



ERT

**ERT's Vision
for a
competitive
Europe
in 2025**



with recommendations
for policy action

European Round Table of Industrialists

This document is based on a visioning project conducted by the European Round Table of Industrialists (ERT) from April to June 2009 under the lead of the ERT Competitiveness Working Group. This visioning project involved ERT Members; strategy and business planning experts from ERT companies, and external stakeholders from the policy-making community and civil society. All ERT Working Groups were involved in developing the policy recommendations on the basis of the vision. The overall project relied on the contributions of more than 200 participants. We would like to thank all of them for their dedication to this project.

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FOREWORD

As economies worldwide are adjusting to the most severe crisis in recent history, much uncertainty remains about the longer-term effects on the European Union's global competitiveness. Even before the crisis, the EU faced unfavourable underlying trends affecting its future place in the world economy. The challenges our Union faces are even greater now. The EU economy's continued ability to provide quality employment is under threat. Ambitious policies are urgently required to address this and other future trends and challenges. The crisis is an opportunity to rethink the European Union's future course and to take decisive action while Europe is still in a position to build on its strengths.

The opportunity is all the greater as a new European Commission, a freshly-elected European Parliament and the new President of the European Council can provide the impetus to drive change. Now is the time to forge a broad consensus on new policy objectives and to set ambitious new targets, including through the new 'Europe 2020 Strategy'.

Europe is an integral part of the global economy. Its economic success is built on its openness to the world. Yet today the world is changing rapidly, as global megatrends present new challenges and the emerging economies play an increasingly important role in global affairs. Europe needs to transform itself to keep pace with global developments in order to sustain and strengthen the well-being of our societies. A modern industrial and technological base will play a central role in this essential transformation. A bold vision is needed to guide the necessary changes and ensure consistency of the choices to be made for the future.

This publication is ERT's vision for Europe in 2025. We believe that Europe should remain an attractive place to live and work in 2025, deeply integrated into the global economy as a respected partner. Europe should continue to stand for a high quality of life for its citizens. That is why prosperity and societal well-being are at the core of ERT's vision. This is not a self-fulfilling prophecy. Urgent transformation is necessary to achieve these goals.

Europe has to unleash its significant unrealised potential. It should turn its formidable diversity into competitive advantage and evolve into a leading global innovator. The success of its Single Market demonstrates that competition and free markets can act in the service of society. But the Single Market is far from complete; it should be further extended to cover all goods, services, capital, people and knowledge. Smart regulation should ensure that all policies are sustainable, meaning they take into account long-term considerations and strike the balance between all the facets of sustainability, including economic, environmental, social and financial aspects. Speedy improvements to the EU's domestic market economy will place it in a strong position to be an influential global economic leader in the future.

Our vision is not a prediction of the future. We make no assumptions as to the likelihood of it materialising by 2025. Turning it into reality will require bold policy thinking and tough choices. Our vision is intended to help guide the EU's policy choices in the next decade. To support this process, we make recommendations for policy actions that, if taken in the current period of office of the European Commission, would set the EU on the desired long term course. The experience with the EU's Lisbon Agenda teaches us that even the best intentions will not necessarily drive the required change if the implementation mechanism is not carefully calibrated. We also address this question as the success of economic reforms under the 'Europe 2020 Strategy' is crucial for the EU's global prospects.

Not all decisions implied by our vision can be taken in the EU alone. Other global actors also play a role and the EU needs to act with confidence as a global leader. This will require a reorientation of the EU budget towards innovation, and greater clarity on the internal distribution of powers between the EU and its Member States. We realise that this will not be easy, even though the Lisbon Treaty offers opportunities to move towards this goal.

Boldness is essential to attain our vision of a globally competitive Europe by 2025. We are confident that Europeans can work together towards this common objective and to harness the full potential of Europe's openness and diversity. The debate on the 'Europe 2020 Strategy' is the first opportunity to move in this direction. We stand ready to engage in this debate and to contribute actively to Europe's transformation.



Leif Johansson

Chairman, ERT
President of AB Volvo and Chief Executive Officer of the Volvo Group

A handwritten signature in black ink, appearing to read 'Leif Johansson'.

A handwritten signature in black ink, appearing to read 'Gerard Kleisterlee'.



