaired by Antony Burgmans (Unilever), studied the short and long-term solutions proposed by the Commission while also participating in new bodies created to move the policy process further forward. It supported Commission efforts to collect data on the costs to companies of complying with the tax rules of 15 different Member States and also to model and quantify the effects of consolidating taxable bases in the EU. The Group was represented in the Joint Transfer Pricing Forum set up by the Commission to look at possible improvements to arbitration procedures. At the same time, the Group was lobbying in partnership with the Office for International Investment (OFII) against a US proposal targeting foreign investors in the United States in a piece of legislation designed to bring the US into compliance with a WTO ruling against the Foreign Sales Corporation Tax.

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ERT Plenary Session
Athens, May 2003

From left to middle: Michael Smurfit (Jefferson Smurfit), Wulf Bernotat (E.ON), Peter Brabeck-Letmathe (Nestlé), Wim Philippa (ERT Secretary General), Jean-Louis Beffa (Saint-Gobain), Manfred Schneider (Bayer), Morris Tabaksblat (Reed Elsevier), Jean-René Fourtou (Vivendi), Gerhard Cromme (ThyssenKrupp), Nils Andersen (Carlsberg), Zsolt Hernádi (Mol), Pasquale Pistorio (STMicroelectronics), Wolfgang Rutenstorfer (OMV), Tom McKillop (AstraZeneca), Nikos Christodoulakis (Greek Minister of Finance & Economy), Daniel Janssen (Solvay), Eivind Reiten (Norsk Hydro),



From middle
to right:

Dimitris Daskalopoulos (Delta Holding), Jak Kamhi (Profilo Holding), Leif Johansson (Volvo), Franz Humer (F. Hoffmann-La Roche), Peter Sutherland (BP), Louis Schweitzer (Renault), Gerard Kleisterlee (Royal Philips Electronics), Jürgen Weber (Deutsche Lufthansa), Marcus Wallenberg (Investor), Jukka Härmälä (Stora Enso), Gérard Mestrallet (Suez), Jorma Ollila (Nokia), Álvaro Barreto (Soporcel), Christopher Gent (Vodafone), Cesar Alierta Izuel (Telefónica), Bertrand Collomb (Lafarge), Philip Watts (Royal Dutch/Shell), Alain Joly (Air Liquide).