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DRIVERS OF GROWTH

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BRUGES EUROPEAN
BUSINESS CONFERENCE

Sixth Bruges European Business Conference

"Drivers of Growth"

ENERGY POLICY / DIGITAL ECONOMY / TRANSATLANTIC TRADE

CONFERENCE SUMMARY

A JOINT INITIATIVE

The Bruges European Business Conference is a joint initiative of the College of Europe's specialisation on "European Economic Integration and Business" and Deloitte, to exchange ideas on public policy challenges and debate EU-related issues of importance to European business.

Conference materials, including presentations and photos and videos can be accessed at: http://bebc.coleurope.eu.

The speech of Vice President Jyrki Katainen is available via the website of the European Commission at: "Drivers of Growth in the EU Economy".

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Disclaimer: The summary only indicates the issues that were covered by the conference. It is not intended to be a precise record of the proceedings, nor a verbatim account of statements made by invited speakers. Therefore, no part of the summary may be attributed to any speaker.

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CoE Business Club
COLLEGE OF EUROPE STUDENTS INITIATIVE

The conference and this summary benefitted from a collaboration with the College of Europe Business Club, an initiative of students specializing in European Economic Integration and Business. The Business Club promotes exchange of knowledge between students of the College of Europe and business institutions (firms, chambers, etc.). It seeks to develop managerial and entrepreneurial skills for the benefit of the students of the College and ultimately, to spread innovative and entrepreneurial thinking across Europe.

First plenary session: Global Challenges to the recovery of the EU economy

Welcoming address: **Prof. Dr. Dr. Jorg Monar**, Rector, College of Europe

Walter van Kuijen, Senior Vice President, Global Government & Public Affairs, Royal Philips
John F. Sammis, Deputy Chief of Mission, United States Mission to the European Union
Philippe Lamberts, MEP, Co-Chair Group of the Greens/European Free Alliance
Dame DeAnne Julius, Chair, Council of the University College London & Non-Executive Director of Roche Holding Ltd and Jones Lang LaSalle

Chair: **Prof. Phedon Nicolaides**, Director, European Economic Studies Department, College of Europe

The welcoming speech of the 6th BEBC by the Rector of the College of Europe, **Prof. Dr. Dr. Jörg Monar**, set out the general goals of the conference under the topic "Drivers of Growth". The conference sought to examine how the digital economy, the energy policy and the agreements on transatlantic trade could be drivers of growth in the European Union (EU). The Rector pointed out that the EU needs to address two key challenges in today's European economy: the high unemployment rate (particularly youth unemployment) and the ageing societies. Rector Monar stressed the necessity for the elimination of remaining national barriers that still hamper further integration and the completion of the Internal Market.

The chair, **Prof. Phedon Nicolaides**, after welcoming the speakers and the audience, signalled out the importance of growth for the wellbeing of citizens and their standard of living and raised the question: How should policy-makers increase the rate of growth and raise the output potential of the economy? It is well established in economics that growth depends mainly on three factors: capital, labour and technology. In Europe, productivity has declined due to decreased innovation and investment. Therefore, the whole objective of the conference was to consider how to stimulate investment and innovation through more trade, expansion of the digital market and integration of energy policy.

The first speaker, Mr. **Walter van Kuijen,** outlined how Philips handles today's economic conditions inside the EU. The company strongly believes in open markets and that there are major costs involved in abstaining from the supranational route. There is a need for common action and this will bring benefits to all. He went on to quote one of the EU founding fathers, Jean Monnet, who stated that one should "build union among people, not among States" and then he examined how **the Internal Market, Digital Economy and the Circular economy** could contribute to future European growth. The Single Market is the EU's main driver for growth, it has created new jobs and is essential for EU's global competitiveness. Innovation inside the European market will be driven by the digital economy. The EU should also consider how to use energy efficiently and how to position itself as an energy importer. The circular economy, in which resources are re-used, raises efficiency. New rules and standards will have to be established for the economy to go from linear to a circular path. Mr. van Kuijen concluded that Philips would tackle the challenges that EU faces "with common rules and standards, an open attitude and an entrepreneurial spirit".