Gerard Kleisterlee

Vice Chairman, ERT
Chairman of the ERT Competitiveness Working Group
President & CEO, Royal Philips Electronics

Europe in 2025 - Extrapolating current trends

A study published by the European Commission¹ outlines *inter alia* the following predictions for 2025 if current trends continue:

- World production will have doubled compared to 2005. The combined economies of the US, the EU and Japan will no longer dominate the world. The emerging economies (accounting for 20% of the world economy in 2005) will account for 34%.
- The volume of trade could double compared to 2005. The positions of Asia and the EU are reversed. The EU is no longer the world's largest exporter. Asia could account for a larger share of the world's exports. China could become the second world economic power.
- The centre of gravity of world production will move towards Asia. The combined economies of China, India and South Korea will weigh as much as the EU's.
- If recent trends continue, the US and EU will have lost their scientific and technological supremacy to the benefit of Asia, even if they are still major world powers as regards R&D. Asia will be the main destination of business R&D expenditure. India and China's share in global R&D spending could double to 20%.
- The world's population will increase by 20% to reach 8 billion people. 97% of this growth will occur in Asia and Africa. In 2025, the EU will only account for 6.5% of world population.
- 30% of EU citizens will be over 65 years of age – the highest proportion in the world. This is expected to necessitate an increase in public budgets of 5%.
- World energy demand will have increased by 50% by 2025. In 2030, the EU will import almost 70% of its energy needs, calling the security of the EU's energy supply increasingly into question.
- A question remains on the growth of intangible assets (human capital, ICT use) and the share of investments in these among the EU, US and Asia.
- Even today, the EU is very dependent on imports of raw materials. Access to these raw materials is becoming more difficult.
- If the EU is not joined by other continental powers in the fight against climate change, the impact of its efforts to reduce global CO₂ emissions will remain marginal. Adaptation strategies are necessary in any case.

The publication "Global Trends 2025: A Transformed World" by the US National Intelligence Council (NIC)² appears to situate Europe in a marginal role in a global context by 2025:

- Internal differences are predicted to cause Europe to lose its global clout and become a 'hobbled giant', characterised by little progress. Differing national priorities prevent the emergence of an effective external relations policy.
- Lack of economic liberalisation and insufficient welfare reforms are predicted to undermine the EU's economic performance.
- Some progress in further integration and stabilisation of the EU's neighbourhood is seen as possible, but there is uncertainty whether such steps would be sufficiently far-reaching.

Sources:

¹ 'The World in 2025: Rising Asia and socio-ecological transition', European Commission (2009)

² NIC report summarised in "Scanning the future: American and European Perspectives", ISS Policy Brief (2008)

THE ERT VISION: EUROPE IN 2025 – AN ATTRACTIVE REGION TO LIVE AND WORK!

In 2025, the world will be very different from today. If Europe does not respond to the competitive challenges, it may no longer find itself at the forefront of global economic activity. Unless urgent action is taken, there is a real risk that Europe could lose its industrial and technological base, reducing the opportunities for sustainable quality employment. In order to ensure that the EU remains an attractive place to live and work in the future, far-sighted policy decisions will have to be taken. Europeans must mobilise and realise their innovative potential in order to achieve this goal.

The starting position is good. Europe has a relatively balanced economy, with an advanced industrial and technological base and a sophisticated services sector. The EU Single Market provides industry with a large home market that is essential for its ability to compete globally. Its economic policies are generally well-founded, but they are often stifled by uneven implementation and contradicting policies in other areas. Nevertheless, this overall position should give Europe the strength to bring about the urgent and far-reaching advancement required to meet new global challenges and remain an attractive place to live and work.

Europe can progress by reinforcing the contribution of its free market economy to societal welfare. Completion of the Single Market in goods, services, capital, people and knowledge, governed by smart regulation, would ensure that the gains from free and fair competition are maximised and benefit society as a whole. A more environmentally-friendly economy, applying new technologies across all sectors, can create high levels of employment and the wealth required to sustain good quality social provision. To this end, Europe should harness the strength of its companies in the healthcare sector to enable the provision of high-quality care to its citizens on sustainable public health budgets despite its ageing population. A strong and productive manufacturing and technology industry will drive private-sector investments in promising new industrial activities, providing the basis for sustainable growth and attractive jobs. All Europeans can benefit from the opportunities presented by this new economic dynamism.

Europe's prosperity and societal well-being can and should reinforce its global competitiveness. The European economy must be characterised by an ever-improving climate for domestic investment, which would also allow it to continue to attract significant levels of foreign direct investment. A growth-friendly business climate and a high level of prosperity and societal well-being should be magnets for the best scholars from around the world. A majority of Europe's young citizens should benefit from accessible and high-quality education. Increased take-up of studies in maths, science and technology would help Europe meet the needs of strong, innovative companies able to stand high in world performance rankings.

A strong culture of cooperation between business, education and government should be expected. 'Revolving doors' between the three sectors could create a shared understanding of the importance of entrepreneurship. This should permit the development of a common agenda, where workforce training, design of regulatory and tax systems and business development all reinforce each other. Europe must continue to boast strong and dynamic companies that flourish as world-renowned innovators. They will provide the solutions that help to tackle societal challenges, including those arising from global megatrends, population growth and demographic change, urbanisation, climate change, globalisation and increasing resource scarcity.

The EU should put itself in a position to shape and lead global developments as a responsible actor. Dynamic European businesses, large and small, are instrumental in achieving this leadership position. Industrial and technological companies should form a strong backbone ensuring the long-term sustainability of the entire EU economy. A vibrant business environment must support their efforts to maximise productivity, enabling them to place entrepreneurship, innovation and research and development at the heart of Europe's socio-economic transformation.

