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Keynote Lecture 1: Deepening EMU – Political Integration and Economic Convergence

Dear Governor Nowotny,
Dear Mr Schaller,
Excellencies, Ladies and Gentlemen,

It is a real honor and pleasure for me to be here with you at the start of the Austrian EU Presidency. A very warm welcome to our keynote speakers, panelists and all our distinguished participants and guests. We are very happy to have you here today to discuss the future of the euro area and, more general, the economic future of Europe.

First, I would like to thank our partner, Oesterreichische Nationalbank, for the excellent cooperation during the preparation of this event. Governor Nowotny and I took the initiative for this conference. Archetype was a similar very successful event organized by both organizations in 2006 during the last Austrian EU Presidency at the same venue. In addition, many thanks to Raiffeisenlandesbank Oberösterreich for hosting the conference as well as to Land Oberösterreich for the evening reception at Linz castle.

Europe's economic stability, resilience to crises and competitiveness must be a priority. Strengthening the single currency, curbing speculation and creating new institutions to help countries coping with problematic situations is part of Europe's economic and security architecture. An Economic and Monetary Union (EMU) that is more stable, resilient to crises, and competitive must be coupled with better economic governance and accelerated convergence through a strict and consistent approach to implement structural reforms across Member States. An extensive transfer of powers can only be envisaged if sufficient economic and social convergence among Member States and their regions is achieved.

Europe still suffers from a lack of implementation and enforcement of necessary reforms. The European Semester is therefore of crucial importance for guiding Member States when drafting and implementing structural reforms. This is the basis for investment, growth, and employment as well as for sustainable financing of the European Union.

Let me address the following main points:

1. The EMU should be inclusive and based on strong, shared values, as it will help to strengthen the EU. Despite the euro area being perceived as unsustainable, the euro enjoys continuous support – 70 percent over the past ten years. In contrast, in Member States outside the euro area, support for the euro declined over the same period from 56 percent to 37 percent. It is a clear sign that people within and outside the EMU perceive the euro differently. The main challenge for the future of the EMU is its incomplete institutional character, as it suffers from the lack of a political entity behind it as well as from different perceptions of the euro depending on whether a country is in or out of EMU. Nevertheless, the euro is still “the only existent common language” in a union characterized by linguistic variety.
2. A strong EMU requires strong, responsible, and decisive leadership and actions, starting with the Stability and Growth Pact and fiscal buffers, but also via the whole European Semester process. The EU's stability, resilience, and convergence is directly proportionate to the condition within the EMU and affects the well-being of our societies.
3. Despite our society's continuous support for the European project,

there is no doubt that we need to work harder on restoring our citizens' trust and confidence. Hence, we need to strengthen the economic and financial stability of all Member States. We need to finally recognize the potential of our cooperation and complete great projects such as the banking union and the single market. In addition, we should develop the European Stability Mechanism (ESM) into a European monetary fund, improve economic cooperation, and further enhance the EU's growth potential; and finally, despite all the current challenges, we have to pursue an ambitious trade agenda.

4. Speaking about stability, planning security and trade: There are exceptional situations where European companies that operate across borders need support while facing external shocks. Such a European crisis or buffer fund could take the form of an export guarantee for a certain transition period. It could act as a measure of last resort, and only be applicable once all other remedies, including national ones, have been exhausted. It should only be applicable for companies acting in good faith and for events constituting force majeure.
5. For an entrepreneur, taxation always plays an important role. In addition, a tax revolution is currently taking place. With regards to ongoing tax proposals and reforms, entrepreneurs that are operating cross border need clear and easily administrable tax provisions. The proposed destination principle would, however, lead to high additional costs and considerable administrative burdens and would increase legal uncertainty for all companies and, in par-

ticular, SMEs (small and medium-sized enterprises) which suffer from informational disadvantages.

From an investment point of view, there is strong interest to push companies towards the stock markets. However, investing in SMEs or financing business activity via equity is not necessarily tax friendly: in many countries, there are no or little tax incentives and the bias regarding tax debt persists.

Regarding digitalization, temporary measures are not sufficient means to tackle the problems of the taxation of the digital economy; a long-term and comprehensive solution is needed. The proposed digital tax would most likely increase the tax burden and compliance costs for businesses. It would not contribute significantly to creating a level playing field or to increasing the competitiveness of EU digital companies.

We all understand that taxes need to be paid as we depend on them, be it in provision of public services or pension schemes, but we are calling for a consultative approach and a fair share of taxation being borne by all social actors.

6. In order to be fit for running all these projects and make them happen, we need a post-2020 multi-annual financial framework that can actually respond to these needs. We need a budget focusing on education, innovation, competitiveness, flexibility, and R&D, as these are the factors that will help to improve Europe's productivity in the medium- and long-term. Structural reforms are key to improving the resilience and perspectives of growth for each Member State and the EU as a whole. Well-targeted budgetary resources can help to

change a Member State from being euro reluctant to euro willing.

7. We need to work on strengthening the euro area by preserving the EU's unity, as it is not the time for a re-emergence of divisions. We need a credible scale up-Europe with the EMU featuring humanity and

flexibility, as it is not only economically and politically indispensable, but it is our responsibility towards current and future generations because the EU, it is you, it is me, it is us.

I wish you interesting discussions and a pleasant stay in Linz.