Mr. John F. Sammis presented the view on Europe from the other side of the Atlantic and focused on the key challenges after the crisis. The pace of the recovery is slower in Europe than in the US. One of the major problems in Europe is low investment. A solution to this problem is to institute strong reforms at all levels of economic policy, to boost growth and jobs via both national and EU policies. However, according to his view, actions should not rely exclusively on one instrument. This was in reference to the aim of returning public finances to a sustainable state. Additionally, with respect to energy policy, Mr. Sammis noted that for security reasons and the ongoing Ukraine crisis, the EU had a chance to review its current position and to reduce its exposure to energy risk. Concerning the digital market, Mr. Sammis believed that it should remain competitive for both EU and US companies and that no extra market barriers should be created. In his concluding remarks Mr. Sammis emphasized that integration between the two transatlantic partners could only be considered beneficial and that together they could set the standards for the rest of the world. He concluded that the US wanted to work in unison with the EU to find an appropriate balance for promoting free and fair trade, to spur investment and finally to boost growth.

Mr. Philippe Lamberts began his presentation by pointing out the two major global challenges that societies are facing nowadays: the social and environmental-time bomb. Regarding the first, he presented some data showing that only 50% of the world's population owned 5% of global wealth and that 1% of the world's population controlled 25% of global wealth. Moreover, he mentioned the danger of the widening gap resulting from income disparities. Concerning the second point, he argued that there were limited resources available on the planet leading to constrains on sustainable growth. This is where competitiveness plays a significant role. It creates value and compensates for the cost of labour, the cost of energy, the cost of resources and the cost of capital. In the same way, innovation, creates value but also needs that companies take risks. The European growth strategy should focus to make this continent a low cost continent. His main point was that growth *per se* cannot be the goal of EU policy-making and that emphasis should be put on social trust.

Dame DeAnne Julius raised concerns about where to find the money that could trigger investment in Europe; she highlighted the link between profits and investments. Ms. Julius argued that the European economic model is threatened from – what she called – the four Ds: Demographics, Deflation, Digitalization and Defence. Firstly, the European population is ageing and the EU economy need more labour and more immigration to remain sustainable; however this might be a politically sensitive issue at the moment. Secondly, low prices brought about by the fall in the oil price had deepened the deflationary trends in Europe. Ms. Julius was doubtful whether the recently launched "quantitative easing" by the ECB would help growth directly. Thirdly, regarding digitalization, there were threats to jobs and industries, but on the other hand, new digital activities could also hold opportunities. This would have to be monitored closely in the future. The EU currently lags behind on digital innovation (US and China are the front runner) and will need to catch up. Finally, there is a concrete threat coming from the changing nature of security issues, with Russia and the Ukrainian crisis. In her view, there was no time for grand visions in Europe, this was tried in the Lisbon agenda but largely failed. If it were tried again it could eventually lead to disappointment and disillusion and real opportunities could be missed. Europe ought to concentrate on viable goals and achievable growth rates.

Digital Economy:
How to fulfil the potential of the digital economy in Europe

Panel:

Juhan Lepassaar, Cabinet of Vice President Ansip, Digital Single Market
Stephen Collins, Vice President, Corporate Affairs, Microsoft EMEA
Markus Reinisch, Group Public Policy Director, Global, Vodafone
Simon Hampton, Director, Technology Policy Advocates
Chair: **Mark Williams**, Partner, Corporate Finance, Deloitte

Under the Juncker plan, the Commission supports a Digital Single Market as a driver for growth and jobs in Europe. The Digital Single Market aims to ensure better infrastructure and innovation as well as to increase the competitiveness of European companies.

The main findings of the workshop set out the broad approach of the digital economy, the need for pan-European networks and harmonised regulation.

On its way to creating the Digital Single Market, Europe faces several challenges. First of all, the fragmentation of the Digital Market prevents companies from fully exploiting their potential and their opportunities. It further forms a market barrier that hinders growth and the expansion of digital companies. It is limiting their ability to achieve economies of scale and to export their services to the rest of the world. Other challenges relate to the access of capital and skills, investors' willingness to assume risk, the historical (i.e., academia separated from industry) and cultural issues (i.e., willingness to innovate). Furthermore, missing regulatory reforms are reducing the competitiveness of European companies.