Europe's diversity can be harnessed to forge a more self-assured, open and inclusive society. The richness of its peoples, cultures and histories can inspire a new confidence in Europe's potential to deliver innovations for a globalising world. Europe can transform itself and everybody can benefit. In 2025, Europe's diversity should be its competitive advantage.

1. Europe in 2025: a global champion of sustainable growth

Europe can only be an attractive place to live and work if the achievements that benefit its society can be sustained over time. Sustainability must therefore be understood as a multi-faceted concept, embracing the environmental dimension, as well as sound economic, financial, education, social security and pension systems, optimised use of raw materials, water and food, and a secure energy supply.

“Focus on maintaining a strong industrial and knowledge base would put the EU in a position to lead global sustainable development.”

The pursuit of a comprehensive sustainability agenda can ensure that society as a whole benefits from the prosperity created by dynamic business activity. Sustainable policies should stimulate economic activity, based on free and fair market mechanisms, openness, entrepreneurial freedom, inclusive labour markets and smart regulation. On this basis, business, institutions and markets could gain more trust among citizens. Europe’s people should be empowered to contribute to the continent’s sustainable development, through an inclusive labour market allowing all talents to be applied to the benefit of society. The engagement of young people in the policy-making process should be promoted to ensure continuing challenge and renewal.

Incentives for business leaders must be based on reward systems that encourage management of risk over the long term in the mutual interests of shareholders and society. The focus on maintaining a strong industrial and knowledge base in Europe, incentivising the private sector to develop technologies that benefit the environment and employment, and ensuring the successful deployment of these technologies, would put the EU in a position to lead global sustainable development and meet its own 20-20-20 climate change targets.

“Sustainability must be understood as a multi-faceted concept.”

This, in turn, should allow European companies to strengthen their global competitiveness through global product leadership and the delivery of tangible benefits to individual citizens. In 2025, the EU should be firmly on track towards achieving the policy objective of a substantial CO₂ reduction by 2050, contributing to the global management of climate change and continuing its own transformation to a low-carbon economy.

Sustainability implies that “the needs of the present generation should be met without compromising the ability of future generations to meet their own needs.” Sustainability is necessary to ensure the long-term “improvement of the **quality of life** and **well-being** on Earth for present and future generations.” This calls for “a **dynamic economy** with **full employment** and a high level of **education, health protection, social and territorial cohesion** and **environmental protection** in a **peaceful and secure world...**”

Renewed EU Sustainable Development Strategy, agreed by the European Council in June 2006

Policy direction

- All policy actions should enable the EU to drive global sustainable growth and development to reinforce its competitiveness. All EU policies must contribute to the achievement of sustainability in its multi-faceted definition. All legal acts should therefore consistently pursue the achievement of sustainability in all its facets: the environmental dimension, as well as sound economic, financial, education and social support systems, optimised use of raw materials, water and food, and a secure energy supply at competitive prices. This requires policy-makers to take into account short-term as well as long-term considerations.

Policy recommendations

- **Secure a quick return to sustainable public finances, in particular:**
 - **Ensure respect of the Stability and Growth Pact** by all EU Member States and encourage public budget surpluses over a sustained period of time as soon as the economic situation allows this. This should be financed by cutting public expenditure on policies that are not sustainable.
 - **Fully account for public pension liabilities** in considerations of the sustainability of public finances. Carry out an EU-wide independent and comprehensive assessment of public pension systems and develop a road map to guide their prudential reform.
 - **Reform social security systems** to strike a better balance between social cohesion and financial sustainability, for example by placing greater emphasis on patients' responsibility for healthcare costs.
- **Reform the EU budget**, putting its core focus on policies and measures genuinely designed to boost competitiveness and economic reforms in line with the multi-faceted definition of sustainability. Emphasise R&D and the introduction of innovative infrastructures, technologies and energy sources. Adapt EU agricultural policy to reduce its impact on the EU budget, while safeguarding the Single Market.
- **Devise ambitious policies and implementation programmes on energy efficiency and climate change** that can be expected to have a sustainable positive impact on economic growth, in particular:
 - **Pursue energy efficiency:** Set clear targets for energy efficiency and progressively adapt them in line with technological developments and on the basis of a full life-cycle analysis, also taking into account resource, environmental, social and economic aspects. Promote the use of low-carbon alternatives.
 - **Move towards a low-carbon economy:** Encourage the continuing development of a global carbon market by taking steps towards linking the EU Emissions Trading System (ETS) with other developed country systems (notably the USA), ensuring broad access to project mechanism reductions and market surveillance conducted at an EU level.
 - **Progress development of the EU energy market:** Follow a course of energy policy development that encourages full use of EU indigenous energy sources, setting the parameters within which the market operates rather than defining the market structure.
 - **Foster the security of energy supply to the EU at competitive prices**, e.g. by putting in place more infrastructure and infrastructure connections in gas and electricity networks, diversifying gas sources, routes and supply chains, including the construction of liquefied natural gas (LNG) terminals, and adopting a common EU approach to external energy relations.
- **Realise the potential of companies to contribute more actively to sustainability:**
 - **Incentivise the private sector to develop and deploy new technologies** that support sustainable economic growth, the environment and employment, e.g. cost-effective low carbon technologies. These could include solar, offshore wind, carbon capture and storage (CCS), nuclear energy, electric vehicles and smart traffic management, the use of biomass, information and communications technology (ICT), and smart grids. Policy-makers can support this through public procurement or specific policies as appropriate (for example a regulatory approach that supports long-term private investments in modern infrastructure with long payback periods).
 - **Facilitate access to venture capital funding in the EU** for companies in areas with a high growth potential, including new Information and Communications Technologies, nanotechnologies, biotechnologies, and environmentally beneficial technologies.
 - **Drive the development of new tools to measure environmental sustainability**, including a global carbon accounting standard, where a harmonised methodology at EU level is required. To this end, existing approaches around the world should be reviewed to identify a coordinated way forward.
- **Reduce the EU's raw material dependency**, including by investing in R&D aimed at technologies to reduce raw material needs and new recycling techniques.

2. Europe in 2025: well-embedded and respected in global markets

Europe should remain a respected international economic partner, flourishing in an open and dynamic global economy based on the World Trade Organisation's rules-based multilateral trading system. This system should be supported by other multilateral agreements and structures that enable the free cross-border flow of all goods, services, capital, key personnel and knowledge. Completion of the Doha Development Agenda has the potential to re-energise open trade, enabling companies from around the world to fully participate in a dynamic global market, and creating the basis for more effective global economic governance. This economic governance should include more effective global rules for financial markets, a new regime for foreign direct investment (FDI) and further efforts at the global level to protect all forms of intellectual property.

Following a period where the EU strove to conclude bilateral free trade agreements with a number of emerging economies, by 2025 all major economies should refocus on multilateralism and converting the 'spaghetti bowl' of preferential trade agreements into a global zero-tariff regime under the umbrella of the WTO.

"By 2025 the 'spaghetti bowl' of preferential trade agreements should be converted into a global zero-tariff regime."

This will support effective dispute resolution, while allowing negotiation of multilateral disciplines in important new fields, including services, to stimulate trade and investment growth.

The EU itself should go further. The attractiveness of its tariff-free, dynamic and completed Single Market, including in financial, digital and other services as well as energy, should enable it to negotiate non-tariff barrier agreements with the world's most dynamic economies and regional trading blocs. These agreements should, amongst others, cover technical barriers to trade, competition, investment and public procurement. Such agreements would ensure that European companies are able to capitalise fully on global market opportunities, so that 2025 could see a continuing increase in both the absolute volume and global share of EU imports and exports.

Europe's strong performance as a trading region and its powerful Single Market should maintain attractiveness to foreign investors and Europe must aim to sustain its share in both inflows and outflows of global foreign direct investment (FDI). The Euro should be one of the major global currencies, increasing exchange rate stability – thus reducing companies' vulnerability to sudden exchange rate movements – and setting an example for common currencies that are likely to be created in other regions of the world.

"Deeper economic cooperation will ensure stability and prosperity across the entire European continent."

Europe's ability to reaffirm its position as a major player in the global economy would be reinforced by the further strengthening of competition within the Single Market and the successful integration of countries that have completed negotiations to join the EU and thus carried out the reforms required to integrate successfully with the

EU. Deeper economic cooperation with the countries surrounding the enlarged EU will play a key role in ensuring stability and prosperity across the entire European continent.

Policy direction

- Firmly base all internal and external EU policies on the promotion of open markets, based on the free movement of goods, services, people and ideas, and the prevention of protectionism and de-globalisation.
- Promote market-driven and non-discriminatory approaches worldwide, based on a global level playing field in which all countries act in accordance with international rules.
- Promote the global adoption of the best available standards, methodologies and policy approaches, especially where these are European.
- Pursue worldwide strengthening of the protection of Intellectual Property Rights (IPR).
- Pursue closer economic cooperation with major trading partners and neighbouring countries.