In order to tackle these challenges, the Commission has chosen to focus on the following three areas: firstly, there is a strong short-term priority to remove the barriers on goods and services (i.e., focus on copyrights, e-commerce). Secondly, the Commission aims at providing more incentives to improve infrastructure (i.e., more coordinated spectrum; sharing economy). Thirdly, data issues, which are seen as new economic resources, have to be resolved (i.e., reassessment of regulation regarding the ownership of data; standardization; need for digital know-how and skills). Cross-border transfer needs to be enhanced in all of the three main areas.

The role of the Internet for European companies deserves increased attention. The service revenue generated by the Internet has become more important (e.g., cloud selling) not only because it has risen, but also contributes to job creation and growth. Key drivers like coverage, speed, resilience and latency (next generation: 5G) play a major role for business to business (B2B) services. Consequently, Europe needs spectrum as lifeblood for the digital society. Additionally, investments in fibre are needed for fast broadband in order to connect Europe internally and externally. An additional crucial aspect derives from the debate on net neutrality. Net neutrality serves as an obstacle as different services deserve different treatments (i.e., traffic management). In his view, decreasing net neutrality would enhance innovation.

The digital economy goes beyond telecoms and digital services. Therefore, when dealing with the digital economy, one should not forget to take into account other parts of the economy, such as the agricultural, manufacturing or transport sector. Consequently, regulatory reform in this area needs to consider that it is not only a matter of reforming regulation of the "digital" industries, but rather broader structural reforms are required. However, regulation in other areas might affect the take-up of digital services, a factor which poses a risk to the digital economy.

Increasingly, there is a pan-European demand for digital services and the need for network infrastructure to deliver them. Pan-European networks can be created through consolidations. Companies engaging in consolidation within and across countries will benefit from synergies, economies of scale and increased infrastructure investment. However, Europe first needs to strengthen the Digital Single Market before promoting consolidations.

If European companies want to become winners of the digital economy, the industry has to absorb massive changes from inside the market and consequently make the economy radically more efficient. Three key issues have to be taken into consideration: fiscal responsibility, investment and structural reforms. According to **Simon Hampton**, rather than treating products and service market reforms separately from the Digital Single Market, Europe should combine them, as digitalization happens everywhere. We therefore need a social dialogue and have to consider companies as hybrids from the single market perspective. A comparison of today's economy of the US and Europe shows that there is no true Digital Single Market yet. Europe needs to take this opportunity and become global leader.

In conclusion, the panellists agreed that the new Commission created a solid basis for interconnecting the areas related to digital economy. As a result, Europe would enjoy further economic benefits. Despite many obstacles, the Digital Single Market is on its way.

Energy Policy: How to achieve European energy integration

Panel:

Joost van Roost, CEO, ExxonMobil Benelux
Vera Brenzel, Head of E.ON AG EU-Representative Officer
Federico Tarantini, International Relations Officer, DG Energy, European Commission
Sami Andoura, European Energy Policy Chair, College of Europe
Chair: **Véronique Laurent**, Partner and European Power Leader, Deloitte

The workshop focused on the current EU energy policy. It underlined the importance of energy for growth but also dealt with current challenges, such as the "energy trilemma", where Member States and the EU demanded more competitiveness in the market, more security of supply of resources and less carbon emissions. But how to reconcile and link these different and sometimes opposing goals? The answer could well be in the Energy Union, that the European Commission launched in late February 2015.

The session started with the presentation of a Deloitte study putting into perspective the EU 2020 targets and the current market reforms. With regard to emissions and renewables targets, most Member States in the EU are on track to meet them. Yet, the financial crisis, and the related reduction of energy consumption, had played a role in this result. Policy makers should now address policy failures: as an example, gas-fired plants were pushed out of the market, partly because of a too-low carbon price and the high national support for renewables. A single EU emissions reduction target inside the Emissions Trading System (ETS) that would let the market use the most efficient mechanisms was clearly favoured.