Policy recommendations

- **Pursue trade liberalisation** initiatives that reinforce EU competitiveness and sustainability, e.g.:
 - Support conclusion of the WTO Doha Development Agenda (DDA).
 - Support EU leadership in the development and production of technologies that benefit the environment, including energy-efficient products. Support this by promoting free and open trade in such products and services, specified on a short list of technologies that demonstrably benefit the environment. This list should be established on the basis of product life-cycle analysis with the close involvement of industry and regularly reviewed.
 - Complete negotiations to review the 1997 Information Technology Agreement (ITA) to lower costs of ICT for companies and consumers, and to contribute to the reduction of carbon emissions.
 - Pursue trade and external relations policies that ensure continued reliable supply of resources and raw materials at competitive prices.
- **Address all threats of de-globalisation** and avoid undermining the World Trade Organisation (WTO) with new types of tariffs, non-tariff barriers and other forms of protectionism.
- **Conclude free trade and non-tariff barrier agreements** with the world's most dynamic economies and regional trading blocs in Asia, North and South America, Africa and Europe. These agreements should promote stronger international regulatory cooperation, making greater use of the principle of mutual recognition with complementing WTO commitments related to technical barriers to trade, competition, investment and public procurement.
- **Pursue the creation of a barrier-free transatlantic market**, in particular by strengthening regulatory cooperation and mutual recognition, removing restrictions on investments and preventing new restrictions.
- **Promote the full integration of EU accession candidates into the EU's Single Market.** Advance EU membership talks with all candidate countries and conclude them, based on fulfilment of the Copenhagen criteria for accession in a spirit of mutual interest.
- **Integrate the countries covered by the European Neighbourhood Policy into the EU's Single Market** in a step-by-step process that promotes their integration into the global trading system and builds on ongoing efforts to deepen economic cooperation with the EU.
- **Confirm the eventual EU perspective of Eastern Partnership countries** in line with the EU Treaties and subject to fulfilment of the established accession criteria and successful conclusion of future negotiations.
- **Build a sustainable and constructive relationship with Russia** founded on closer economic cooperation, based on its full and successful integration into the global economy.

3. Europe in 2025: unleashing innovative power

The aim should be that EU countries rank highly in the Global Innovation Scorecard of 2025, with more joining the ranks of the world's top innovators every year. Significant increases in the proportion of GDP directed to R&D and deployment projects would pay dividends, elevating the EU to one of the world's best performing regions for innovation.

To be a strong global innovator, Europe must better target R&D investment towards the challenges arising from the global megatrends. This requires the promotion of lead markets¹ – including through lighthouse projects –, flexible regulation that stimulates investment, and a tax structure designed to support entrepreneurship and company start-ups. This will reinforce the link between research and future market demand and enable Europe to respond effectively to the global challenges most impacting the European continent.

“Better target R&D investment at challenges arising from global megatrends.”

Networks of innovation clusters, engaging public and private sector, consumers, producers, suppliers and employees, will play a key role in realising this ambition. Each can add a valuable dimension to world-leading developments in health, education, infrastructure, energy, the environment and newly-emerging global technologies. The world's best brains would be attracted by the opportunity to work in such an environment.

Because not all new companies will succeed, it must be possible for failure to be treated as a learning experience rather than a stigma. Strong protection of Intellectual Property Rights, effective protection against counterfeiting, a Community Patent and a unified litigation system, will spur a globally open and transparent innovation system. Strong collaboration between entrepreneurs and venture capitalists, and a regulatory framework that makes technological breakthroughs more easily marketable, would further improve the conditions for innovation and implementation.

“It must be possible for failure to be treated as a learning experience.”

protection of Intellectual Property Rights, effective protection against counterfeiting, a Community Patent and a unified litigation system, will spur a globally open and transparent innovation system. Strong collaboration between entrepreneurs and

¹ “A lead market is the market of a product or service in a given geographical area, where the diffusion process of an internationally successful innovation (technological or non-technological) first takes off and is sustained and expanded through a wide range of different services.” (Source: European Commission, Directorate-General Enterprise and Industry)

Policy direction

- Ensure that EU and Member State policies enable European companies to maintain and develop their leading role in technology and allow them to capitalise on global opportunities, including by:
 - Providing further R&D funding, particularly at the initial stages of development of new technologies, followed by suitable funding and delivery of demonstration objects with an emphasis on rapid commercialisation.
 - Strengthening the link between R&D investment and underlying global economic drivers (megatrends).
 - Developing an innovation policy that ensures critical mass and fosters early deployment across the Single Market.
 - Favouring private investment in enabling technologies, infrastructures and services.
 - Continuing the drive towards energy efficiency and fostering a global market for European green technologies.

Policy recommendations

- **Reinvent public procurement** – a significant source of demand in the EU – as a strategic driver for the development and implementation of new technologies, including through public-private partnerships (PPPs). Public procurement should be the channel through which the public sector leads by example, ensuring that the highest standards and latest technologies are used in public projects.
- **Provide EU funding for European ‘lighthouse projects’** to support early demonstration and deployment.
- **Secure stable and adequate EU funding of the European Institute for Innovation and Technology (EIT)**. The level of funding currently proposed is inadequate for the EIT concept to make a real difference by 2025.
- **Develop a digital agenda** that allows the EU to make full use of the possibilities of information and communications technology (ICT) to achieve the EU’s policy priorities, e.g.:
 - **Reduce CO₂ emissions** by using all available technologies, including ‘green ICT’.
 - **Boost productivity** by putting in place policy frameworks fostering private investment in broadband networks, digital services and applications.
 - **Add to societal well-being** by using state-of-the-art technologies in health, education and transport.
 - **Create a Digital Single Market by 2015**, with all related efforts fostering private investments.
 - **Develop a new approach to EU R&D funding:**
 - **foster joint research roadmaps** bringing together university and pre-competitive corporate researchers to speed up the development of new technologies
 - **improve consistency between existing R&D structures**, including by improving the governance structures under the European Research Area (ERA)
 - **develop the knowledge triangle** by addressing it in the future EU research funding programme (post-FP7), as well as in national R&D and educational programmes
 - **secure Joint Programming in research**, as proposed by the European Commission.
- **Enhance the management of Intellectual Property Rights (IPRs)** at a pan-European level and agree a framework with emerging economies that would protect IP rights with the objective of boosting investment in, and deployment of, environmentally sound technologies.
- **Ensure reliable risk management** by establishing a framework for science-based assessment of the risk linked with new technologies and avoid the stifling of innovation through approaches designed to avoid risk. Such an approach requires, *inter alia*, the absolute independence of the European Commission’s future chief scientific officer.

4. Europe in 2025: people, education and culture drive productivity

By 2025, Europe should boost its prosperity by making better use of its most precious resource – its people. European labour markets need to become much more inclusive, enabling business to mobilise employees of all ages and at all levels of qualification, and to remunerate work in line with performance. Continuous education and training will help with successful matching of skills and business needs. Public policies based on a new understanding of job security – putting less focus on preserving jobs and more on ensuring high levels of productive and sustainable employment – would help Europeans to embrace change. With this kind of flexibility, a well-educated and well-led workforce could help raise European productivity to amongst the highest in the world.

All Europeans should be enabled to use their talents and apply them fully in a professional setting, contributing to the collective benefit

“Europe’s most precious resource is its people.”

of society. To make this possible, a culture change is required: motivation, commitment, dedication and a willingness to work harder, are important qualities that allow businesses to continuously improve innovation capacity and productivity. Europe needs to achieve a virtuous cycle, where the ability to contribute to society motivates employees and reinforces their commitment, strengthening public confidence in a culture of competitiveness. Companies will play an important role by offering their employees an attractive working environment that inspires confidence and entrepreneurship. This can be facilitated by smarter working methods using new technologies and flexible working patterns.

“Partnership between education, business and government.”

Provided Europe can successfully harness the talents of its people, an increased number of European companies – globally competitive European champions – could feature in the Fortune Global 500 in 2025. Much of the intellectual property embedded in future European products can be the fruit of partnership between education, business and government. A continually-strengthened international reputation of European universities would encourage business to invest in ambitious research and innovation programmes and help attract venture capital. European self-funded coordinating agencies could spur the development of high-potential technologies, manufactured and first applied in Europe – for example by creating clusters of excellence in new lead markets.

To achieve this, Europe’s credentials in education must be consistently upgraded. A significant proportion of the world’s top universities should be European. European universities should also be encouraged to develop campuses and partnerships in other parts of the world, teaching and recruiting top international talent and contributing to a strong global interest in and understanding of Europe. Europe-wide immigration rules should be re-designed on the principles of openness, clarity and predictability, creating a meaningful incentive for non-native high performers to contribute to Europe’s culture of excellence. They could become a vital driver of Europe’s sustained economic success.

In 2025, European companies will continue to value world leading brands as a key feature of global competitiveness. Design and fashion should continue to be associated with the European lifestyle, inspired by the continent’s diversity and openness to the world. Global popularity could be reinforced by a renewed interest in Europe’s culture and way

“Europe’s credentials in education must be consistently upgraded.”

of life, helped by the ease of access to European digital content on the internet from anywhere in the world. As a result, innovative companies from around the world could become interested in pursuing partnerships with Europe’s diverse, artistic communities, to give birth to a globally successful array of original and iconic products, services and technology, for consumers and business alike.

Completion of the EU’s Single Market, within a tariff-free global economy, will be a key element in achieving this. Remaining obstacles to cross-border mobility of people and knowledge must be eliminated, allowing companies to offer high-quality products and services across Europe at prices that can compete with the rest of the world. Europe should see a significant shift away from state intervention towards a high level of

“Completion of the EU’s Single Market is key.”

trust in the ability of markets, supported by a smarter regulatory framework, to provide the products and services to improve societal well-being.

Business performance in manufacturing and services would be further facilitated by an excellent infrastructure, including Europe-wide energy networks ensuring the security of energy supplies, fast and secure broadband networks and high-tech transport links. All these networks should be unrestricted by national borders and could be funded and operated by the private sector, operating in a friendly and efficient regulatory environment supported by a competitive tax base.