EU Commission President Juncker has made energy a priority. Energy security is one of the new Energy Union five pillars (along with competition, moderation of demand, decarbonization and new technology). This is emphasized by the fact that 53% of energy consumed in the EU is imported from outside. The EU therefore relies heavily on external energy sources and this bears risks for the future, especially for east European countries. How to reduce this reliance? The importance of diversification of (1) countries supplying gas, (2) transit routes and (3) counterparts was stressed. The Commission wants to promote investment projects with regional impact: gas pipelines and interconnectors. It will use all available funding, including regional funds. Finally, the EU should extend its energy acquis beyond EU borders.

2015 is a crucial year on energy issues not only for the EU, but also globally, with the United Nations Climate Change Conference hosted in Paris in September 2015. From the perspective of a major oil company, ExxonMobil sees the risk of climate change as serious and is therefore improving the efficiency of its refineries. It was argued that oil and gas would remain critical sources of energy for decades to come. Despite the recent decoupling trend between GDP growth and energy use, the consumption of fossils (oil, coal and gas) would most likely increase by 25% globally by 2040.

It was highlighted that energy was the largest sector with the most important value losses and where investment was most needed. The announced split of E.ON, into two separate companies, attests to the disruptive role of renewables. The positive effects of liquid gas and electricity hubs that de facto lead to price transparency and more competitiveness were underscored. In addition, it was explained why an EU framework for capacity mechanisms needed to be implemented, in order to bring more investments and avoid energy disruptions. Besides, renewables put a huge load on the system: today, 50% of retail price in Germany was not energy related and an important part of these costs fed renewables subventions. Policy makers will have to find a common European solution to remedy the distortions they caused.

Lastly, it was argued that the Energy Union was a move in the right direction and explained how it could benefit European citizens. There was no room for easy solutions or, on the contrary, for new treaty provisions. It is preferable to elaborate on existing tools, such as guidelines, financial incentives, regulatory support, technical assistance and existing treaties in order to develop them according to a long-term strategy. To that effect, some of the ten “recommendations for action” expressed in the report “From the Energy Community to the Energy Union” published by the Institute “Notre Europe” were mentioned.

There was overall consensus that the past EU’s approach to energy needs to be improved in order to realize EU’s own policy goals. The EU Energy Union will need to be careful on the implementation of its goals. Possible paths that the EU should consider are to ensure diversification of gas supply, to stabilize and increase the ETS carbon price, to integrate the renewable energy sources market into a competitive market and finally to encourage energy efficiency.

Transatlantic Trade:
How to reach mutually beneficial EU/U.S. regulatory convergence

Panel:

Denis Redonnet, Head of the Trade Strategy Unit, DG TRADE, European Commission
Alain Berger, Senior Vice President for European Affairs, ALSTOM
Jacques Pelkmans, Senior Fellow CEPS & Professor at the College of Europe
Hylke Vandenbussche, Professor, KU Leuven

Chair: **Christiane Cunningham**, EMEA Regulatory & Public Policy Partner, Deloitte

TTIP is a “new format” in global trade negotiations, as it contains 3 pillars, which can be seen as three agreements put together in one and is an unprecedented measure so far. The three pillars consist of a traditional free trade agreement, deep regulatory cooperation and a set of rules that go beyond already existing international rules. The focus of the workshop’s discussion was on the second pillar of TTIP since the regulatory cooperation is the most innovative part of it.

Greater regulatory compatibility between two systems could effectively produce a reduction of transaction costs in key sectors of the economy, which is highly beneficial as non-trade barriers represent 10-20 times as many obstacles to trade as tariffs. Medium-term and long-term partnerships should enhance cooperation between regulators and convergence of future regulations and standards setting. However, it’s not about pure common rule-making or total harmonisation; regulatory sovereignty is a fundamental principle that will be preserved.

A closer cooperation on the market of new technologies, where common standards are very much needed, is crucial for its potential impact on growth. The good news is that there are several joint committees already working together on standards for new technology. Common standards for innovation and intellectual property are not an easy process, but they are critical for future growth.