Policy direction

- All policies should foster the deepening and broadening of the EU's Single Market, including the free movement of people and knowledge.
- Through education, build a solid understanding of the role of innovation and technological progress within a knowledge economy, contributing to building an open mindset within society. Study how to utilise the business environment as an effective learning platform to help foster entrepreneurship at all levels of education and to enhance the necessary interest in mathematics, science and technology. National and regional systems for an effective partnership should be built.
- Promote effective interaction between business and the educational sector across Europe. An identification of best practice and emerging priorities needs to be conducted in a systematic way and then spread within the EU. Work with companies to integrate continuing education and long-term commitments towards the educational sector into their business models to attract the necessary flow of new talent.
- With the support of leading companies, promote culture change throughout the business community to encourage an improved attractiveness of working environments. For example, companies can make use of smarter working methods such as teleworking (also reducing the environmental impact of commuting), resort to more flexible working time arrangements, or introduce more attractive compensation schemes.
- Ensure political support for the creation of intellectual property through industry-driven EU technical standards.

Policy recommendations

- **Build national platforms** that support and evaluate ongoing initiatives aimed at obtaining more effective interactions between business and schools, and promote development of new such initiatives.
- **Support life-long learning** by transforming education systems to better enable working adults to pursue part-time education in parallel to their job.
- **Build stronger links between the public and private sectors in education** with the support of the business community. This should include the development of education networks and strengthening of the link between education, research and business (the knowledge triangle).
- **Further increase student mobility within the EU** by firmly embedding cross-border academic exchange as an obligatory part in most study programmes, supported by scholarship opportunities such as the Erasmus programme. Similar programmes should encourage the cross-border mobility of scientists and lecturers.
- **Create fully integrated European professional schools and universities** dedicated to a specific research theme. Each such school could be based in one single location to speed up knowledge dissemination.
- **Improve comparability of EU universities** by finalising efforts to develop an EU-wide ranking system.
- **Re-design Europe-wide immigration rules** on the principles of openness, clarity and predictability. Eliminate obstacles to the free movement of highly-skilled third-country nationals within the EU, especially between EU-based universities and between EU-based industrial R&D activities.
- **Increase the use of scholarships to attract foreign academics to EU universities**, along the lines of the Erasmus Mundus programme. Visa rules should be adjusted to allow students from third countries to prolong their stay in the EU for the duration of an internship directly after the end of their academic programme.
- **Modify legal and fiscal rules to support smarter working methods.** This should include more flexible rules to support the use of teleworking, part-time work after retirement and part-time university studies for adults.
- **Make ambitious progress towards the completion of the EU's Single Market**, especially in the area of financial services and eliminating all remaining obstacles to cross-border mobility of people and knowledge.
- **Promote excellent energy infrastructure.** Ensure that the necessary grid and infrastructure developments proceed in tandem with the required change in EU energy supply to meet 2020 targets and beyond, including smart electrical grids, enhanced natural gas networks to support expanded access and CO₂ transport pipelines.
- **Promote and develop sustainable modes of transport and innovative infrastructure** designed to enable low-carbon mobility of people and goods across Europe. Integrate transport and land use planning and use EU structural funds to promote high-technology infrastructure solutions.

5. Europe in 2025: the model of decisive, reliable and transparent governance

The EU can only address the challenges of the future and remain an attractive place to live and work if it reforms its own governance system. By 2025, the EU's governance structure and decision-making process must become more efficient, more transparent and more democratic. The limitations of national approaches in facing global challenges need to be recognised, with greater emphasis given to the interests of European society as a whole. A more flexible EU governance approach should allow a better balance between Member States' powers and the need for a coherent European approach.

"The limitations of national approaches in facing global challenges must be recognised."

The principle of subsidiarity must be applied on a two-way basis, allowing powers to be allocated at the levels at which decisions can be taken most effectively and genuinely in the interest of the citizen: the EU should concentrate on those issues and policies that can be most effectively governed at the level of the Union. To this end, the distribution of powers within the EU should be reviewed – with more powers granted to the EU in areas that can be more effectively addressed at EU level, while more clearly returning some current powers to the Member States in areas where national action is sufficient.

At its heart the EU needs the powers to complete the Single Market, to safeguard the free movement of goods, services, people and knowledge, and to ensure implementation of the 'Europe 2020 Strategy'. It needs the governance structures required to take smart regulatory decisions, to enable it to speak effectively with a single voice in external economic relations and to be represented by a single seat in international economic organisations. Ultimately, effective reform would result not in more powers for the EU but in a more effective and democratic ability to govern in the interests of citizens.

"The EU needs the powers to complete the Single Market."

The completion and safeguarding of the Single Market must remain amongst the highest priorities of the EU. The accompanying regulatory process must be focused and effective, promoting smart regulation that recognises the importance of global competitiveness and contributes to sustainability, productivity and societal benefit. Intervention must be limited to essential areas of regulation and EU competition policy must ensure that European companies are in a position to compete and expand on a global basis.

Economic policy should be co-ordinated at EU level in a limited number of clearly-defined competencies, with Member States deciding on their individual economic policies in all other areas. This is essential to ensure continued innovation and competition in policy approaches, allowing successful models to spill over from one Member State to another.

The new 'Europe 2020 Strategy' will be essential to ensure that Europe is an attractive place to live and work in 2025. It should command a strong consensus amongst EU Member State governments, national parliaments, the EU institutions, the European research and education communities, civil society, and the business world. It must clearly favour private ownership of companies, while allowing business to engage with policy makers

"The EU should speak with a single voice."

to identify ways to improve the EU's regulatory and governance framework. This new 'Europe 2020 Strategy' must also assign clear leadership and responsibility for its implementation.

Governance reform is indispensable to achieving the aspirations of this vision. It should result in greater public trust in the EU's elected representatives and governing institutions and provide the necessary basis for the desired achievement of long-term European prosperity, sustainability and societal well-being.

Policy direction

- Promote development of a smart regulatory regime adapted to future challenges, taking into account future investment requirements and changing market situations. This regime should prevent over-regulation and seek to protect consumers through effective competition. Direct regulatory intervention should only be used where market failures exist.
- Preference should be given to ensuring effective risk management rather than favouring complete risk avoidance, as this would stifle innovation.
- All types of regulation should seek to better serve the interests of society – including the business community. Regulation should aim to maximise societal well-being; eliminate overlaps, duplication and bureaucracy; ensure regular adaptation to global best practice; and ensure transparency and participation throughout the regulatory process. A smart approach to regulation is not necessarily characterised by less regulation, but by better regulation. Smart regulation is well-targeted and takes into account short-run as well as long-run considerations. EU-level regulation should fulfil these criteria and seek to reduce the barriers to economic activity created by divergences of rules within the Single Market, while ensuring that differences in national circumstances are taken into account.

Policy recommendations

- **Secure full implementation of the Europe 2020 Strategy** by:
 - Clearly distinguishing short term goals for completion during the term of office of the new European Commission, and long-term goals for completion beyond 2015. This publication gives an overview of the issues that should be addressed during the current term of office.
 - Ensuring that all actors are committed to the achievement of the objectives and have the necessary implementation powers enabling them to guarantee timely delivery of the 'Europe 2020 Strategy'.
 - Taking flanking measures to build trust, in particular by putting in place policies to address re-training and education, and ensuring a continuous dialogue between institutions, industry and civil society.
 - Engaging the business community in an open and constructive dialogue to identify, as early as possible, expected trends and requirements in relation to market developments, changing demand, expected skills requirements and all other issues that can improve the foresight in policy making.
- **Review the EU approach to competition policy**, strengthening the role of investment, efficiencies and innovation. Ensure that the merger control regime supports the necessary consolidation needs of European industries to create strong European players while maintaining fair competition in the Single Market.
- **Modernise the approach to regulation** by basing regulatory decisions on a sound economic analysis, taking into account effects on innovation and investment with a positive impact on sustainable economic growth. Ensure that regulatory principles are consistent with the principles of EU competition law. Under a smart regulatory approach, it is important to opt for the regulatory instruments that are most appropriate for the achievement of the pursued policy objective. Direct regulation should only be resorted to where effective competition cannot be ensured, for example where market failures exist.
- **Ensure coherence of energy and climate change policy development** within the European Commission.

The contribution of ERT member companies to EU employment and wealth

- ERT companies employ more than 2.6 million people directly in the EU, representing over five percent of employment in the three principal market economy sectors (manufacturing, utilities, and transport, storage and communication).
- Purchases by ERT companies sustain almost 2.9 million additional jobs indirectly and are estimated to induce a further 1.1 million jobs through the consumption spending through direct and indirect employment. ERT companies thus support a total of around 6.6 million jobs in the EU.
- Almost half of all direct employment in these companies is in the most demanding and high-skilled occupational categories. This is reflected in above-average wage cost in ERT companies.
- ERT companies account for around 14 percent of all EU R&D spending, equivalent to 23% of all R&D spending by the EU business community. ERT companies employ 200,000 researchers in 550 research centres in the EU, equivalent to 11 percent of all researchers working in the EU and 28 percent of all researchers working in business.
- An estimated additional €150bn was generated indirectly (via bought-in goods and services and capital expenditure), bringing the total contribution of ERT companies to EU GDP to over €395 billion, exceeding the GDPs of 21 individual EU Member States.

Source:

ERT Study on EU Growth and Jobs, May 2008

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The European Round Table of Industrialists (ERT) is an informal forum bringing together around 50 chief executives and chairmen of major multinational companies of European parentage covering a wide range of industrial and technological sectors. Companies of ERT Members are widely situated across Europe, with sales to EU customers exceeding €1,000 billion, thereby sustaining around 6.6 million jobs in the region.

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