It was also noted that businesses from both sides of the Atlantic are extremely keen to finalize TTIP as quickly as possible (which can be explained by the fact that businesses see the agreement as an opportunity to access new markets), but at the same time, we have never seen this amount of rising criticism towards a trade agreement coming from the public. Despite this, analyses of TTIP do not go into depth, while the negotiations most of the times are very technical and difficult to understand for the general public.

Technical barriers to trade (TBT) are crucial within TTIP and rough estimates of their ‘tariff equivalent’ range from 15% up to 70%. While it is not easy to remove TBTs entirely, but by only reducing them by half, this would provide large economic gains. Further, an estimated 55% of all economic gains of the TTIP will come from lower TBTs. During the last 20 years, TBTs were addressed by mutual recognition agreements between the EU and US and ad-hoc arrangements in some industries. The TTIP now proposes a more systematic approach.

From the academic point of view, TTIP can be evaluated as a general free trade agreement through several models. While some predict quantitative results that can be debatable, it is better to look at the trends. Trade liberalisation stipulates lowering tariffs and non-tariff barriers, which decrease the cost of exporting and brings more competition to the importing country. Consumers are seen as beneficiaries because they would then have access to a higher variety of products and lower prices. Productive firms have new opportunities to export and could raise their market power due to the larger scale at which they operate, while more competition in domestic markets force unproductive firms to exit the market, ultimately leading to a higher concentration. Therefore, the conclusion of a Free Trade Agreement generates losers, which are likely to be small (SMEs) and unproductive firms, and this in turn will negatively impact their employees. However, the general welfare gains are positive for the participating countries. Adjustment policies are needed to smooth this transition, but should not hinder this process, since greater welfare can be achieved in the long run.

TTIP will also impact third countries. Both the direct and the indirect spill over should be positive in nature, but it is hard to estimate how big they would be in reality. TTIP sends a signal of regulatory cooperation and collaboration in standards and rules setting – the more economic interest third countries have in these, the more likely they will follow TTIP standards. What is more, the TTIP could be a trendsetter and build a basis for international standards negotiations at the multilateral level under the WTO framework.

The popular transparency issue was also discussed during the workshop, with the awareness that today’s trade agenda is much more comprehensive and visible than in the past, and impacts more stakeholders. Thus, the European Commission decided to publish the texts of its negotiating proposals in early February this year. It was noticed that the limits of the negotiating process and the usefulness of the technical scope of the negotiations towards the public should be taken into account, all the while letting the whole regulator-to-regulator negotiation remain as transparent as possible.

Finally, it was noted that regulatory cooperation is not about the agreement as such, but rather deals with mutual trust between parties. This knowledge is crucial for achieving greater regulatory compatibility between two entrenched systems.

Second plenary session: Roadmap for the recovery of the EU economy

Keynote Address: Jyrki Katainen, Vice President of the European Commission

Klaus Dieter Rennert, CEO of Hitachi Europe

Markus Beyrer, Director-General, BUSINESSEUROPE

Arnaldo Abruzzini, Secretary-General, Eurochambres

Chair: **Alastair Macdonald**, Brussels Bureau Chief, Reuters

The keynote speech of the Conference was delivered by **Mr. Jyrki Katainen**, Vice President of the European Commission, who took the opportunity to emphasise the commitment of the Juncker Commission to generating sustainable growth and jobs for Europe as a top priority.

For this purpose, the Vice President explained the three key elements that configure the triangle composing the new European Fund for Strategic Investments. First, private and public resources will be mobilised in order to foster investment. The European Fund for Strategic Investments plays a key role at this stage, and initial results are expected by summer of the current year. Second, a transparent pipeline of viable projects will be put in place. More than 2,000 requests so far confirm the real demand for finance. Vice President Katainen stressed the importance of a technical evaluation of individual projects by experts, leaving political considerations aside. Third, the Commission will seek the removal of barriers to investment, enabling in this way a connected single market. This is a key element that will be enhanced through better regulation, and in this respect feedback from the private sector is essential to achieve efficient legislation.

Recent economic events such as the decline in oil price, the depreciation of the euro and the ECB's "quantitative easing" have to be exploited in order to achieve the aim of the Investment Plan to create more than €250 billion worth of growth and 100,000 jobs. Challenges are great, but so are our assets, concluded Vice President Katainen.

After Mr. Katainen's intervention, **Mr. Klaus Dieter Rennert**, CEO of Hitachi Europe Ltd, took the floor to mention that, letting aside current real and perceived difficulties, the EU market is as much of interest to international companies as can be the US market. The internal market might not be completely achieved but so is the case in the US with different states regulations.

He also underlined that what is essential for Europe and a prerequisite for its recovery is achieving overall competitiveness because, after all, companies invest where there are the best opportunities. In this vein, the bottom line to attract investment is return on investment, safe infrastructures and a safe regulatory framework. EU regulation has to be predictable and sustainable, and business needs to operate in a framework of legal certainty that is assured by data protection and intellectual rights.

In addition to safe regulatory framework, Mr. Rennert also referred to the relevance of EU standards. They can be drivers of growth and a source for new businesses, as long as they are well designed, not interpreted by each Member State in their own way for their own interest and not created as barriers to protect some industries. In a closing note, Mr. Rennert lent his support to Horizon 2020 and the investment plans of the Juncker Commission, but highlighted that investment coming from big companies represents a bigger lever for growth. He emphasized the need for collaboration with stakeholders to improve research and to better answer to actual needs.

The formal part of this plenary session was concluded with interventions by representatives of the business sector, Mr. Markus Beyrer, Director-General of BusinessEurope and Mr. Arnaldo Abruzzini, Secretary-General of Eurochambres.

Director General Beyrer identified five specific areas that need to be addressed if Europe is to achieve sustainable growth: tax burden, competitiveness, the cost of starting a new business, industrial and energy prices and the digital economy.

He noted the importance of examining economic policies in the process of the European Semester. He stressed that reforms facilitated through that process will pay off and contribute to growth, as already seen in some countries. Yet, some Member States fail to implement many of their country specific recommendations due to a lack of sanctions, missing an opportunity to benefit from proposals that result from an in-depth analysis of domestic necessities.

Regarding the investment plan launched by the new Commission, three remarks were made at this point. First, the leverage was ambitious but possible. Furthermore, the idea of keeping investment decisions at a technical stage away from politics was indispensable in order to attract private capital. Second, regarding the project pipeline there was a need to identify sufficient quality projects. Third, Europe requires higher investment in environmental issues in order to tackle two obstacles that make us lag behind the US in this field: prices and cost-competitiveness. There is no shortcut here, and barriers affecting the energy sector will have to be removed one by one.

Secretary General Abruzzini identified the underlying obstacles that prevent business creation and thus economic recovery in Europe. First, we live in a society where risk taking is not rewarded. Thus, a different attitude towards insolvency procedures, bankruptcy or debt restructuring is needed if we want to foster business creation. Second, there are difficulties to access finance. It was argued that in addition to the new investment fund, Europe needs a capital market union so that startups and SMEs can obtain more equity finance. Third, our educational system should be based on demand rather than supply. An alignment between the skills required by the markets and the concepts taught at academic institutions is urgently needed. Fourth, the single market is incomplete. Borders are the main barriers to business, particularly now that the value chain is global.

To sum up, there was a unanimous call for a major shift at national and EU level towards an entrepreneurial vision of policy making.

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#digital economy
#energy policy
#transatlantic trade

Thank you for your participation.
We hope to welcome you again in 2016 at
the seventh Bruges European Business Conference.
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The students of the master's programme in **European Economic Studies** with a specialisation in '**European Economic Integration and Business**' receive an extensive training in economic integration, quantitative analysis and EU affairs, and develop expertise on topics such as innovation, trade, energy, lobbying, standardization and the banking union.

The programme covers the intersection between European economic integration and the changing business conditions for market opening and policy harmonisation. It enables the students to understand how business reacts to decisions taken at an EU level and to predict and effectively influence or challenge EU policies, therefore preparing them for a career at both a policy and business level.

On 9 April, the College of Europe is organizing a career day. It would be a unique opportunity for your organisation to meet the College of Europe students directly.

If you are interested in participating or you would like to receive more information, please contact:

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